PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-Q
August 16, 2010
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended June 30, 2010

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

Commission File No. 0-29092

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**54-1708481** **(I.R.S. Employer Identification No.)**
7901 Jones Branch Drive, Suite 900, **McLean, VA** **(Address of principal executive offices)**	**22102** **(Zip Code)**

(703) 902-2800

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports),

and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of accelerated filer, large accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes x No ¨

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding as of July 31, 2010
Common Stock $0.001 par value	9,743,157

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

INDEX TO FORM 10-Q

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Successor Three Months Ended June 30, 2010	Predecessor Three Months Ended June 30, 2009
NET REVENUE	$ 205,408	$ 195,559
OPERATING EXPENSES		
Cost of revenue (exclusive of depreciation included below)	131,704	125,175
Selling, general and administrative	50,213	49,726
Depreciation and amortization	19,316	6,231
(Gain) loss on sale or disposal of assets	(189)	16
Total operating expenses	201,044	181,148
INCOME (LOSS) FROM OPERATIONS	4,364	14,411
INTEREST EXPENSE	(8,747)	(3,359)
(ACCRETION) AMORTIZATION ON DEBT PREMIUM/DISCOUNT, net	(45)	
GAIN (LOSS) FROM EARLY EXTINGUISHMENT OF DEBT	164	
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(382)	
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	154	161
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	(9,713)	24,170
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	(14,205)	35,383
REORGANIZATION ITEMS, net		(8,656)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(14,205)	26,727
INCOME TAX BENEFIT (EXPENSE)	1,994	(1,110)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(12,211)	25,617
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(1,126)	(147)
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	193	
NET INCOME (LOSS)	(13,144)	25,470
Less: Net (income) loss attributable to the noncontrolling interest	106	(104)
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (13,038)	$ 25,366
BASIC INCOME (LOSS) PER COMMON SHARE:		
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (1.24)	$ 0.18
Income (loss) from discontinued operations	(0.12)	
Gain (loss) from sale of discontinued operations	0.02	
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (1.34)	$ 0.18
DILUTED INCOME (LOSS) PER COMMON SHARE:		
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (1.24)	$ 0.15
Income (loss) from discontinued operations	(0.12)	

Gain (loss) from sale of discontinued operations		0.02		
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$	(1.34)	$	0.15
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic		9,743		142,695
Diluted		9,743		173,117
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED				
Income (loss) from continuing operations, net of tax	$	(12,105)	$	25,513
Income (loss) from discontinued operations		(1,126)		(147)
Gain (loss) from sale of discontinued operations		193		
Net income (loss)	$	(13,038)	$	25,366

See notes to consolidated financial statements.

1

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Successor Six Months Ended June 30, 2010	Predecessor Six Months Ended June 30, 2009
NET REVENUE	$ 409,801	$ 388,840
OPERATING EXPENSES		
Cost of revenue (exclusive of depreciation included below)	261,713	253,830
Selling, general and administrative	103,105	94,656
Depreciation and amortization	38,300	12,307
(Gain) loss on sale or disposal of assets	(179)	(43)
Total operating expenses	402,939	360,750
INCOME (LOSS) FROM OPERATIONS	6,862	28,090
INTEREST EXPENSE	(18,084)	(14,134)
(ACCRETION) AMORTIZATION ON DEBT PREMIUM/DISCOUNT, net	(89)	189
GAIN (LOSS) FROM EARLY EXTINGUISHMENT OF DEBT	164	
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(2,425)	
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	382	388
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	(3,711)	21,120
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	(16,901)	35,653
REORGANIZATION ITEMS, net	1	7,912
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(16,900)	43,565
INCOME TAX BENEFIT (EXPENSE)	3,993	(3,906)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(12,907)	39,659
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(1,293)	(585)
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	193	251
NET INCOME (LOSS)	(14,007)	39,325
Less: Net (income) loss attributable to the noncontrolling interest	(30)	32
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (14,037)	$ 39,357
BASIC INCOME (LOSS) PER COMMON SHARE:		
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (1.34)	$ 0.28
Income (loss) from discontinued operations	(0.13)	
Gain (loss) from sale of discontinued operations	0.02	
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (1.45)	$ 0.28
DILUTED INCOME (LOSS) PER COMMON SHARE:		
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (1.34)	$ 0.23
Income (loss) from discontinued operations	(0.13)	
Gain (loss) from sale of discontinued operations	0.02	

Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$	(1.45)	$	0.23
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic		9,694		142,695
Diluted		9,694		173,117
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED				
Income (loss) from continuing operations, net of tax	$	(12,937)	$	39,691
Income (loss) from discontinued operations		(1,293)		(585)
Gain (loss) from sale of discontinued operations		193		251
Net income (loss)	$	(14,037)	$	39,357

See notes to consolidated financial statements.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except share amounts)

(unaudited)

	June 30, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 33,976	$ 42,538
Accounts receivable (net of allowance for doubtful accounts receivable of $4,862 and $8,163)	83,662	89,342
Prepaid expenses and other current assets	15,881	15,147
Total current assets	133,519	147,027
RESTRICTED CASH	10,160	10,438
PROPERTY AND EQUIPMENT Net	128,828	147,606
GOODWILL	63,997	64,220
OTHER INTANGIBLE ASSETS Net	166,267	178,807
OTHER ASSETS	9,844	10,816
TOTAL ASSETS	$ 512,615	$ 558,914
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$ 41,170	$ 45,819
Accrued interconnection costs	32,362	37,561
Deferred revenue	14,198	13,882
Accrued expenses and other current liabilities	44,965	49,704
Accrued income taxes	9,182	10,629
Accrued interest	2,189	1,985
Current portion of long-term obligations	1,163	4,274
Total current liabilities	145,229	163,854
LONG-TERM OBLIGATIONS	243,235	253,242
DEFERRED TAX LIABILITY	31,177	36,052
OTHER LIABILITIES	8,289	5,857
Total liabilities	427,930	459,005
COMMITMENTS AND CONTINGENCIES (See Note 6.)		
STOCKHOLDERS EQUITY:		
Preferred stock, $0.001 par value 20,000,000 shares authorized; none issued or outstanding		
Common stock, $0.001 par value 80,000,000 shares authorized; 9,743,157 and 9,600,000 shares issued and outstanding	10	10
Additional paid-in capital	85,393	85,533
Accumulated earnings (deficit)	(7,305)	6,732
Accumulated other comprehensive income (loss)	2,984	4,064
Total stockholders equity before noncontrolling interest	81,082	96,339

Noncontrolling interest	3,603	3,570
Total stockholders equity	84,685	99,909
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 512,615	$ 558,914

See notes to consolidated financial statements.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Successor Six Months Ended June 30, 2010	Predecessor Six Months Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (14,007)	$ 39,325
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Reorganization items, net	(1)	(8,297)
Provision for doubtful accounts receivable	3,449	5,140
Stock compensation expense	204	27
Depreciation and amortization	38,413	12,346
(Gain) loss on sale or disposal of assets	(372)	(294)
Accretion (amortization) of debt premium/discount, net	89	(189)
Change in fair value of Contingent Value Rights	2,425	
Deferred income taxes	(4,823)	
(Gain) loss on early extinguishment of debt	(164)	
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	4,148	(20,702)
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	(2,820)	7,798
(Increase) decrease in prepaid expenses and other current assets	(1,114)	461
(Increase) decrease in other assets	342	2,454
Increase (decrease) in accounts payable	(2,513)	(12,794)
Increase (decrease) in accrued interconnection costs	(3,489)	(5,361)
Increase (decrease) in accrued expenses, deferred revenue, other current liabilities and other liabilities, net	(1,984)	1,313
Increase (decrease) in accrued income taxes	(1,407)	2,113
Increase (decrease) in accrued interest	218	(1,600)
Net cash provided by operating activities before cash reorganization items	16,594	21,740
Cash effect of reorganization items	(137)	(4,595)
Net cash provided by operating activities	16,457	17,145
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(10,737)	(5,660)
Sale of property and equipment and intangible assets	530	179
Cash from disposition of business, net of cash disposed		232
Cash used in business acquisitions, net of cash acquired		(199)
(Increase) decrease in restricted cash	(132)	(146)
Net cash used in investing activities	(10,339)	(5,594)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term obligations	(13,175)	(8,292)

Net cash used in financing activities	(13,175)	(8,292)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(1,505)	1,202
NET CHANGE IN CASH AND CASH EQUIVALENTS	(8,562)	4,461
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	42,538	37,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 33,976	$ 41,461
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 17,879	$ 14,909
Cash paid for taxes	$ 899	$ 962
Non-cash investing and financing activities:		
Capital lease additions	$ 51	$ 1,882

See notes to consolidated financial statements.

4

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Successor Three Months Ended June 30, 2010	Predecessor Three Months Ended June 30, 2009
NET INCOME (LOSS)	$ (13,144)	$ 25,470
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation adjustment	(879)	(8,426)
COMPREHENSIVE INCOME (LOSS)	(14,023)	17,044
Less: Comprehensive (income) loss attributable to the noncontrolling interest	213	(319)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (13,810)	$ 16,725

See notes to consolidated financial statements.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Successor Six Months Ended June 30, 2010	Predecessor Six Months Ended June 30, 2009
NET INCOME (LOSS)	$ (14,007)	$ 39,325
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation adjustment	(1,077)	(6,954)
COMPREHENSIVE INCOME (LOSS)	(15,084)	32,371
Less: Comprehensive (income) loss attributable to the noncontrolling interest	(33)	(117)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (15,117)	$ 32,254

See notes to consolidated financial statements.

6

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements of Primus Telecommunications Group, Incorporated and subsidiaries (the Company or Primus) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and Securities and Exchange Commission (SEC) regulations. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such principles and regulations. In the opinion of management, the financial statements reflect all adjustments (all of which are of a normal and recurring nature), which are necessary to present fairly the financial position, results of operations, cash flows and comprehensive income (loss) for the interim periods. The results for the Company s three months and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

As of July 1, 2009, the Company adopted fresh-start accounting in accordance with ASC No. 852, Reorganizations . The adoption of fresh-start accounting resulted in the Company becoming a new entity for financial reporting purposes. Accordingly, the financial statements on or prior to July 1, 2009 are not comparable with the financial statements for periods after July 1, 2009. The consolidated condensed statements of operations, cash flows, comprehensive income (loss) and any references to Successor or Successor Company for the three months and six months ended June 30, 2010, show the operations of the reorganized Company. References to Predecessor or Predecessor Company refer to the operations of the Company prior to July 1, 2009.

The results for all periods presented in this quarterly Form 10-Q reflect the activities of certain operations as discontinued operations (see Note 11 Discontinued Operations).

The financial statements should be read in conjunction with the Company s audited consolidated financial statements included in the Company s most recently filed Form 10-K.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The consolidated financial statements include the Company s accounts, its wholly-owned subsidiaries and all other subsidiaries over which the Company exerts control. The Company owns 45.6% of Globility Communications Corporations (GCC) through direct and indirect ownership structures. The results of GCC and its subsidiary are consolidated with the Company s results based on guidance from ASC 810, Consolidation. All intercompany profits, transactions and balances have been eliminated in consolidation.

Table of Contents

Effective January 1, 2009, the Company adopted ASC No. 810, Consolidation. This statement changed the presentation of outstanding noncontrolling interests in one or more subsidiaries or the deconsolidation of those subsidiaries. Reconciliations at the beginning and the end of the period of the total equity, equity attributable to the Company and equity attributable to the noncontrolling interest for Successor s six months ended June 30, 2010 and Predecessor s six months ended June 30, 2009 are as follows (in thousands):

Successor
As of June 30, 2010

			Primus Telecommunications Group, Incorporated Shareholders					
			Common Stock					
	Total	Comprehensive Income	Shares	Amount	Additional Paid-In Capital	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Loss	Noncontrolling Interest
Balance as of January 1, 2010	$ 99,909		9,600	$ 10	$ 85,533	$ 6,732	$ 4,064	$ 3,570
Stock Option Compensation Expense	204				204			
Common shares issued for restricted stock units	(344)		143		(344)			
Comprehensive Income								
Net income (loss)	(14,007)	$ (14,007)				(14,037)		30
Other comprehensive income (loss)	(1,077)	(1,077)					(1,080)	3
Comprehensive Income	(15,084)	$ (15,084)						
Balance as of June 30, 2010	$ 84,685		9,743	$ 10	$ 85,393	$ (7,305)	$ 2,984	$ 3,603

Predecessor
As of June 30, 2009

			Primus Telecommunications Group, Incorporated Shareholders					
			Common Stock					
	Total	Comprehensive Income	Shares	Amount	Additional Paid-In Capital	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Loss	Noncontrolling Interest
Balance as of January 1, 2009	$ (458,725)		142,695	$ 1,427	$ 718,956	$ (1,099,809)	$ (82,113)	$ 2,814
Stock Option Compensation Expense	27				27			
Comprehensive Income								
Net income (loss)	39,325	39,325				39,357		(32)
Other comprehensive income (loss)	(6,954)	(6,954)					(7,103)	149
Comprehensive Income	32,371	$ 32,371						
Balance as of June 30, 2009	$ (426,327)		142,695	$ 1,427	$ 718,983	$ (1,060,452)	$ (89,216)	$ 2,931

Discontinued Operations During the first quarter 2010, the Company initiated the sale of certain assets of its Spain and European agent serviced retail operations; and, therefore, has reported such operations as discontinued operations. In the second quarter of 2010 the Company completed the sale of certain assets of its Spanish operations.

In the first quarter 2009, the Company sold certain assets of its Japan retail operations. Therefore, the Company reported Japan retail operations as a discontinued operation. During the second quarter of 2008, the Company intended and had the authority to sell certain assets of its German retail operations, and therefore, reported this unit as a discontinued operation. However, buyers were not found; therefore the Company decided it would cease operations of the German retail business effective the first quarter of 2009.

Table of Contents

Reorganization Costs In accordance with Financial Accounting Standard Board (FASB) Accounting Standards Codification (ASC) No. 852, Reorganizations, for periods including and subsequent to the filing of the Chapter 11 petition through the bankruptcy emergence date of July 1, 2009, all revenues, expenses, realized gains and losses, and provisions for losses that result from the reorganization are reported separately as reorganization items, net, in the Consolidated Statements of Operations. Net cash used for reorganization items is disclosed separately in the Consolidated Statements of Cash Flows.

Presentation of Taxes Collected The Company reports any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between the Company and a customer (including sales, use, value-added and some excise taxes) on a net basis (excluded from revenues).

Stock-Based Compensation The Company uses a Black-Scholes option valuation model to determine the fair value of stock-based compensation under ASC No. 718, Compensation Stock Compensation, consistent with that used for pro forma disclosures under ASC No. 718. The Black-Scholes model incorporates various assumptions including the expected term of awards, volatility of stock price, risk-free rates of return and dividend yield. The expected term of an award is no less than the option vesting period and is based on the Company s historical experience. Expected volatility is based upon the historical volatility of the Company s stock price. Because of the short trading history of the Successor Company s common stock, the Company calculates the expected volatility by averaging the historical volatility of the stock price of the Successor Company s common stock and historical volatility of a peer group in the telecommunication industry with similar market capitalization. The risk-free interest rate is approximated using rates available on U.S. Treasury securities with a remaining term similar to the option s expected life. The Company uses a dividend yield of zero in the Black-Scholes option valuation model as it does not anticipate paying cash dividends in the foreseeable future.

Use of Estimates The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of net revenue and expenses during the reporting period. Actual results may differ from these estimates. Significant estimates include allowance for doubtful accounts receivable, accrued interconnection cost disputes, the fair value of embedded derivatives, market assumptions used in estimating the fair values of certain assets and liabilities, the calculation used in determining the fair value of the Company s stock options required by ASC No. 718 and various tax contingencies.

Under fresh-start accounting, the Company s asset values were remeasured and allocated in conformity with ASC No. 805, Business Combinations. Deferred taxes are reported in conformity with ASC No. 740, Income Taxes.

Upon emergence from bankruptcy on July 1, 2009, the Company entered into an arrangement for issuing Contingent Value Rights (CVRs) that contained derivative features. The Company accounted for the arrangement in accordance with ASC No. 815, Derivatives and Hedging. The Company determined these CVRs to be derivative instruments to be accounted for as liabilities and marked to fair value at each balance sheet date. Upon issuance, the Company recorded CVRs as a liability in its balance sheet at their estimated fair value. Changes in their estimated fair value are recognized in earnings during the period of change.

Estimates of fair value represent the Company s best estimates developed with the assistance of independent appraisals or various valuation techniques including Black-Scholes and, where the foregoing have not yet been completed or are not available, industry data and trends and by reference to relevant market rates and transactions. The estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond the control of the Company. Accordingly, the Company cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially. Any adjustments to the recorded fair values of these assets and liabilities may impact the amount of recorded goodwill.

Table of Contents

Property, Plant and Equipment Property and equipment is recorded at cost less accumulated depreciation, which was provided on the straight-line method over the estimated useful lives of the assets. Cost included major expenditures for improvements and replacements which extend useful lives or increase capacity of the assets as well as expenditures necessary to place assets into readiness for use. Expenditures for maintenance and repairs were expensed as incurred. The estimated useful lives of property and equipment were as follows: network equipment 5 to 8 years, fiber optic and submarine cable 8 to 25 years, furniture and equipment 5 years, leasehold improvements and leased equipment shorter of lease or useful life. In accordance with ASC No. 350, Intangible Goodwill and Other, costs for internal use software that were incurred in the preliminary project stage and in the post-implementation stage were expensed as incurred. Costs incurred during the application development stage were capitalized and amortized over the estimated useful life of the software.

New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by FASB and are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued accounting pronouncements that are not discussed will not have a material impact on consolidated financial position, results of operations, and cash flows, or do not apply to our operations.

Accounting Standards Update No. 2010-12 Income Taxes (Topic 740): Accounting for Certain Tax effects of the 2010 Health Care Reform Acts (ASU No. 2010-12)

In April 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-12, *Income Taxes (Topic 740): Accounting for Certain Tax Effects of the 2010 Health Care Reform Acts*, which contains an SEC staff announcement addressing a potential accounting issue specific to companies with period ends between March 23 and March 30, 2010. On March 30, 2010, the President signed the Health Care and Education Reconciliation Act of 2010, which is a reconciliation bill that amends the Patient Protection and Affordable Care Act that was signed by the President on March 23, 2010 (collectively the Acts). Recently, questions have arisen about the effect, if any, that the different signing dates might have on the accounting for these two Acts. The FASB staff and the Office of the Chief Accountant have concluded that they would not object to a view that the two Acts should be considered together for accounting purposes. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this guidance did not have an impact on the Company s condensed consolidated financial statements.

Accounting Standards Update No. 2010-06 Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements (ASU No. 2010-06)

We adopted certain provisions of ASU No. 2010-06 in the first quarter of 2010. These provisions of ASU No. 2010-06 amended Subtopic 820-10, Fair Value Measurements and Disclosures Overall, by requiring additional disclosures for transfers in and out of Level 1 and Level 2 fair value measurements, as well as requiring fair value measurement disclosures for each class of assets and liabilities, a subset of the captions disclosed in our Consolidated Balance Sheets. The adoption did not have a material impact on our financial statements or our disclosures, as we did not have any transfers between Level 1 and Level 2 fair value measurements and did not have material classes of assets and liabilities that required additional disclosure.

Certain provisions of ASU No. 2010-06 are effective for fiscal years beginning after December 15, 2010, which for us will be our 2011 first quarter. These provisions of ASU No. 2010-06, which amended Subtopic 820-10, will require us to present as separate line items all purchases, sales, issuances, and settlements of financial instruments valued using significant unobservable inputs (Level 3) in the reconciliation for fair value measurements, whereas currently these are presented in aggregate as one line item. Although this may change the appearance of our reconciliation, we do not believe the adoption will have a material impact on our financial statements or disclosures.

Table of Contents

Accounting Standards Update No. 2010-09 Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements (ASU No. 2010-09)

We adopted ASU No. 2010-09 in the first quarter of 2010. ASU No. 2010-09 amended Subtopic 855-10, Subsequent Events Overall by removing the requirement for a United States Securities and Exchange Commission (SEC) registrant to disclose a date, in both issued and revised financial statements, through which that filer had evaluated subsequent events. Accordingly, we removed the related disclosure from Footnote No. 1, Basis of Presentation. The adoption did not have a material impact on our financial statements.

Accounting Standards Update No. 2009-17 Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (ASU No. 2009-17)

We adopted ASU No. 2009-17 in the first quarter of 2010. The provisions of ASU No. 2009-17 replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impacts the entity s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. In addition, ASU No. 2009-17 amends the Consolidation Topic of the FASB ASC regarding when and how to determine, or re-determine, whether an entity is a VIE, which could require consolidation. Furthermore, ASU No. 2009-17 requires ongoing assessments of whether an entity is the primary beneficiary of a VIE. The provisions in this update also require additional disclosures about a reporting entity s involvement in variable interest entities, which will enhance the information provided to users of financial statements. The adoption of this standard did not have an impact on the Company s financial position, results of operations, cash flows, or comprehensive income.

3. FRESH START ACCOUNTING

On July 1, 2009, the Company adopted fresh-start accounting in accordance with ASC No. 852, Reorganizations. Fresh-start accounting results in the Company becoming a new entity for financial reporting purposes. Accordingly, the Successor Company s consolidated financial statements are not comparable to consolidated financial statements of the Predecessor Company.

Under ASC No. 852, the Successor Company must determine a value to be assigned to the equity of the emerging company as of the date of adoption of fresh-start accounting. To facilitate this calculation the Company first determined the enterprise value of the Successor Company. The valuation methods included (i) a discounted cash flow analysis, considering a range of the weighted average cost of capital between 14.0% and 16.0% and multiples of projected earnings of between 4.5 and 5.0 times for its terminal value, and (ii) a market multiples analysis. This analysis resulted in an estimated enterprise value of between $320 million and $360 million, and with the midpoint of $340 million chosen for purposes of applying fresh-start accounting.

The estimated enterprise value, and corresponding equity value, is highly dependent upon achieving the future financial results set forth in the financial projections included in the Company s Plan, as filed with the Bankruptcy Court. These projections were limited by the information available to the Company as of the date of the preparation of the projections and reflected numerous assumptions concerning anticipated future performance and prevailing and anticipated market and economic conditions that were and continue to be beyond the Company s control and that may not materialize. Projections are inherently subject to uncertainties and to a wide variety of significant business, economic and competitive risks. Therefore variations from the projections may be material.

Fresh-start accounting reflects the value of the Company as determined in the confirmed Plan. Under fresh-start accounting, the Company s asset values are remeasured and allocated in conformity with ASC No. 805,

Table of Contents

Business Combinations.   The excess of reorganization value over the fair value of tangible and identifiable intangible assets is recorded as goodwill in the accompanying consolidated balance sheet. Fresh-start accounting also requires that all liabilities, other than deferred taxes and pension and other postretirement benefit obligations, should be stated at fair value.

Estimates of fair value included in the Successor Company financial statements, in conformity with ASC No. 820, represent the Company s best estimates and valuations developed with the assistance of independent appraisers and, where the foregoing have not yet been completed or are not available, represent industry data and trends by reference to relevant market rates and transactions. The foregoing estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond the control of the Company. Accordingly, the Company cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially. In accordance with ASC No. 805, the allocation of the reorganization value is subject to additional adjustment until the Company has completed its analysis, but not to exceed one year after emergence from bankruptcy. As of March 31, 2010 the Company had completed the valuation of its assets and liabilities and has completed its adoption of fresh-start accounting in accordance with ASC No. 852,   Reorganizations.

The following fresh-start Consolidated Condensed Balance Sheet presents the financial effects on the Company of the implementation of the Plan and the adoption of fresh-start accounting.

Table of Contents

The effects of the Plan and fresh-start reporting on the Company s Consolidated Condensed Balance Sheet are as follows:

	Predecessor July 1, 2009	Plan of Reorganization Adjustments		Fresh-Start Accounting Adjustments		Successor July 1, 2009
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 41,461	$		$		$ 41,461
Accounts receivable	93,826					93,826
Prepaid expenses and other current assets	16,955					16,955
Total current assets	152,242					152,242
RESTRICTED CASH	9,467					9,467
PROPERTY AND EQUIPMENT Net	117,840			32,298	d	150,138
GOODWILL	35,351			25,947	d, h	61,298
OTHER INTANGIBLE ASSETS Net	482			184,318	d	184,800
OTHER ASSETS	19,155			1,461	d, h	20,616
TOTAL ASSETS	$ 334,537	$		$ 244,024		$ 578,561
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)						
CURRENT LIABILITIES:						
Accounts payable	$ 50,890	$		$		$ 50,890
Accrued interconnection costs	38,778					38,778
Deferred revenue	12,322					12,322
Accrued expenses and other current liabilities	53,982			(1,767)	d	52,215
Accrued income taxes	20,986					20,986
Accrued interest	19					19
Current portion of long-term obligations	107,097	(91,100)	g			15,997
Total current liabilities	284,074	(91,100)		(1,767)		191,207
LONG-TERM OBLIGATIONS	25,740	214,572	e, g			240,312
OTHER LIABILITIES		2,557	b	57,162	h	59,719
Total liabilities not subject to compromise	309,814	126,029		55,395		491,238
LIABILITIES SUBJECT TO COMPROMISE	451,050	(451,050)	a			
Total Liabilities	760,864	(325,021)		55,395		491,238
COMMITMENTS AND CONTINGENCIES						
STOCKHOLDERS EQUITY (DEFICIT):						
Primus Telecommunications Group, Incorporated Stockholders Equity (Deficit):						
Predecessor Common stock, $0.01 par value 300,000,000 shares authorized; 142,695,390 shares issued and outstanding	1,427	(1,427)	c			
Successor Common stock, $0.001 par value 80,000,000 shares authorized; 9,600,000 shares issued or outstanding		10	a			10
Predecessor Additional paid-in capital	718,983	(1,129)	c, b	(717,854)	f	
Successor Additional paid-in capital		84,382	a			84,382
Accumulated income (deficit)	(1,060,452)	243,185	a	817,267	d, f	
Accumulated other comprehensive income (loss)	(89,216)			89,216	f	

Total Primus Telecommunications Group, Incorporated stockholders income (deficit)	(429,258)	325,021	188,629	84,392
Noncontrolling interest	2,931			2,931
Total stockholders income (deficit)	(426,327)	325,021	188,629	87,323
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 334,537	$	$ 244,024	$ 578,561

13

Table of Contents

Notes to Plan of Reorganization and fresh-start accounting adjustments:

(a) This adjustment reflects the discharge of $451.1 million of liabilities subject to compromise (see Liabilities Subject to Compromise below), of which includes $123.5 million Senior Subordinated Secured Notes reclassed to long-term obligations, in accordance with the terms of the Plan and the issuance of 4.8 million shares of Successor Company common stock to the holders of each of the Senior Subordinated Secured Notes and the Holding Senior Notes.

(b) To record the issuance of Contingent Value Rights to the holders of the Old Common Stock.

(c) To record the cancellation of the Old Common Stock.

(d) To record assets and liabilities at their estimated fair values per fresh-start accounting. These amounts include adjustments to the estimated fair values from what was originally reported in the quarter ending September 30, 2009.

(e) To reclass Term Loan from current portion of long-term obligations to long-term obligations and record the issuance of the Senior Subordinated Secured Notes.

(f) To reset additional paid-in capital, accumulated other comprehensive loss and accumulated deficit to zero.

(g) To reclass long-term portion of the Term Loan to long-term obligations.

(h) To record the deferred tax attributes related to fresh-start accounting.

In the first six months of 2010, the Company made no further fresh-start accounting adjustments to the fair value of its assets or liabilities.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill reflects the excess of the reorganization value of the Successor over the fair value of tangible and identifiable intangible assets as determined upon the adoption of fresh-start accounting. The Company recorded goodwill of $61.3 million upon emergence from bankruptcy as well as intangible assets of $184.8 million, which includes $81.6 million of indefinite-lived trade names, $99.2 million of amortizable customer relationships, and $4.0 million of amortizable trade names.

The intangible assets not subject to amortization consisted of the following (in thousands):

	June 30, 2010	December 31, 2009
Trade names	$ 81,126	$ 81,372
Goodwill	$ 63,997	$ 64,220

The Company allocated goodwill to all of its reporting units as part of fresh-start accounting, excluding the wholesale reporting unit which had nominal value relative to the total value of the Company. The changes in the carrying amount of trade names and goodwill by reporting unit for the six months ended June 30, 2010 are as follows (in thousands):

Goodwill

	United States	Canada	Australia	Europe	Brazil	Total
Balance as of January 1, 2010	$ 29,960	$ 30,285	$ 1,714	$ 2,217	$ 44	$ 64,220
Effect of change in foreign currency exchange rates		29	(70)	(181)	(1)	(223)
Balance as of June 30, 2010	$ 29,960	$ 30,314	$ 1,644	$ 2,036	$ 43	$ 63,997

14

Table of Contents

Trade Names

	United States	Canada	Australia	Europe	Brazil	Total
Balance as of January 1, 2010	$ 76,200	$	$	$ 5,172	$	$ 81,372
Effect of change in foreign currency exchange rates				(246)		(246)
Balance as of June 30, 2010	$ 76,200	$	$	$ 4,926	$	$ 81,126

The Company s other intangible assets consist of trade names and customer relationships. Intangible assets subject to amortization consisted of the following (in thousands):

	June 30, 2010			December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trade names	$ 4,042	$ (415)	$ 3,627	$ 4,057	$ (203)	$ 3,854
Customer relationships	106,779	(25,265)	81,514	107,612	(14,032)	93,580
Total	$ 110,821	$ (25,680)	$ 85,141	$ 111,669	$ (14,235)	$ 97,434

Successor

Amortization expense for trade names and customer relationships for the three months and six months ended June 30, 2010 was $6.0 million and $11.8 million, respectively.

The Company expects amortization expense for trade names and customer relationships for the remainder of 2010, the years ended December 31, 2011, 2012, 2013, 2014, and thereafter to be approximately $11.5 million, $18.4 million, $13.0 million, $9.5 million, $7.1 million and $25.5 million, respectively.

Predecessor

Amortization expense for trade names and customer relationships for the three months and six months ended June 30, 2009 was $0.2 million and $0.5 million, respectively.

5. LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following (in thousands):

	June 30, 2010	December 31, 2009
Obligations under capital leases and other	$ 2,238	$ 3,178
Leased fiber capacity		2,809
Senior secured notes	130,000	130,000
Senior subordinated secured notes	114,015	123,472
Subtotal	246,253	259,459
Original issue discount on senior secured notes	(1,855)	(1,943)

Subtotal	244,398	257,516
Less: Current portion of long-term obligations	(1,163)	(4,274)
Total long-term obligations	$ 243,235	$ 253,242

Table of Contents

The following table reflects the contractual payments of principal and interest for the Company s long-term obligations as of June 30, 2010 as follows:

Year Ending December 31,	Capital Leases and Other	13% Senior Secured Notes	14 1/4% Senior Subordinated Secured Notes	Total
2010 (as of June 30, 2010)	$ 731	$ 8,450	$ 8,124	$ 17,305
2011	1,262	16,900	16,247	34,409
2012	314	16,900	16,247	33,461
2013	86	16,900	122,139	139,125
2014	3	16,900		16,903
Thereafter		163,847		163,847
Total Minimum Principal & Interest Payments	2,396	239,897	162,757	405,050
Less: Amount Representing Interest	(158)	(109,897)	(48,742)	(158,797)
Total Long Term Obligations	$ 2,238	$ 130,000	$ 114,015	$ 246,253

The foregoing table assumes that the 14 1/4% Senior Subordinated Secured Notes are refinanced before January 21, 2013. In the event the 14.25% Senior Secured Notes have not been refinanced in accordance with the terms of the 13% Senior Secured Notes indenture by January 21, 2013, then the Issuers will be required to redeem the full principal of the 13% Senior Secured Notes at a price equal to the then applicable optional redemption price on such date. In addition, the table assumes that the holders of 13% Senior Secured Notes do not accept any Excess Cash Flow Offer to purchase 13% Senior Secured Notes. In this regard, the Company must extend an offer annually to the holders of the 13% Senior Secured Notes to repurchase an applicable amount, (equal to 50% of Excess Cash Flow), of the 13% Senior Secured Notes at par, in the event the Company and certain subsidiaries have excess cash flow for any fiscal year commencing with the fiscal year ending December 31, 2010.

In May 2010, the Company paid $9.4 million in cash and retired $9.5 million in principal of its 14 1/4% Senior Subordinated Secured Notes. As a result, the Company recognized a $0.1 million gain from the early extinguishment of debt in its statement of operations for the three months ended June 30, 2010.

6. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments under capital leases and other (Vendor Financing), purchase obligations and non-cancellable operating leases as of June 30, 2010 are as follows (in thousands):

Year Ending December 31,	Capital Leases and Other	Purchase Obligations	Operating Leases
2010 (as of June 30, 2010)	$ 731	$ 14,518	$ 11,264
2011	1,262	27,767	13,995
2012	314	3,142	11,908
2013	86	162	8,941
2014	3	162	3,986
Thereafter		54	10,973
Total minimum lease payments	2,396	45,805	61,067
Less: Amount representing interest	(158)		
	$ 2,238	$ 45,805	$ 61,067

The Company has contractual obligations to utilize an external vendor for certain customer support functions and to utilize network facilities from certain carriers with terms greater than one year. Generally, the Company does not purchase or commit to purchase quantities in excess of normal usage or amounts that cannot be used within the contract term or at rates below or above market value.

Successor

Purchases made under purchase commitments were $8.3 million and $15.3 million, respectively, for the three months and six months ended June 30, 2010.

Table of Contents

Rent expense under operating leases was $3.9 million and $7.8 million, respectively, for the three months and six months ended June 30, 2010.

Predecessor

Purchases made under purchase commitments were $6.5 million and $12.8 million, respectively, for the three months and six months ended June 30, 2009.

Rent expense under operating leases was $3.4 million and $6.7 million for the three months and six months ended June 30, 2009.

Litigation

Group and its subsidiaries are subject to claims, legal proceedings and potential regulatory actions that arise in the ordinary course of its business. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be decided unfavorably. The Company believes that any aggregate liability that may result from the resolution of these matters will not have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

7. SHARE-BASED COMPENSATION

Successor

The Management Compensation Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, and other stock-based or cash-based performance awards (collectively, awards).

Restricted Stock Units (RSU)

For the three months and six months ended June 30, 2010, the Company recognized $0.1 million and $0.2 million, respectively, of stock compensation expense related to the RSU.

Stock Options

A summary of the Company s stock option activity during the six months ended June 30, 2010 is as follows:

	Six Months Ended June 30, 2010	
	Shares	**Weighted Average Exercise Price**
Outstanding December 31, 2009	478,199	$ 12.22
Granted		$
Exercised		$
Forfeitures	(93,191)	$ 12.22
Outstanding June 30, 2010	385,008	$ 12.22
Eligible for exercise	133,464	$ 12.22

The following table summarizes information about the Company s stock options outstanding at June 30, 2010:

	Options Outstanding				Options Exercisable			
Range of Option Prices	Total Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value	Total Exercisable	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value
$12.22	385,008	9.00	$ 12.22	$	133,464	9.00	$ 12.22	$

For Emergence Performance Option and RSU compensation expense calculation, the Company assumed that it will meet the specified Adjusted EBITDA Target in 2010; therefore, according to the Plan, the remaining options and RSUs will vest in 2010.

As of June 30, 2010, the Company had 0.4 million unvested awards outstanding of which $0.2 million of compensation expense is expected to be recognized over the weighted average remaining period of 0.52 years. The number of unvested awards expected to vest is 0.4 million shares, with a weighted average remaining life of 9.00 years, a weighted average exercise price of $12.22, and an intrinsic value of $0.

Predecessor

Under the Plan of Reorganization, all stock options granted under the Predecessor s Equity Incentive Plan were cancelled as of July 1, 2009. The Predecessor Company recorded $11 thousand and $27 thousand stock-based compensation expenses for the three months and six months ended June 30, 2009, respectively.

8. INCOME TAXES

The Company conducts business globally, and as a result, the Company or one or more of its subsidiaries files income tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. In the normal course of business we are subject to examination by taxing authorities throughout the world.

The following table summarizes the open tax years for each major jurisdiction:

Jurisdiction	Open Tax Years
United States Federal	2000, 2002 2009
Australia	2002 2009
Canada	2003 2009
United Kingdom	2004 2009
Netherlands	2007 2009

The Company is currently under examination in Canada and certain other non-material foreign tax jurisdictions not listed above, none of which are individually material.

The Company adopted the uncertain tax position related provisions of ASC No. 740, Income Taxes, on January 1, 2007. It is expected that the amount of unrecognized tax benefits, reflected in the Company s financial statements, will change in the next twelve months; however, the Company does not expect the change to have a significant impact on the results of operations or the financial position of the Company. During the three months ended June 30, 2010, the Company recorded $.4 million of gross unrecognized tax benefit and $0.1 million of unrecognized tax benefit which impacted the rate including $0.1 of penalties and interest. As of June 30, 2010, the gross unrecognized tax benefit on the balance sheet was $89.9 million.

Pursuant to Section 382 of the Internal Revenue Code, the Company believes that it underwent an ownership change for tax purposes (i.e., a more than 50% change in stock ownership) on the July 1, 2009

18

Table of Contents

emergence date. As a result, the use of any of the Company s federal and state net operating loss carryforwards and tax credits generated prior to the ownership change that are not reduced will be subject to an annual limitation of approximately $1.7 million. The annual limitation will be determined based upon an Internal Revenue Code section that allows corporations emerging from bankruptcy to determine their section 382 limitation based upon the post emergence stock value. The Company has prepared its financial statements assuming the annual limitation will apply. However, Section 382 provides that a taxpayer emerging from bankruptcy can elect out of the annual limitation. If the Company elects not to apply the limitation, there are adverse consequences if an ownership change occurs before July 1, 2011. The election is not required to be made until the extended due date of the 2009 return, which is September 15, 2010. The company has reviewed its 13-G filings, as filed with the United States Securities Exchange Commission, subsequent to emergence from bankruptcy and believes that a change in ownership has not occurred during this period of July 1, 2009 to June 30, 2010.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS AND DERIVATIVES

In 2008 and 2009, the Company adopted the provisions of ASC No. 820, Fair Value Measurements. The valuation techniques required by ASC No. 820 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Significant inputs to the valuation model are unobservable.

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate fair value due to relatively short periods to maturity. The estimated aggregate fair value of the Successor Company s 13% Senior Secured Notes and 14 1/4% Senior Subordinated Secured Notes, based on quoted market prices, was $239.8 million and $244.7 million at June 30, 2010 and December 31, 2009, respectively.

See table below for summary of the Company s financial instruments accounted for at fair value on a recurring basis:

		Fair Value as of June 30, 2010, using:		
	June 30, 2010	**Quoted prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Liabilities:				
Contingent Value Rights (CVR)	$ 7,787		$ 7,787	
Total	$ 7,787		$ 7,787	

The CVRs are marked to fair value at each balance sheet date. The change in value is reflected in our Statements of Operations. Estimates of fair value represent the Company s best estimates based on a Black-Scholes pricing model. During the three months and six months ended June 30, 2010, the Company recognized $0.4 million and $2.4 million, respectively, of expense as a result of marking the CVRs to their fair value.

Table of Contents

10. OPERATING SEGMENT AND RELATED INFORMATION

The Company has six reportable operating segments based on management s organization of the enterprise into geographic areas United States, Canada, Europe, Australia, Brazil and the wholesale business from the United States and Europe managed as a separate global segment. The Company evaluates the performance of its segments and allocates resources to them based upon net revenue and income (loss) from operations. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Corporate assets, capital expenditures and property and equipment-net are included in the United States segment, while corporate expenses are presented separately in Income (loss) from operations. The wholesale business assets are indistinguishable from the respective geographic segments. Therefore, any reporting related to the wholesale business for assets, capital expenditures or other balance sheet items is impractical.

Summary information with respect to the Company s operating segments is as follows (in thousands):

	Successor Three Months Ended June 30, 2010	Predecessor Three Months Ended June 30, 2009
Net Revenue by Segment		
United States	$ 12,536	$ 16,918
Canada	58,024	55,061
Europe	11,119	11,848
Australia	67,487	58,475
Wholesale	49,192	50,279
Brazil	7,050	2,978
Total	$ 205,408	$ 195,559
Provision for Doubtful Accounts Receivable		
United States	$ 577	$ 863
Canada	624	541
Europe	127	76
Australia	625	1,120
Wholesale	(499)	243
Brazil	110	50
Total	$ 1,564	$ 2,893
Income (Loss) from Operations		
United States	$ 758	$ 2,921
Canada	3,041	9,310
Europe	(287)	145
Australia	1,402	5,862
Wholesale	1,794	678
Brazil	179	95
Total From Operating Segments	6,887	19,011
Corporate	(2,523)	(4,600)
Total	$ 4,364	$ 14,411
Capital Expenditures		
United States	$ 427	$ 18
Canada	2,723	1,179
Europe	201	37
Australia	2,037	1,488
Brazil	436	152
Total	$ 5,824	$ 2,874

Table of Contents

	Successor Six Months Ended June 30, 2010	Predecessor Six Months Ended June 30, 2009
Net Revenue by Segment		
United States	$ 26,112	$ 35,013
Canada	115,500	108,306
Europe	22,785	24,291
Australia	137,385	110,502
Wholesale	95,699	104,482
Brazil	12,320	6,246
Total	$ 409,801	$ 388,840
Provision for Doubtful Accounts Receivable		
United States	$ 1,102	$ 1,455
Canada	1,468	1,107
Europe	229	165
Australia	1,362	1,737
Wholesale	(989)	516
Brazil	193	115
Total	$ 3,365	$ 5,095
Income (Loss) from Operations		
United States	$ (113)	$ 4,304
Canada	5,983	18,738
Europe	(737)	(8)
Australia	5,196	10,123
Wholesale	2,645	1,372
Brazil	501	230
Total From Operating Segments	13,475	34,759
Corporate	(6,613)	(6,669)
Total	$ 6,862	$ 28,090
Capital Expenditures		
United States	$ 618	$ 74
Canada	4,948	3,127
Europe	284	174
Australia	4,311	1,997
Brazil	576	288
Total	$ 10,737	$ 5,660

The above capital expenditures exclude assets acquired under terms of capital lease and vendor financing obligations.

	June 30, 2010	December 31, 2009
Property and Equipment Net		
United States	$ 9,077	$ 10,760
Canada	55,614	58,927
Europe	3,116	4,955
Australia	59,305	71,682
Brazil	1,716	1,282

Total	$ 128,828	$ 147,606

21

	June 30, 2010	December 31, 2009
Assets		
United States	$ 126,782	$ 133,276
Canada	179,732	194,600
Europe	74,581	84,587
Australia	122,007	138,988
Brazil	9,513	7,463
Total	$ 512,615	$ 558,914

11. DISCONTINUED OPERATIONS

In the second quarter 2010, the Company sold certain assets of its Spain retail operations. The sale price was $0.3 million. The Company recorded a $0.2 million gain from sale of these retail operations during the second quarter 2010.

In the first quarter of 2010, the Company initiated the sale of certain assets of its retail operations in Spain, which was completed in the second quarter 2010, and the sale of its European agent serviced retail operations.

In the first quarter 2009, the Company sold certain assets of its Japan retail operations. The sale price was $0.4 million (40 million Japanese yen), which included $0.2 million (20 million Japanese yen) in cash and $0.2 million (20 million Japanese yen) receivable. The Company recorded a $0.3 million gain from sale of assets.

In the second quarter 2008, the Company determined it would sell its German retail operations. However, buyers were not found; therefore the Company decided to cease operations of the German retail business during the first quarter of 2009.

As a result of these events, the Company s consolidated financial statements for all periods presented reflect the Spain and European agent serviced retail operations, the Japan retail operations and German retail operations as discontinued operations. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as loss from discontinued operations.

Summarized operating results of the discontinued operations are as follows (in thousands):

	Successor Three Months Ended June 30, 2010	Predecessor Three Months Ended June 30, 2009
Net revenue	$ 823	$ 1,189
Operating expenses	1,923	1,723
Loss from operations	(1,100)	(534)
Interest expense		
Interest income and other income	235	2
Foreign currency transaction gain (loss)	(260)	
Reorganization items, net		385
Income (loss) before income tax	(1,125)	(147)
Income tax expense	(1)	
Loss from discontinued operations	$ (1,126)	$ (147)

Table of Contents

	Successor Six Months Ended June 30, 2010	Predecessor Six Months Ended June 30, 2009
Net revenue	$ 2,211	$ 2,676
Operating expenses	3,440	3,670
Loss from operations	(1,229)	(994)
Interest expense		(1)
Interest income and other income	218	26
Foreign currency transaction gain (loss)	(280)	
Reorganization items, net		385
Income (loss) before income tax	(1,291)	(584)
Income tax expense	(2)	(1)
Loss from discontinued operations	$ (1,293)	$ (585)

12. BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE

Basic income (loss) per common share is calculated by dividing income (loss) attributable to common stockholders by the weighted average common shares outstanding during the period. Diluted income per common share adjusts basic income per common share for the effects of potentially dilutive common share equivalents.

Successor

Potentially dilutive common shares for Successor include the dilutive effects of common shares issuable through stock options, restricted stock units, stock warrants and contingent value rights using the treasury stock method.

For Successor s three months and six months ended June 30, 2010, the following could potentially dilute income per common share in the future but was excluded from the calculation of diluted income per common share due to its antidilutive effect:

0.6 million shares issuable upon exercise of stock options and RSUs,

4.5 million shares issuable upon exercise of stock warrants, and

2.7 million shares issuable upon exercise of CVRs.

Predecessor

Potentially dilutive common shares for Predecessor primarily included the dilutive effects of common shares issuable through stock options computed using the treasury stock method and the dilutive effects of shares issuable upon conversion of its 3 ^{3}/4% Convertible Senior Notes.

7.8 million shares issuable under the exercise of stock options, and

For the three months and six months ended June 30, 2009, the following could potentially dilute income per common share in the future but were excluded from the calculation of diluted income per common share due to their antidilutive effect:

8.0 million shares issuable upon exercise of stock options,

Table of Contents

A reconciliation of basic income per common share to diluted income per common share is below (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	June 30, 2010 Successor	**June 30, 2009 Predecessor**	**June 30, 2010 Successor**	**June 30, 2009 Predecessor**
Income (loss) from continuing operations	$ (12,105)	$ 25,513	$ (12,937)	$ 39,691
Income (loss) from discontinuing operations, net of tax	(1,126)	(147)	(1,293)	(585)
Gain (loss) from sale of discontinued operations, net of tax	193		193	251
Net income (loss) attributable to common stockholders basic	(13,038)	25,366	(14,037)	39,357
Adjustment for interest expense on Step Up Convertible Subordinated Debentures				210
Adjustment for interest expense on Step Up Convertible Subordinated Debentures				332
Income (loss) attributable to common stockholders diluted	$ (13,038)	$ 25,366	$ (14,037)	$ 39,899
Weighted average common shares outstanding basic	9,743	142,695	9,694	142,695
5% Exchangeable Senior Notes		19,474		19,474
Step Up Convertible Subordinated Debentures		7,280		7,280
3 3/4 % Convertible Senior Notes		3,668		3,668
Weighted average common shares outstanding diluted	9,743	173,117	9,694	173,117
Basic income (loss) per common share:				
Income (loss) from continuing operations attributable to common stockholders	$ (1.24)	$ 0.18	$ (1.34)	$ 0.28
Income (loss) from discontinued operations	(0.12)		(0.13)	
Gain (loss) from sale of discontinued operations	0.02		0.02	
Net income (loss) attributable to common stockholders	$ (1.34)	$ 0.18	$ (1.45)	$ 0.28
Diluted income (loss) per common share:				
Income (loss) from continuing operations attributable to common stockholders	$ (1.24)	$ 0.15	$ (1.34)	$ 0.23
Income (loss) from discontinued operations	(0.12)		(0.13)	
Gain (loss) from sale of discontinued operations	0.02		0.02	
Net income (loss) attributable to common stockholders	$ (1.34)	$ 0.15	$ (1.45)	$ 0.23

13. REORGANIZATION ITEMS, NET

Reorganization items, net, represents amounts incurred as a direct result of the bankruptcy filings and is presented separately in the Consolidated Condensed Statements of Operations. The following describes the components of reorganization items, net (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2010 Successor	**June 30, 2009 Predecessor**	**June 30, 2010 Successor**	**June 30, 2009 Predecessor**
Professional Fees	$	$ (8,271)	$ 1	$ (12,067)
Debt Premium, Discount and Deferred Financing Costs Write-off				(91)

Reversal of Future Interest Payments Recorded as Long Term Obligations							20,453
Interest Income							2
Reorganization Items, net	$	$	(8,271)	$	1	$	8,297

Predecessor

Payments for the six months ended June 30, 2009 for professional fees and retainers were $4.6 million. In accordance with ASC No. 852, the Company ceased amortization of debt premiums, discounts and deferred financing costs related to the liabilities subject to compromise on the Petition Date. The $3.5 million of unamortized debt premiums and discounts has been written off and recorded as a gain, offset by the expensing of $3.6 million of unamortized deferred financing costs, as an adjustment to the net carrying value of the pre-petition debt. Long term debt was further reduced by $20.5 million of future interest payable that previously had been recorded as a portion of long-term obligations for the 14 1/4% Senior Subordinated Secured Notes and 5% Exchangeable Senior Notes as the issuance of these notes had been deemed troubled debt restructurings.

14. GUARANTOR/NON-GUARANTOR CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Primus Telecommunications IHC, Inc. s 14 1/4% Senior Subordinated Secured Notes were fully, unconditionally, jointly and severally guaranteed by Group on a senior basis and by Holding, Primus Telecommunications, Inc., TresCom International Inc., Least Cost Routing, Inc., TresCom U.S.A., Inc., iPRIMUS USA, Inc., and iPRIMUS.com, Inc., all 100% indirectly owned subsidiaries of Group (collectively, the Other Guarantors). Group has a 100% ownership in Holding and no direct subsidiaries other than Holding.

On the Effective Date, IHC, each of the Grantors party and U.S. Bank National Association, as collateral agent, entered into a First Amendment to the Collateral Agreement (the Amended Collateral Agreement), to provide that the obligations of both IHC and Primus Telecommunications International, Inc. (PTII), an indirect wholly owned subsidiary of Group, were secured by PTII s assets, including 65% of the voting stock of foreign subsidiaries owned by PTII. In addition, on the Effective Date, Group and Holding entered into an Assumption Agreement in favor of U.S. Bank National Association, as collateral agent, pursuant to which each of Group and Holding became party to the Amended Collateral Agreement. As a result, Group and Holding s existing guarantees of the 14 1/4% Senior Subordinated Secured Notes are secured by a lien on the property of Group and Holding, respectively.

Accordingly, the following consolidating condensed financial information for the three and six months ended June 30, 2010 for Successor and three months and six months ended June 30, 2009 for Predecessor are included for (a) Group on a stand-alone basis; (b) Primus Telecommunications IHC, Inc. (IHC) on a stand-alone basis; (c) the Other Guarantor subsidiaries on a combined basis; (d) Group s indirect non-guarantor subsidiaries on a combined basis and (e) Group on a consolidated basis. The plan and fresh-start accounting adjustments reflected in Predecessor s Consolidated Condensed Statements of Operations on July 1, 2009 are not presented separately in this presentation.

Investments in subsidiaries are accounted for using the equity method for purposes of the consolidating presentation. The principal elimination entries eliminate investments in subsidiaries, intercompany balances and intercompany transactions.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	Successor For the Three Months Ended June 30, 2010					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$	$	$ 24,282	$ 181,126	$	$ 205,408
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			17,853	113,851		131,704
Selling, general and administrative	1,407	1	5,651	43,154		50,213
Depreciation and amortization			1,264	18,052		19,316
(Gain) loss on sale or disposal of assets			(196)	7		(189)
Total operating expenses	1,407	1	24,572	175,064		201,044
INCOME (LOSS) FROM OPERATIONS	(1,407)	(1)	(290)	6,062		4,364
INTEREST EXPENSE		(4,187)	(2,933)	(1,627)		(8,747)
ACCRETION ON DEBT PREMIUM (DISCOUNT)			(29)	(16)		(45)
GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT		91	73			164
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(382)					(382)
INTEREST AND OTHER INCOME			152	2		154
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)		(1,136)	19	(8,596)		(9,713)
INTERCOMPANY INTEREST	(263)	3,955	(2,490)	(1,202)		
MANAGEMENT FEE			949	(949)		
ROYALTY FEE		3,254		(3,254)		
INCOME (LOSS) BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(2,052)	1,976	(4,549)	(9,580)		(14,205)
REORGANIZATION ITEMS NET						
INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES	(2,052)	1,976	(4,549)	(9,580)		(14,205)
INCOME TAX BENEFIT (EXPENSE)		(238)	(1)	2,233		1,994
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(2,052)	1,738	(4,550)	(7,347)		(12,211)
EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(10,986)		(6,436)		17,422	
INCOME (LOSS) FROM CONTINUING OPERATIONS	(13,038)	1,738	(10,986)	(7,347)	17,422	(12,211)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax				(1,126)		(1,126)
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax				193		193
NET INCOME (LOSS)	(13,038)	1,738	(10,986)	(8,280)	17,422	(13,144)
Less: Net (income) loss attributable to the noncontrolling interest				106		106
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (13,038)	$ 1,738	$ (10,986)	$ (8,174)	$ 17,422	$ (13,038)

AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income (loss) from continuing operations, net of tax	$ (13,038)	$ 1,738	$ (10,986)	$ (7,241)	$ 17,422	$ (12,105)
Income (loss) from discontinued operations				(1,126)		(1,126)
Gain (loss) from sale of discontinued operations				193		193
Net income (loss)	$ (13,038)	$ 1,738	$ (10,986)	$ (8,174)	$ 17,422	$ (13,038)

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	Predecessor For the Three Month Ended June 30, 2009					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$	$	$ 30,470	$ 165,089	$	$ 195,559
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			23,291	101,884		125,175
Selling, general and administrative	3,599	4	6,015	40,108		49,726
Depreciation and amortization			638	5,593		6,231
(Gain) loss on sale or disposal of assets			(119)	135		16
Total operating expenses	3,599	4	29,825	147,720		181,148
INCOME (LOSS) FROM OPERATIONS	(3,599)	(4)	645	17,369		14,411
INTEREST EXPENSE			(2,242)	(1,117)		(3,359)
INTEREST AND OTHER INCOME			3	158		161
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	2,699	9,405	(565)	12,631		24,170
INTERCOMPANY INTEREST	(2,091)	7,340	(4,397)	(852)		
MANAGEMENT FEE			3,023	(3,023)		
ROYALTY FEE		2,768		(2,768)		
INCOME (LOSS) BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(2,991)	19,509	(3,533)	22,398		35,383
REORGANIZATION ITEMS NET	(6,580)	(1)	(1,691)	(384)		(8,656)
INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES	(9,571)	19,508	(5,224)	22,014		26,727
INCOME TAX EXPENSE		(197)	617	(1,530)		(1,110)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(9,571)	19,311	(4,607)	20,484		25,617
EQUITY IN NET INCOME OF SUBSIDIARIES	34,937		41,885		(76,822)	
INCOME FROM CONTINUING OPERATIONS	25,366	19,311	37,278	20,484	(76,822)	25,617
LOSS FROM DISCONTINUED OPERATIONS, net of tax				(147)		(147)
NET INCOME	25,366	19,311	37,278	20,337	(76,822)	25,470
Less: Net income attributable to the noncontrolling interest				(104)		(104)
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 25,366	$ 19,311	$ 37,278	$ 20,233	$ (76,822)	$ 25,366
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income from continuing operations, net of tax	$ 25,366	$ 19,311	$ 37,278	$ 20,380	$ (76,822)	$ 25,513
Loss from discontinued operations				(147)		(147)
Net income	$ 25,366	$ 19,311	$ 37,278	$ 20,233	$ (76,822)	$ 25,366

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	Successor For the Six Months Ended June 30, 2010					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$	$	$ 46,318	$ 363,483	$	$ 409,801
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			34,762	226,951		261,713
Selling, general and administrative	2,267	6	14,736	86,096		103,105