PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-Q/A
February 02, 2010
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended June 30, 2009

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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, 2009
Common Stock $0.001 par value	9,600,000

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-in-Possession)

INDEX TO FORM 10-Q/A

			Page No.
Part I.	FINANCIAL INFORMATION		
	Item 1.	FINANCIAL STATEMENTS (UNAUDITED)	
		Consolidated Condensed Statements of Operations	1
		Consolidated Condensed Balance Sheets	2
		Consolidated Condensed Statements of Cash Flows	3
		Consolidated Condensed Statements of Comprehensive Income (Loss)	4
		Notes to Consolidated Condensed Financial Statements	5
	Item 2.	MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	65
	Item 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	84
	Item 4.	CONTROLS AND PROCEDURES	85
Part II.	OTHER INFORMATION		
	Item 1.	LEGAL PROCEEDINGS	87
	Item 1A.	RISK FACTORS	87
	Item 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	98
	Item 3.	DEFAULTS UPON SENIOR SECURITIES	98
	Item 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	98
	Item 5.	OTHER INFORMATION	98
	Item 6.	EXHIBITS	98
SIGNATURES			99
EXHIBIT INDEX			100

Table of Contents

Explanatory Note

This Quarterly Report on Form 10-Q/A is being filed in order to furnish Exhibit 32 with a corrected date reference within Paragraph 1.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
NET REVENUE	$ 196,742	$ 235,897	$ 391,216	$ 461,331
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)	125,914	142,495	255,288	283,979
Selling, general and administrative	50,400	69,969	95,836	138,827
Depreciation and amortization	6,250	8,091	12,346	16,050
(Gain) loss on sale or disposal of assets	16	115	(43)	(2,465)
Total operating expenses	182,580	220,670	363,427	436,391
INCOME FROM OPERATIONS	14,162	15,227	27,789	24,940
INTEREST EXPENSE (contractual interest expense for the three months and six months ended June 30, 2009 was $11,986 and $24,201, respectively)	(3,359)	(13,554)	(14,135)	(28,747)
ACCRETION ON DEBT DISCOUNT, net		217	189	187
GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT		32,177		34,487
INTEREST AND OTHER INCOME	161	2,127	396	3,189
FOREIGN CURRENCY TRANSACTION GAIN	24,170	8,134	21,121	9,841
INCOME FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	35,134	44,328	35,360	43,897
REORGANIZATION ITEMS, net	(8,271)		8,297	
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	26,863	44,328	43,657	43,897
INCOME TAX BENEFIT (EXPENSE)	(1,110)	2,382	(3,907)	(38)
INCOME FROM CONTINUING OPERATIONS	25,753	46,710	39,750	43,859
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(283)	(21)	(676)	(66)
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax			251	
NET INCOME	25,470	46,689	39,325	43,793
Less: Net (income) loss attributable to the noncontrolling interest	(104)	(165)	32	(268)
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 25,366	$ 46,524	$ 39,357	$ 43,525
BASIC INCOME PER COMMON SHARE:				
Income from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ 0.18	$ 0.33	$ 0.28	$ 0.31
Loss from discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Gain from sale of discontinued operations			0.00	
Net income attributable to Primus Telecommunications Group, Incorporated	$ 0.18	$ 0.33	$ 0.28	$ 0.31
DILUTED INCOME PER COMMON SHARE:				
Income from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ 0.15	$ 0.25	$ 0.23	$ 0.23

Loss from discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Gain from sale of discontinued operations			0.00	
Net income attributable to Primus Telecommunications Group, Incorporated	$ 0.15	$ 0.25	$ 0.23	$ 0.23
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	142,695	142,633	142,695	142,633
Diluted	173,117	190,328	173,117	195,221
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED				
Income from continuing operations, net of tax	$ 25,649	$ 46,545	$ 39,782	$ 43,591
Loss from discontinued operations	(283)	(21)	(676)	(66)
Gain from sale of discontinued operations			251	
Net income	$ 25,366	$ 46,524	$ 39,357	$ 43,525

See notes to consolidated financial statements.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except share amounts)

(unaudited)

	June 30, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 41,461	$ 37,000
Accounts receivable (net of allowance for doubtful accounts receivable of $9,095 and $9,710)	93,826	99,483
Prepaid expenses and other current assets	16,955	15,846
Total current assets	152,242	152,329
RESTRICTED CASH	9,467	8,133
PROPERTY AND EQUIPMENT Net	117,840	112,152
GOODWILL	35,351	32,688
OTHER INTANGIBLE ASSETS Net	482	746
OTHER ASSETS	19,155	24,396
TOTAL ASSETS	$ 334,537	$ 330,444
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 50,890	$ 58,671
Accrued interconnection costs	38,778	41,422
Deferred revenue	12,322	13,303
Accrued expenses and other current liabilities	53,982	42,440
Accrued income taxes	20,986	18,213
Accrued interest	19	10,248
Current portion of long-term obligations	107,097	564,797
Total current liabilities	284,074	749,094
LONG-TERM OBLIGATIONS	25,740	40,040
OTHER LIABILITIES		35
Total liabilities not subject to compromise	309,814	789,169
LIABILITIES SUBJECT TO COMPROMISE	451,050	
Total Liabilities	760,864	789,169
COMMITMENTS AND CONTINGENCIES (See Note 6.)		
STOCKHOLDERS DEFICIT:		
Primus Telecommuncations Group, Incorporated Stockholders Deficit:		
Preferred stock: Not Designated, $0.01 par value 1,410,050 shares authorized; none issued and outstanding; Series A and B, $0.01 par value 485,000 shares authorized; none issued and outstanding; Series C, $0.01 par value 559,950 shares authorized; none issued and outstanding		

Common stock, $0.01 par value 300,000,000 shares authorized; 142,695,390 shares issued and outstanding	1,427	1,427
Additional paid-in capital	718,983	718,956
Accumulated deficit	(1,060,452)	(1,099,809)
Accumulated other comprehensive loss	(89,216)	(82,113)
Total Primus Telecommunications Group, Incorporated stockholders deficit	(429,258)	(461,539)
Noncontrolling interest	2,931	2,814
Total stockholders deficit	(426,327)	(458,725)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	$ 334,537	$ 330,444

See notes to consolidated financial statements.

2

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2009	**2008**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 39,325	$ 43,793
Adjustments to reconcile net income to net cash provided by operating activities:		
Reorganization items, net	(8,297)	
Provision for doubtful accounts receivable	5,140	5,696
Stock compensation expense	27	132
Depreciation and amortization	12,346	16,056
Gain on sale or disposal of assets	(294)	(2,465)
Accretion of debt discount	(189)	(187)
Deferred income taxes		2,845
Gain on early extinguishment or restructuring of debt		(34,487)
Unrealized foreign currency transaction gain on intercompany and foreign debt	(20,702)	(9,628)
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	7,798	(6,388)
Decrease in prepaid expenses and other current assets	461	11,234
Decrease in other assets	2,454	905
Decrease in accounts payable	(12,794)	(16,639)
Increase (decrease) in accrued interconnection costs	(5,361)	3,159
Increase (decrease) in accrued expenses, deferred revenue, other current liabilities and other liabilities, net	1,313	(3,347)
Increase (decrease) in accrued income taxes	2,113	(4,455)
Decrease in accrued interest	(1,600)	(921)
Net cash provided by operating activities before cash reorganization items	21,740	5,303
Cash effect of reorganization items	(4,595)	
Net cash provided by operating activities	17,145	5,303
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(5,660)	(14,599)
Sale of property and equipment	179	805
Cash from disposition of business, net of cash disposed	232	1,676
Cash used in business acquisitions, net of cash acquired	(199)	(34)
(Increase) decrease in restricted cash	(146)	103
Net cash used in investing activities	(5,594)	(12,049)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of the Company s debt securities		(11,217)
Principal payments on long-term obligations	(8,292)	(8,287)
Net cash used in financing activities	(8,292)	(19,504)

EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,202	518
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,461	(25,732)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	37,000	81,282
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 41,461	$ 55,550
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 14,909	$ 28,440
Cash paid for taxes	$ 962	$ 469
Non-cash investing and financing activities:		
Capital lease additions	$ 1,882	$ 35
Settlement of outstanding debt with issuance of new senior secured debt	$	$ (133,159)
Issuance of new senior secured debt in exchange for outstanding debt	$	$ 88,794

See notes to consolidated financial statements.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
NET INCOME	$ 25,470	$ 46,689	$ 39,325	$ 43,793
OTHER COMPREHENSIVE LOSS				
Foreign currency translation adjustment	(8,426)	(3,011)	(6,954)	(4,073)
COMPREHENSIVE INCOME	17,044	43,678	32,371	39,720
Comprehensive loss attributable to the noncontrolling interest	(319)	(175)	(117)	(243)
COMPREHENSIVE INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 16,725	$ 43,503	$ 32,254	$ 39,477

See notes to consolidated financial statements.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

1. PROCEEDINGS UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

Voluntary Reorganization under Chapter 11 On March 16, 2009, Primus Telecommunications Group, Incorporated (Group or PTGI) and three of its subsidiaries, Primus Telecommunications Holding, Inc. (Holding or PTHI), Primus Telecommunications International, Inc. (PTII) and Primus Telecommunications IHC, Inc., (IHC and together with Group, Holding and PTII, collectively, the Debtors) each filed a voluntary petition (the Chapter 11 Cases) in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court) for reorganization relief (Reorganization) under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.*, as amended (the Bankruptcy Code). Subsequently, the Debtors sought and received an order directing the joint administration of the Chapter 11 Cases under the caption In re: Primus Telecommunications Group, Incorporated, et al., Debtors, Case No. 09-10867. On April 8, 2009, April 20, 2009, and April 24, 2009, filings were made by the Debtors in the Bankruptcy Court concerning amended Disclosure Statements and Joint Plans of Reorganization of Primus Telecommunications Group, Incorporated and its Affiliate Debtors. On April 24, 2009, an unsecured creditors committee was appointed by the United States Trustee.

On April 27, 2009, the Bankruptcy Court approved the Debtors use of a disclosure statement dated April 27, 2009 (the Disclosure Statement) to solicit votes on the Joint Plan of Reorganization of Primus Telecommunications Group, Incorporated and its Affiliate Debtors attached thereto (the Plan). The Disclosure Statement was distributed to holders of record (as of April 27, 2009) of claims against, and interests in, the Debtors who are entitled to vote on the Plan (the Record Date).

The order approving the Disclosure Statement also (i) established the Record Date and a voting deadline of June 5, 2009, (ii) established June 5, 2009 as the last date and time for filing and serving objections to confirmation of the Plan (and related requirements and procedures set forth in such order), and (iii) fixed June 1, 2009 as the deadline for claimants and interest holders to file and serve motions under Bankruptcy Rule 3018(a) requesting temporary allowance of the movant s claim or interest for purposes of voting.

The Plan was confirmed by the Bankruptcy Court on June 12, 2009 (the Confirmation Date). On July 1, 2009 (the Effective Date), the Debtors consummated their reorganization under the Bankruptcy Code and the Plan became effective.

The Plan provides for a plan of reorganization of the Debtors on terms that are summarized below:

Holding s Term Loan facility due February 2011 was reinstated and amended (see Amended Term Loan Facility below);

IHC s 14 1/4% Senior Secured Notes were cancelled and the holders thereof received (a) their pro rata portion of $123.5 million of aggregate principal amount of 14 1/4% Senior Subordinated Secured Notes due May 20, 2013 (see Amendment of IHC s 14 1/4% Senior Secured Notes Indenture below), (b) 4,800,000 shares of the new Common Stock of Group (the New Common Stock), and (c) all reasonable fees, expenses and disbursements of their counsel;

the 5% Exchangeable Senior Notes and 8% Senior Notes issued by Holding (collectively, the Holding Senior Notes) were cancelled, and the holders thereof received (a) 4,800,000 shares of the New Common Stock, (b) Class A warrants to purchase up to an aggregate of 3,000,000 shares of New Common Stock on terms described below under Warrant Agreements, and (c) all reasonable fees, expenses and disbursements of their counsel;

Table of Contents

the 3 3/4 % Senior Notes due September 2010, 12 3/4% Senior Notes due October 2009 and Step Up Convertible Subordinated Debentures due August 2009 issued by Group (collectively, the Group Notes) were cancelled, and the holders thereof received Class B warrants to purchase up to an aggregate of 1,500,000 shares of the New Common Stock on terms described below under Warrant Agreements;

all existing shares of common stock outstanding prior to the Effective Date (the Old Common Stock) were cancelled on the Effective Date, and holders thereof received their pro rata share of contingent value rights (Contingent Value Rights or CVRs) to acquire up to 2,665,000 shares of New Common Stock on terms described below under Contingent Value Rights Distribution Agreement;

all outstanding equity incentive grants of Group were cancelled on the Effective Date, and the Primus Telecommunications Group, Incorporated Management Compensation Plan (the Management Compensation Plan) became effective. As of the Effective Date, 400,000 restricted stock units, 400,000 service-based stock options and 100,000 performance-based stock options were granted to certain employees and executive officers under the Management Compensation Plan.

The following table summarizes the effect of the Plan of Reorganization adjustments with respect to long-term obligations after giving effect to the July 1, 2009 emergence from bankruptcy.

	Predecessor	Plan of Reorganization Adjustments	Successor
Long-Term Obligations			
Obligations under capital leases and other	$ 5,056	$	$ 5,056
Leased fiber capacity	2,531		2,531
Senior secured term loan facility	95,750		95,750
Canadian credit facility	29,500		29,500
Senior secured subordinated notes		123,472	123,472
Subtotal	132,837	123,472	256,309
Less: Current portion of long-term obligations	(107,097)	91,100	(15,997)
Total long-term obligations	$ 25,740	$ 214,572	$ 240,312
Liabilities Subject to Compromise			
Senior secured notes	$ 173,157	$ (173,157)	$
Senior notes	200,186	(200,186)	
Exchangeable senior notes	23,369	(23,369)	
Convertible senior notes	34,200	(34,200)	
Step up convertible subordinated debentures	8,641	(8,641)	
Accrued interest	11,497	(11,497)	
Total liabilities subject to compromise	$ 451,050	$ (451,050)	$

Table of Contents

The following table reflects the contractual payments of principal and interest for all long-term obligations after giving effect to the July 1, 2009 emergence from bankruptcy.

Year Ending December 31,	Vendor Financing and Other	Senior Secured Term Loan Facility (1)	Canadian Credit Facility (2)	Senior Secured Subordinated Notes	Total
2009 (as of June 30, 2009)	$ 1,888	$ 7,694	$ 4,011	$ 7,331	$ 20,924
2010	5,151	16,767	7,685	17,595	47,198
2011	1,068	89,713	21,036	17,595	129,412
2012	257			17,595	17,852
2013	64			131,731	131,795
Thereafter	33				33
Total Minimum Principal & Interest Payments	8,461	114,174	32,732	191,847	347,214
Less: Amount Representing Interest	(874)	(18,424)	(3,232)	(68,375)	(90,905)
Total Long-Term Obligation	$ 7,587	$ 95,750	$ 29,500	$ 123,472	$ 256,309

(1) For preparation of this table, the Company has assumed the interest rate of the Senior Secured Term Loan Facility to be 12.0% and principal payments as according to the Term Loan Modification Term Sheet.

(2) For preparation of this table, the Company has assumed the interest rate of the Canadian Credit Facility to be 7.0%.

Notwithstanding confirmation of the Plan, we expect to continue to have significant debt service obligations on a long-term basis. Cash flows from operations are not anticipated to be sufficient to make the balloon payments on the remaining outstanding principal of the Senior Secured Tem Loan Facility and the Canadian Credit Facility due February and May 2011, respectively; therefore, we expect to seek external financing prior to that date. There can be no assurance we will be successful in these efforts to consummate timely any such transactions or at all or to obtain any such financing on acceptable terms or at all, especially in consideration of the state of the current global economic and credit situation.

Agreements Relating to the Debtors Securities

Amended Term Loan Facility

As of the Effective Date, Group and Holding entered into a Third Amendment to the Term Loan Agreement, dated as of February 18, 2005 (as amended through the date hereof, the Amended Term Loan), with the several banks and other financial institutions or entities from time to time parties thereto, Lehman Commercial Paper, Inc., a debtor and debtor in possession under chapter 11 of the Bankruptcy Code acting through one or more of its branches as the Administrative Agent and The Bank of New York Mellon, as the successor Administrative Agent. All of the terms in the Term Loan Modification Term Sheet, as described in Note 5 Long-Term Obligations and Liabilities Subject to Compromise, were accepted and included in the Amended Term Loan with the exception of certain interest rate terms that are described below in item (i). In accordance with the Amended Term Loan, Holding s Term Loan facility due February 2011 was reinstated and amended in certain respects, including: (i) at the option of Holding, interest rates are now (A) LIBOR + 9.00% with a LIBOR floor of 3.00% (or LIBOR + 11.00% with 4.00% to be paid in kind) or (B) Prime Rate + 8.00% with a Prime Rate floor of 4.00% (or Prime Rate + 10.00% with 4.00% to be paid in kind); (ii) The Bank of New York Mellon has been appointed as successor Administrative Agent; (iii) amortization payments have been increased; (iv) mandatory prepayments are required from (A) 25% of the net proceeds of certain equity issuances (including 25% of the cash of businesses acquired in exchange for equity), (B) 100% of the net proceeds from debt issuances (other than as permitted under the limitation of indebtedness covenant), and (C) 80% of net cash proceeds from asset sales or insurance recoveries not otherwise reinvested within 180 days or committed to reinvestment within 270 days of such asset sales; (v) Group or its affiliates are able to purchase annually up to $5 million in principal amount of loans at less than par without being subject to the pro-rata provisions of the Term Loan facility (or

Table of Contents

purchases in excess of such annual amount by way of an offer to all lenders), any such purchased loans deemed immediately cancelled; and (vi) certain covenants have been modified, including restrictions on the ability to incur additional debt and the addition of a minimum EBITDA covenant, a maximum indebtedness covenant and a maximum capital expenditure covenant. In addition, the Debtors have agreed to pay all reasonable fees, expenses and disbursements of counsel and the financial advisor to the Term Loan lenders.

Amendment of IHC s 14.25% Senior Secured Notes Indenture

On the Effective Date, IHC, Group, Holding, the other Guarantors party thereto and U.S. Bank National Association, as trustee, entered into a supplemental indenture (the Supplemental Indenture) to the indenture governing IHC s 14 1/4% Senior Secured Notes due 2011 (the Original Indenture). The Supplemental Indenture amended the Original Indenture to provide for the issuance of 14 1/4% Senior Subordinated Secured Notes due May 20, 2013 (the Modified Second Lien Notes). At the option of IHC, prior to the earlier of (1) the extension of the maturity of or the repayment in full of the indebtedness outstanding pursuant to the Amended Term Loan and the loan facility entered into by Primus Telecommunications Canada Inc., an indirect wholly owned subsidiary of Group, and (2) June 1, 2011, up to 4.25% per annum of the interest on the Modified Second Lien Notes may be paid in kind. The Supplemental Indenture also modified covenants in the Original Indenture to prevent subsidiary guarantors from incurring debt to refinance indebtedness of non-guarantors and to limit the incurrence of indebtedness of restricted persons that is secured by a lien on the assets of IHC, any subsidiary guarantor or other restricted persons, as defined under the modified indenture.

Pursuant to the Plan, the 14 1/4% Senior Secured Notes due 2011 were cancelled on the Effective Date and the holders thereof received their pro rata portion of approximately $123.5 million aggregate principal amount of Modified Second Lien Notes.

On the Effective Date, IHC entered into a First Amendment to the Intercreditor Agreement, dated as of February 26, 2007 (as amended through the date hereof, the Amended Intercreditor Agreement), with Group, Holding, The Bank of New York Mellon, as First Lien Collateral Agent, and U.S. Bank National Association, as Second Lien Collateral Agent. Pursuant to the Amended Intercreditor Agreement, the Modified Second Lien Notes shall be subordinated in right of payment to the prior indefeasible payment in cash in full of all obligations under the Amended Term Loan.

Also on the Effective Date, IHC, each of the Grantors party thereto and U.S. Bank National Association, as collateral agent, entered into a First Amendment to the Collateral Agreement, dated as of February 26, 2007 (as amended through the date hereof, the Amended Collateral Agreement), to provide that the obligations of both IHC and PTII, an indirect wholly owned subsidiary of Group, shall be 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 Modified Second Lien Notes are secured by a lien on the property of Group and Holding, respectively.

Warrant Agreements

As of the Effective Date, Group issued Class A warrants to purchase up to an aggregate of 3,000,000 shares of New Common Stock to holders of the Holding Notes. The Class A warrants consist of 1,000,000 each of Class A-1 warrants, Class A-2 warrants and Class A-3 warrants. In connection with the issuance of the Class A warrants, Group entered into a warrant agreement, dated as of the Effective Date (the Class A Warrant Agreement), with StockTrans, Inc., as warrant agent. Subject to the terms of the Class A Warrant Agreement, Class A-1 warrant holders are entitled to purchase up to 1,000,000 shares of New Common Stock at an initial exercise price of $12.22 per share, Class A-2 warrant holders are entitled to purchase up to 1,000,000 shares of New Common Stock at an initial exercise price of $16.53 per share, and Class A-3 warrant holders are entitled to

Table of Contents

purchase up to 1,000,000 shares of New Common Stock at an initial exercise price of $20.50 per share. The Class A warrants have a five-year term and will expire on July 1, 2014. A holder may exercise Class A warrants by paying the applicable exercise price in cash. In addition, a holder may exercise Class A warrants on a cashless basis in connection with a change of control (as defined in the Class A Warrant Agreement), in connection with a transaction pursuant to an effective registration statement covering the sale of New Common Stock underlying such Class A warrants, or if the exercise occurs on a date when the daily volume-weighted average price of the New Common Stock for the immediately preceding 10 trading days exceeds 150% of the exercise price applicable to such Class A warrants. The Class A warrants are freely transferrable by the holder thereof.

As of the Effective Date, Group issued Class B warrants to purchase up to an aggregate of 1,500,000 shares of New Common Stock to holders of the Group Notes. In connection with the issuance of the Class B warrants, Group entered into a warrant agreement, dated as of the Effective Date (the Class B Warrant Agreement), with StockTrans, Inc., as warrant agent. Subject to the terms of the Class B Warrant Agreement, Class B warrant holders are entitled to purchase 1,500,000 shares of New Common Stock at an initial exercise price of $26.01 per share. The Class B warrants have a five-year term and will expire at on July 1, 2014. A holder may exercise Class B warrants by paying the applicable exercise price in cash. In addition, a holder may exercise Class B warrants on a cashless basis in connection with a change of control (as defined in the Class B Warrant Agreement), in connection with a transaction pursuant to an effective registration statement covering the sale of New Common Stock underlying such Class B warrants, or if the exercise occurs on a date when the daily volume-weighted average price of the New Common Stock for the immediately preceding 10 trading days exceeds 150% of the exercise price applicable to the Class B warrants. The Class B warrants are freely transferrable by the holder thereof.

The number of shares of New Common Stock issuable upon exercise of the Class A warrants and Class B warrants (together, the Warrants) and the exercise prices of the Warrants will be adjusted in connection with any dividend or distribution of New Common Stock, assets or cash (other than any regular cash dividend not to exceed in any fiscal year 45% of the consolidated net income of Group), or any subdivision or combination of the New Common Stock. In addition, the number of shares of New Common Stock issuable upon exercise of the Warrants and the exercise prices of the Warrants are also subject to adjustment in connection with any issuance, grant or sale to any person of (A) rights, warrants, options, exchangeable securities or convertible securities entitling such person to subscribe for, purchase or otherwise acquire shares of New Common Stock at a price per share less than the fair market value of the New Common Stock on the trading day immediately prior to such issuance, sale or grant, subject to certain exceptions, or (B) shares of New Common Stock at a price per share less than the fair market value of the New Common Stock on the trading day immediately prior to such issuance, sale or grant. Additionally, if any transaction or event occurs in which all or substantially all of the outstanding New Common Stock is converted into, exchanged for, or the holders thereof are otherwise entitled to receive on account thereof stock, other securities, cash or assets (each, a Fundamental Change Transaction) the holder of each Warrant outstanding immediately prior to the occurrence of such Fundamental Change Transaction shall have the right to receive upon exercise of the applicable Warrant the kind and amount of stock, other securities, cash and/or assets that such holder would have received if such Warrant had been exercised.

Contingent Value Rights Distribution Agreement

Pursuant to the terms of the Plan, Group issued to holders of Group s Old Common Stock Contingent Value Rights to receive up to an aggregate of 2,665,000 shares (the CVR Shares) of New Common Stock. In connection with the issuance of the Contingent Value Rights, Group entered into a Contingent Value Rights Distribution Agreement (the CVR Agreement), in favor of holders of CVRs thereunder, dated as of the Effective Date.

The CVRs may not be transferred by the holder thereof except in certain limited circumstances. Subject to the terms of the CVR Agreement, holders of CVRs will receive their pro rata share of up to 2,665,000 CVR Shares. A distribution of CVR Shares is required to be made by Group if, as of any determination date (described

below), Group s equity value (assuming cash exercise in full on such date of in-the-money warrants and options of Group) divided by the sum of the number of shares of New Common Stock then issued and outstanding plus the number of shares of New Common Stock underlying warrants, options and similar securities of Group (other than CVRs) that are then in-the-money exceeds $35.95. The aggregate number of such shares of New Common Stock is referred to as the Applicable Shares; the price per share of $35.95, subject to adjustment as described below, is referred to as the CVR Strike Price; and the per share amount of any such excess over the CVR Strike Price is referred to as the Excess Equity Value Per Share. If such a distribution is required, the number of CVR Shares to be distributed by Group equals the product of Excess Equity Value Per Share multiplied by the number of Applicable Shares divided by the CVR Strike Price. Such product of Excess Equity Value Per Share and the number of Applicable Shares is referred to as the Excess Equity Value.

Group will determine if and to the extent a distribution of CVR Shares is required on January 1 and July 1 of each year, commencing on the first such date (but in no event later than July 1, 2013) on which data is available to confirm that Group s adjusted EBITDA for the immediately preceding four fiscal quarters is equal to at least $100 million, and upon a change of control of Group. Distributions of CVR Shares (if any) will be made within 45 calendar days of a determination by Group that a distribution is required.

Notwithstanding the foregoing, no distribution of CVR Shares is required to be made by Group unless Excess Equity Value exceeds $1 million as of any determination date.

The number of CVR Shares and the CVR Strike Price will be adjusted from time to time in connection with any stock dividend or distribution, or subdivision, split, combination, reclassification or recapitalization of the New Common Stock. In addition, if Group distributes to holders of New Common Stock any of its assets (including but not limited to cash), securities or rights to purchase securities of Group (other than any regular cash dividend not to exceed in any fiscal year 45% of the consolidated net income of Group for the immediately preceding fiscal year), then the number of CVR Shares will be increased and the CVR Strike Price will be decreased, in each case pursuant to the terms of the CVR Agreement. Additionally, in case of any reclassification, merger, consolidation, capital reorganization or other change in the capital stock of Group (other than in connection with a change of control) in which all or substantially all of the outstanding shares of New Common Stock are converted into or exchanged for stock, other securities or other property, Group shall make appropriate provision so that the holders of Contingent Value Rights shall thereafter be entitled to receive, at such time such holder would have otherwise been entitled to receive a distribution under the CVR Agreement, the kind and amount of stock and other securities and property having a value substantially equivalent to the value of New Common Stock that the holders of Contingent Value Rights would have been entitled to receive in connection with a distribution of CVR Shares immediately prior to such reclassification, merger, consolidation, reorganization or other change in the capital stock of Group at a CVR Strike Price that, in each case, is reasonably determined by the board of directors of Group after consultation with an independent valuation advisor to preserve, to the extent practicable, the intrinsic value of such CVR immediately prior to such event.

The Contingent Value Rights will expire and the CVR Agreement will terminate upon the earliest to occur of: (1) the date upon which no further CVR Shares are available for distribution, (2) the consummation of a change of control (subject to any potential distribution of CVR Shares as a result thereof), and (3) July 1, 2019.

Current Impact on Group s Subsidiaries that have not sought Reorganization. Group s subsidiaries other than Holding, IHC and PTII are not part of the Reorganization; operating subsidiary companies, including those in the United States, Australia, Canada, India, Europe and Brazil (the Operating Subsidiaries), were not party to the Reorganization and have continued to manage and to operate their businesses without interruption, and employees, customers, suppliers and partners of these Operating Subsidiaries have been unaffected by the filing of the Chapter 11 Cases.

Table of Contents

2. 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 three months and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

In accordance with Statement of Position (SOP) No. 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code, all pre-petition liabilities subject to compromise are segregated in the unaudited Consolidated Condensed Balance Sheets and classified as liabilities subject to compromise, at management s estimate of the amount of allowable claims. Liabilities not subject to compromise are separately classified as current and non-current in the unaudited Consolidated Condensed Balance Sheet as of June 30, 2009. Revenues, expenses, realized gains and losses, and provisions for losses that result from the reorganization are reported separately as reorganization items, net, in the unaudited Consolidated Condensed Statements of Operations for the three months and six months ended June 30, 2009. Net cash used for reorganization items is disclosed separately in the unaudited Consolidated Condensed Statements of Cash Flows. The outcome of the plan of reorganization could materially change the amounts reported in the financial statements, which do not give effect to all adjustments of the carrying value of assets or liabilities that might be necessary as a consequence of the plan, or the effect of any operational changes that may be made in the business.

After the emergence from bankruptcy on July 1, 2009, the amounts reported in the Company s subsequent financial statements may materially change. The Company will be required to adopt the fresh start provisions of SOP No. 90-7 in the third quarter 2009, which requires that all assets and liabilities be restated to their fair value. Certain of these fair values may differ materially from the values recorded on the accompanying Consolidated Condensed Balance Sheets. Additionally, the Company must also adopt any changes in generally accepted accounting principles (GAAP) that it is otherwise required to adopt within twelve months of such date. Furthermore, it may opt to make other changes in accounting principles and policies upon adoption of fresh start. For all of these reasons, the Company s financial statements for periods subsequent to July 1, 2009, the Effective Date of the emergence from bankruptcy, will not be comparable to previous periods.

The results for the three months and six months ended June 30, 2009 reflect the activities of certain operations as discontinued operations (see Note 10 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.

3. 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 Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46 (R), Consolidation of Variable Interest Entities-an Interpretation of Accounting Research Bulletins (ARB) No. 51. All intercompany profits, transactions and balances have been eliminated in consolidation. In the first quarter 2009, the Company sold certain assets of its Japan retail operations. Therefore, the Company reported Japan retail operations as a

Table of Contents

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 during the first quarter of 2009.

Effective January 1, 2009, the Company adopted SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment to ARB No. 51, Consolidated Financial Statements. This statement changes the presentation of outstanding noncontrolling interests in one or more subsidiaries or the deconsolidation of those subsidiaries. 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 FIN No. 46 (R). 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 (in thousands) for the six months ended June 30, 2008 and 2009 are as follows:

			As of June 30, 2008 Primus Telecommunications Group, Incorporated Shareholders					
			Common Stock				Accumulated Other	
	Total	Comprehensive Income	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Comprehensive Loss	Noncontrolling Interest
Balance as of January 1, 2008	$ (446,701)		142,633	$ 1,426	$ 718,695	$ (1,074,778)	$ (92,883)	$ 839
Stock Option Compensation Expense	132				132			
Comprehensive Income								
Net income	$ 43,793	$ 43,793				43,525		268
Other comprehensive loss	(4,073)	(4,073)					(4,048)	(25)
Comprehensive Income	39,720	$ 39,720						
Balance as of June 30, 2008	$ (406,849)		142,633	$ 1,426	$ 718,827	$ (1,031,253)	$ (96,931)	$ 1,082

			As of June 30, 2009 Primus Telecommunications Group, Incorporated Shareholders					
			Common Stock				Accumulated Other	
	Total	Comprehensive Income	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	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

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 Statements of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payments, consistent with that used for pro forma disclosures under SFAS No. 123. 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. 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.

The Company recorded an incremental $11 thousand and $27 thousand stock-based compensation expenses for the three months and six months ended June 30, 2009, respectively, and an incremental $70 thousand and $132 thousand stock-based compensation expenses for the three and six months ended June 30, 2008, respectively, under guidance in SFAS No. 123(R).

The Company granted 125,000 options during the three months ended June 30, 2008. No options were granted during the three months ended June 30, 2009. The weighted average fair value at date of grant for options granted during the three months ended June 30, 2008 was $0.10 per option. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	For the Three Months Ended June 30, 2008
Expected dividend yield	0%
Expected stock price volatility	96%
Risk-free interest rate	3.0%
Expected option term	4 years

As of June 30, 2009, the Company had 0.9 million unvested awards outstanding of which $0.1 million of compensation expense will be recognized over the weighted average remaining vesting period of 1.98 years. Under the Plan or Reorganization, as described in Note 1 *Voluntary Reorganization under Chapter 11* above, all outstanding options were cancelled upon the July 1, 2009 Plan Effective Date.

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 such as marketable securities, long-term obligations and liabilities subject to compromise, the calculation used in determining the fair value of the Company s stock options required by SFAS No. 123(R), various tax contingencies, asset impairment write-downs, and purchase price allocations.

Newly Adopted Accounting Principles

Effective April 1, 2009, the Company adopted SFAS No. 165, Subsequent Events. SFAS No. 165 establishes principles and requirements for evaluating and reporting subsequent events and distinguishes which subsequent events should be recognized in the financial statements versus which subsequent events should be disclosed in the financial statements. SFAS No. 165 also requires disclosure of the date through which subsequent events are evaluated by management. The adoption did not have a material effect on the Company s results of operations, financial position or cash flows. Management has evaluated subsequent events through August 13, 2009, for this quarterly report on Form 10-Q, for the quarter ended June 30, 2009.

Table of Contents

Effective January 1, 2009, the Company adopted FSP No. 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). FSP No. 14-1 requires issuers of convertible debt securities to separate securities into a debt component and an equity component, resulting in the debt component being recorded at fair value without consideration given to the conversion feature. Issuance costs are also allocated between the debt and equity components. FSP No. 14-1 requires that convertible debt within its scope reflect a company s nonconvertible debt borrowing rate when interest expense is recognized. The adoption did not have a material effect on the Company s results of operations, financial position or cash flows.

Effective January 1, 2009, the Company adopted SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 identifies the sources of accounting principles and provides the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles in the United States. The adoption did not have a material effect on the Company s results of operations, financial position or cash flows.

Effective January 1, 2009, the Company adopted SFAS No. 141R, Business Combinations. SFAS No. 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. The adoption did not have a material effect on the Company s results of operations, financial position or cash flows.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-1, Application of FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 1 and FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157. The provisions of SFAS No. 157, Fair Value Measurements, which provide guidance for, among other things, the definition of fair value and the methods used to measure fair value, where adopted January 1, 2008 for financial instruments. The provisions adopted in 2008 did not have a material impact on the Company s financial statements. FSP 157-1 and FSP 157-2 collectively delayed the effective date of SFAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and liabilities (except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis) until financial years beginning after November 15, 2008, and changed the scope of SFAS No. 157. On January 1, 2009, the Company adopted the provisions of SFAS No. 157 for nonrecurring fair value measurements of nonfinancial assets and liabilities. The provisions adopted in the first quarter 2009 did not have an impact on the Company s financial statements as the Company did not have any fair value measurements of nonfinancial assets and liabilities as of June 30, 2009.

The valuation techniques required by SFAS No. 157 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 Company has an outstanding cross-currency principal and interest rate agreement with Lehman Brothers Special Financing, Inc., who entered bankruptcy in October 2008 and ceased performing on the agreement. The Company has estimated the value to be zero, requiring a write-off of $1.2 million in the third quarter of 2008, and has moved the instrument from Level 2 to Level 3 because the counter party s credit risk is not observable.

Table of Contents

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging with the intent to provide users of financial statements with an enhanced understanding of the use of derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity s financial statements. SFAS No. 161 is effective for financial statements issued for fiscal years interim periods beginning after November 15, 2008. The adoption on January 1, 2009 did not have a material impact on the Company s results of operations, financial position and cash flows.

New Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, which establishes the FASB Accounting Standards Codification as the source of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements. The provisions of SFAS No. 168 will be applied prospectively beginning in the third quarter of 2009. The Company anticipates that the adoption of this standard will not have a material impact on its results of operations, financial position and cash flows.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46 (R), which amends the definition of the primary beneficiary of a variable interest entity and will require the Company to assess each reporting period if any of the Company s variable interests give it a controlling financial interest in the applicable variable interest entity. The provisions of SFAS No. 167 will become effective for financial statements issued for fiscal years and interim periods begin after November 15, 2009. The Company is currently evaluating the impact the provisions of SFAS No. 167 on its financial statements.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Acquired intangible assets subject to amortization consisted of the following (in thousands):

	As of June 30, 2009			As of December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer lists	$ 4,229	$ (3,806)	$ 423	$ 3,806	$ (3,150)	$ 656
Other	1,673	(1,614)	59	1,665	(1,575)	90
Total	$ 5,902	$ (5,420)	$ 482	$ 5,471	$ (4,725)	$ 746

Amortization expense for customer lists and other intangible assets for the three months ended June 30, 2009 and 2008 was $0.2 million and $0.5 million, respectively. Amortization expense for customer lists and other intangible assets for the six months ended June 30, 2009 and 2008 was $0.5 million and $1.0 million, respectively. The Company expects amortization expense for customer lists and other intangible assets for the remainder of 2009 and the year ended December 31, 2010 and 2011 to be approximately $0.1 million, $0.2 million and $0.1 million, respectively, excluding any potential changes to the intangible assets as a result of applying fresh start accounting as of July 1, 2009.

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

	As of June 30, 2009	As of December 31, 2008
Goodwill	$ 35,351	$ 32,688

15

Table of Contents

The changes in the carrying amount of goodwill for the six months ended June 30, 2009 are as follows (in thousands):

	United States	Canada	Asia-Pacific	Total
Balance as of January 1, 2009				
Gross Goodwill	$ 198,140	$ 102,777	$ 30,775	$ 331,692
Accumulated impairment losses	(197,983)	(80,864)	(20,157)	(299,004)
Net Goodwill	157	21,913	10,618	32,688
Effect of change in foreign currency exchange rate	32	1,267	1,364	2,663
Balance as of June 30, 2009				
Gross Goodwill	198,172	104,044	32,139	334,355
Accumulated impairment losses	(197,983)	(80,864)	(20,157)	(299,004)
Net Goodwill	$ 189	$ 23,180	$ 11,982	$ 35,351

5. LONG-TERM OBLIGATIONS AND LIABILITIES SUBJECT TO COMPROMISE

On March 16, 2009, the Company and certain holding company subsidiaries filed for voluntary reorganization under Chapter 11 (see Note 1 Proceedings Under Chapter 11 of The Bankruptcy Code). The filings for bankruptcy constituted an event of default that triggered repayment obligations under a number of debt instruments. As a result of the event of default, all obligations under the affected debt agreements became automatically and immediately due and payable. Additionally, the filing of the Chapter 11 Cases constituted an event of default through a cross default provision of the Canadian Credit Facility (as defined below); however a waiver of that default provision was obtained from the lender as described under the Canadian Credit Facility below. Certain other vendor and capital lease obligations are not in default because they are held in operating companies that were not part of the bankruptcy filings.

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

	June 30, 2009	December 31, 2008
Obligations under capital leases and other	$ 5,056	$ 4,851
Leased fiber capacity	2,531	2,172
Senior secured term loan facility	95,750	96,250
Canadian credit facility	29,500	35,000
Senior notes*		200,186
Senior secured notes*		198,960
Exchangeable senior notes*		25,122
Convertible senior notes*		34,006
Step up convertible subordinated debentures*		8,290
Subtotal	132,837	604,837
Less: Current portion of long-term obligations	(107,097)	(564,797)
Total long-term obligations	$ 25,740	$ 40,040

* As of June 30, 2009, certain liabilities are subject to compromise as part of the Plan and are classified as liabilities subject to compromise as described below.

Table of Contents

The following table reflects the contractual payments of principal and interest for all long-term obligations as of June 30, 2009 as follows (note this table only represents liabilities that are not subject to compromise as described below):

Year Ending December 31,	Vendor Financing and Other	Senior Secured Term Loan Facility (1)	Canadian Credit Facility (2)	Total
2009 (as of June 30, 2009)	$ 1,888	$ 7,694	$ 4,011	$ 13,593
2010	5,151	16,767	7,685	29,603
2011	1,068	89,713	21,036	111,817
2012	257			257
2013	64			64
Thereafter	33			33
Total Minimum Principal & Interest Payments	8,461	114,174	32,732	155,367
Less: Amount Representing Interest	(874)	(18,424)	(3,232)	(22,530)
Total Long Term Obligations	$ 7,587	$ 95,750	$ 29,500	$ 132,837

(1) For preparation of this table, the Company has assumed the interest rate of the Senior Secured Term Loan Facility to be 12.0% and principal payments as according to the Term Loan Modification Term Sheet.

(2) For preparation of this table, the Company has assumed the interest rate of the Canadian Credit Facility to be 7.0%.

Liabilities Subject to Compromise

Under bankruptcy law, actions by creditors to collect upon liabilities of the Debtors incurred prior to the Petition Date are stayed and certain other pre-petition contractual obligations may not be enforced against the Debtors without approval of the Court. In accordance with SOP No. 90-7, these liabilities are adjusted to the amount of the allowed claim by the court and are classified as liabilities subject to compromise in the Consolidated Condensed Balance Sheet as of June 30, 2009, which are different than the prepetition amounts originally recorded on the financial statements due to certain debt premiums, discounts and future interest payments recorded as long-term obligations that were written off during quarter ended March 31, 2009. See Note 12 Reorganization Items, Net. Adjustments to the claims may result from negotiations, payments authorized by Court order or other events. It is anticipated that such adjustments, if any, could be material. Any payment terms established for the liabilities subject to compromise will be established in connection with actual confirmation of the plan of reorganization. See Note 1 Proceedings Under Chapter 11 of the Bankruptcy Code. Liabilities subject to compromise are classified separately from long-term obligations and current liabilities.

The following table summarizes the components of liabilities subject to compromise in the Consolidated Condensed Balance Sheet as of June 30, 2009 (in thousands):

8% Senior Notes of Holding due January 2014	$ 186,000
14 1/4% Senior Secured Notes of IHC due May 2011	173,157
3 3/4% Convertible Notes of Group due September 2010	34,200
5% Exchangeable Senior Notes of Holding due June 2010	23,369
12 3/4% Senior Notes of Group due October 2009	14,186
Step Up Convertible Subordinated Debentures	8,641
Accrued Interest	11,497
Liabilities Subject to Compromise	$ 451,050

17

Table of Contents

Senior Secured Term Loan Facility

In February 2005, a direct wholly-owned subsidiary of the Company, Primus Telecommunications Holding, Inc. (Holding), entered into a six-year, $100 million senior secured term loan facility (the Facility). Each borrowing made under the Facility may be, at the election of Holding at the time of the borrowing, a London Inter-Bank Offered Rate (LIBOR) loan (which will bear interest at a rate equal to LIBOR + 6.50%), or a base rate loan (which will bear interest at a rate equal to the greater of the prime rate plus 5.50% or the federal funds effective rate plus 6.00%). The Facility contained no financial maintenance covenants. The Company borrowed $100 million under this Facility in February 2005.

The Facility was to be repaid in 24 quarterly installments, which began on June 30, 2005, at a rate of one percent of the original principal per year over the next five years and nine months, and the remaining balance repaid on the sixth anniversary date of the Facility, with early redemption at a premium to par at Holding s option at any time after February 18, 2006. The Facility is guaranteed by the Company and certain of Holding s domestic subsidiaries and is secured by certain assets of Holding and its guarantor subsidiaries and by partial stock pledges of certain foreign subsidiaries.

In February 2007, the Company received unanimous consent to an amendment of its existing $100 million Facility. This amendment enabled Primus Telecommunications IHC, Inc. (IHC), a wholly-owned indirect subsidiary of the Company, to issue and have at any one time outstanding up to $200 million of existing authorized indebtedness in the form of newly authorized secured notes with a second lien security position. On February 26, 2007, an Intercreditor Agreement was entered into between the 14 1/4% Senior Secured Notes and the lenders of the Facility. Pursuant to this authorization, the Company has issued certain 14 1/4% Senior Secured Notes. The amendment allowed for an increase of 1/4% to the interest rate of the Facility and adjusted the early call features. The effective interest rate for the Facility at December 31, 2008 was 10.2%.

The debt under the Facility is in default as a result of the bankruptcy filings on March 16, 2009. It is classified as current portion of long-term obligations on the balance sheet at June 30, 2009.

On April 14, 2009, Holding and certain affiliates who are party to the Term Loan (collectively, the Primus Term Loan Parties) agreed to a term sheet with a group of lenders under the Term Loan (the Term Loan Ad Hoc Committee) which comprised a requisite number to support and consent to an amendment to the Term Loan as part of the Company s Plan of Reorganization (the Term Loan Modification Term Sheet) and executed a forbearance agreement, as discussed below, whereby the Term Loan lenders have agreed to forbear from exercising rights and remedies related to certain defaults and events of default under the Term Loan (including events related to the Chapter 11 Cases and Reorganization) subject to the terms and conditions described below. The Term Loan Modification Term Sheet contemplates a waiver of defaults and events of default under the Term Loan, including those arising out of the Chapter 11 Cases and the Reorganization, subject to the satisfaction of certain conditions precedent to executing an amendment to the Term Loan and Plan confirmation accepting the amendment reflecting the Term Loan Modification Term Sheet.

Term Loan Modification Term Sheet. The Term Loan Modification Term Sheet was not an effective amendment to the Term Loan, but instead reflected an agreement in principle with the Term Loan Ad Hoc Committee. The Company finalized the terms of an amendment to the Term Loan, based on the terms set forth in the Term Loan Modification Term Sheet, with the Term Loan Ad Hoc Committee and a replacement administrative agent and included such amendment in the Company s Plan of Reorganization, which was approved by the Bankruptcy Court and the creditors in the Chapter 11 Cases. See Note 1 Proceedings Under Chapter 11 of the Bankruptcy Code.

The Term Loan Modification Term Sheet is subject to a number of conditions precedent, including the following:

- the release of Lehman Commercial Paper Inc. (LCPI) as Administrative Agent and the appointment of a replacement Administrative Agent;

Table of Contents

the bring-down of certain representations and warranties under the Term Loan agreement (excluding no default and bankruptcy representations and warranties);

an accounting of borrowers and guarantors intercompany receivables and payables; and

delivery of certain account control agreements and officer certificates.

The Term Loan Modification Term Sheet contemplates that the amortization schedule under the Term Loan will be modified so that principal payments will be due on the dates and in the amounts set forth below:

Payment Date	Principal Payment Amount
March 31, 2009	$ 250,000
June 30, 2009	$ 250,000
September 30, 2009	$ 925,000
December 31, 2009	$ 925,000
March 31, 2010	$1,400,000
June 30, 2010	$1,400,000
September 30, 2010	$1,400,000
December 31, 2010	$1,400,000
February 18, 2011	Remaining Outstanding Principal

On March 31, 2009 and June 30, 2009, principal payments of $250,000 were paid as required under the Term Loan Modification Term Sheet.

The Term Loan Modification Term Sheet provides for an interest rate feature consisting of (i) a cash payment of LIBOR + 9.00% with a LIBOR floor of 3.00% or (ii) a cash payment of LIBOR + 7.00% with a LIBOR floor of 3.00% and 4.00% in a payment in kind (PIK), with such interest rate option selected at Holding s option with notice 30 days prior to each interest payment date. Certain of these interest terms were amended in connection with confirmation of the Plan. See Note 1 Proceedings Under Chapter 11 of the Bankruptcy Code.

The Term Loan Modification Term Sheet provides for:

the replacement of LCPI as Administrative Agent under the Term Loan, with a replacement agent reasonably acceptable to the Company and the Term Loan lenders;

first priority liens in all of the Collateral, except for permitted liens, with the same collateral basket as the Term Loan, subject to exceptions for certain specified account control agreements;

mandatory prepayments from (1) 25% of the proceeds of certain equity issuances (including 25% of the cash of businesses acquired in exchange for equity), (2) proceeds from debt issuances (other than as permitted under the limitation of indebtedness covenant), and (3) 80% of net cash proceeds from asset sales or insurance recoveries not otherwise reinvested in the business as provided thereunder; and

the ability of Holding to purchase annually up to $5 million in principal amount of Term Loans by Group or its affiliates at less than par in negotiated transactions without being subject to the pro-rata provisions (or purchases in excess of such annual amount by way of an offer to all holders of Loans) and the obligation to cancel Term Loans purchased by Group or its affiliates (without voting

rights in respect of such acquired Term Loans).

The Term Loan Modification Term Sheet provides for the modification of Term Loan covenants concerning the incurrence of debt, including the elimination of most of the exceptions to the limitation on debt incurrence other than

(a) an aggregate of $50 million of specified indebtedness (of which approximately $40 million is currently outstanding);

Table of Contents

(b) an additional unsecured debt basket of up to an aggregate dollar cap of $7.5 million;

(c) debt to finance acquisitions, which would be limited to 2.5 times the annual EBITDA acquired and satisfy acquisition debt standards; and

(d) additional permitted debt, including debt arising from the use of PIK.

The Term Loan Modification Term Sheet provides for modification of a number of other Term Loan covenants, including:

- modification of the restricted payments covenant to make clear that any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value of any debt, including but not limited to any of the 14 $^{1}/4$% Senior Secured Notes issued by IHC (the Second Lien Debt), other than Indebtedness representing the Term Loans and specified indebtedness will be a Restricted Payment ; provided that Restricted Payments shall not include (a) any repayment, repurchase or retirement of any indebtedness in connection with any permitted refinancing or (b) any repurchase of indebtedness with equity proceeds or asset sale proceeds not otherwise required to be applied in prepayment of the Term Loans. The restricted payments covenant is to contain customary restrictions, including, but not limited to, a cap of $1 million;

- modification of the limitation on liens covenant to delete the incurrence test and expressly prohibit any liens other than permitted liens;

- modification of the restriction on certain purchases of Indebtedness covenant to preclude Group and each restricted subsidiary from repaying, prepaying or purchasing debt, excluding specified debt and other certain limited exceptions;

The Term Loan Modification Term Sheet provides for the inclusion of financial covenants concerning Minimum Adjusted EBITDA, Maximum Debt and Maximum Capital Expenditures (Capex) and provides that

- the Adjusted EBITDA covenant initially will be calculated beginning September 30, 2009 based on the trailing four quarters for the periods ended September 30, 2009 and December 31, 2009, and such calculations will be made using specified constant currency rates (e.g., CAD 0.80; AUD 0.65; EUR 1.275 and GBP 1.40);

- currency rates in effect on December 31, 2009 and June 30, 2010 will be used for purposes of calculating compliance for quarters ended during the next succeeding six month periods, but such currency rates will not be used retroactively for any periods prior to such date;

- Minimum Adjusted EBITDA compliance shall be set at $50 million, calculated quarterly based upon the prior four quarters effective September 30, 2009. Failure to meet the Minimum Adjusted EBITDA covenant will not be an event of default, except in circumstances noted in the succeeding proviso, and would result in a financial penalty of $250,000 per quarter in incremental amortization plus a 50 basis point increase in the interest rate during the quarters of non-compliance, provided however that if the Adjusted EBITDA is below $42 million it will constitute an event of default. The minimum Adjusted EBITDA will be calculated quarterly based upon the last four quarters results in a manner consistent with the definition used by the Company in past earnings releases, subject to the addition of reorganization cost adjustments and adjustments for divestitures and acquisitions.

- Maximum Debt shall be $270 million plus additional debt accrued from the use of PIK and for debt arising from acquisitions which debt would be limited to 2.5 times annual EBITDA acquired and as long as such debt satisfies Acquisition Debt standards; the Maximum Debt covenant will be required to be maintained at all times following substantial consummation of the plan of

reorganization; and

Maximum Capex shall be $18 million in 2009 and $23 million in 2010, calculated annually effective December 31, 2009, and subject to adjustment for divestitures and acquisitions.

Table of Contents

Forbearance Agreement. On April 14, 2009, the Primus Term Loan Parties and certain lenders under the Term Loan (the Required Lenders) entered into a Forbearance Agreement (the Term Loan Forbearance Agreement).

Subject to the terms and conditions of this Agreement, the Required Lenders agreed to forbear and to direct the Administrative Agent to forbear from exercising any or all of their respective rights and remedies under the Term Loan documents in respect of the forbearance defaults and covenants, including rights associated with defaults or events of default as a result of, arising in connection with, or related to the filing of petitions by the Debtors in connection with the Reorganization (Forbearance).

While the Required Lenders agreed to forbear enforcement of and waive the forbearance defaults and covenants, subject to the terms of the Term Loan Forbearance Agreement, such forbearance nonetheless was subject to termination for the following failures that occur on or before the date listed below, or such later date as mutually agreed upon by the Debtors and the required Lenders:

Failure Event	**Trigger Date**
Failure of Debtors to file amended plan of reorganization with treatment set forth in Term Loan Modification Term Sheet (Amended Plan) and amended disclosure statement (Amended Disclosure Statement) with Bankruptcy Court on or before	April 20, 2009
Failure of Bankruptcy Court to enter Order approving Amended Disclosure Statement, in form and substance reasonably satisfactory to the Required Lenders, on or before	May 15, 2009
Failure of Debtors and Required Lenders to modify agreements under Term Loan consistent with Term Loan Modification Term Sheet (Modified Loan Documents) on or before	May 15, 2009
Failure of Bankruptcy Court to enter Order confirming the Amended Plan (Confirmation Order) on or before	June 30, 2009
Failure of Debtors to consummate the Amended Plan on or before	July 15, 2009 (Plan Effective Date)
Failure of Debtors or non-Debtor subsidiaries to timely make, or fail payment of, scheduled principal or interest required under Term Loan (Loan Document Payments)	Prior to Plan Effective Date

As of the date of this filing, all of the Failure Events described above with regard to the Term Loan Forbearance Agreement were avoided.

Termination of Forbearance also could occur in the event:

of certain noteholder, or indenture trustee, objection to Loan Document Payments;

any Chapter 11 Case is converted to a case under Chapter 7 of Bankruptcy Code;

the Bankruptcy Court shall enter an order in the Chapter 11 Cases ordering the appointment of (i) a trustee, (ii) a responsible officer, or (iii) an examiner with enlarged powers relating to the operation of the business (powers beyond those set forth in subclauses (3) and (4) of Section 1106(a)) under Section 1106(b) of the Bankruptcy Code;

any of the Chapter 11 Cases are dismissed;

the Confirmation Order is reversed on appeal or vacated;

any Primus Term Loan Party has failed to perform any material provision of the Term Loan Forbearance Agreement or the Term Loan Modification Term Sheet subject to notice and cure;

Table of Contents

any court or governmental authority shall enter a final, non-appealable judgment or order declaring the Term Loan Forbearance Agreement or any material portion thereof to be unenforceable or enjoining the consummation of a material portion of the transactions contemplated hereby;

the Debtors shall withdraw the Amended Plan or publicly announce their intention not to support the Amended Plan, or propose a reorganization or plan under the Bankruptcy Code other than the Amended Plan;

the Debtors inform the Required Lenders in writing of their determination that there is sufficient risk of non-performance by the Debtors with respect to the financial obligations contemplated by the Amended Plan with respect to the Lenders and the Loan Documents such that the amendments to the Loan Documents contemplated by the Term Sheet are no longer in the best interests of the Debtors estates;

the Debtors lose the exclusive right to file and solicit acceptances of the Amended Plan;

the conditions precedent required to be met prior to the closing of the amendment to the Term Loan agreement, consistent with and as contemplated in the Term Loan Modification Term Sheet, including any modification or amendment thereof, have not been satisfied on or before the Plan Effective Date or waived by the Required Lenders;

the Debtors file any motion or pleading with the Bankruptcy Court that is not consistent in any material respect with the Term Loan Forbearance Agreement or the Term Loan Modification Term Sheet and such motion or pleading has not been withdrawn prior to the earlier of (i) two (2) business days of the Debtors receiving notice that such motion or pleading is inconsistent with the Term Loan Forbearance Agreement or the Term Loan Modification Term Sheet and (ii) entry of an order of the Bankruptcy Court approving such motion;

the Bankruptcy Court grants relief that is inconsistent with the Term Loan Forbearance Agreement or the Term Loan Modification Term Sheet in any material respect;

the commencement of an avoidance action by any or all of the Debtors affecting the rights of any Term Loan lender or the commencement of such an action by any other party;

the filing by any or all of the Debtors or by any other party of an objection to the allowance of the Term Loan lenders claims against the Debtors estates in respect of the Term Loan Agreement;

subject to the execution of an appropriate and otherwise reasonable confidentiality agreement, to the extent necessary, the failure by the Debtors to provide to the Required Lenders and their advisors (i) reasonable access to the books and records of the Debtors, and (ii) reasonable access to the respective management and advisors of the Debtors for the purposes of evaluating the Debtors respective business plans and participating in the plan process with respect to the Reorganization;

the occurrence of a Termination Event as that term is defined in the Plan Support Agreement (the PSA) entered into as of March 16, 2009 between the Second Lien Noteholders, the 8% Noteholder, the 5% Noteholders and the Debtors that has resulted in a termination of the PSA;

failure to replace LCPI with an administrative agent reasonably acceptable to the Company and the Required Lenders on or before the Plan Effective Date;

the failure of the Debtors or any non-Debtor subsidiaries to pay all reasonable invoiced and unpaid fees and expenses of the Required Lenders advisors on or before the Plan Effective Date;

the Bankruptcy Court shall enter an order approving the use of cash collateral or otherwise approving the Debtors use of cash to fund the Chapter 11 Cases without the prior written consent of the Required Lenders; or

the filing of a petition for relief under the Bankruptcy Court by a non-Debtor Guarantor.

Table of Contents

While the Term Loan Forbearance Agreement is in effect, Forbearance shall be operative with respect to Forbearance Defaults and Covenants, but shall not constitute a forbearance with respect to any failure of the Company, Holding, PTII or any Guarantor to comply with any other covenant or other provision in the Term Loan Agreement or any of the Loan Documents or the occurrence of other present or future Default or Event of Default. None of these events has occurred.

Canadian Credit Facility

In March 2007, the Company entered into a Senior Secured Credit Agreement (Canadian Credit Facility) with a financial institution to refinance an existing Canadian credit facility. The Canadian Credit Facility provides for a $35.0 million non-amortizing loan bearing interest at a rate of LIBOR plus 425 basis points and matures in March 2012. The loan proceeds were used to refinance the existing Canadian credit facility, including certain costs related to the transaction, and to finance certain capital expenditures. The Canadian Credit Facility is secured by the assets of the Company s Canadian operations and certain guarantees. At June 30, 2009, the Company had an outstanding liability of $29.5 million under the Canadian Credit Facility.

In October 2007, the Company entered into a cross-currency principal and interest rate swap agreement, a portion of which was required by the Canadian Credit Facility, which fixed the interest rate at 9.21% starting from October 31, 2007. The cross-currency principal and interest rate swap agreement s counter party is Lehman Brothers Special Financing, Inc. (Lehman SFI). Lehman SFI entered into bankruptcy in early October 2008 following its ultimate parent entering bankruptcy in mid-September 2008. Since September 2008 month end interest rate swap payments were not made by Lehman SFI to Primus nor, correspondingly, were payments made from Primus to Lehman SFI. While the covenant language is arguably ambiguous, the Company believed that the swap agreement with Lehman SFI continued to be in force with respect to the requirements under the Canadian Credit Facility and, accordingly, that no breach or event of default had occurred. Because of the possible multiple interpretations of the covenant language, the Company specifically addressed these points in the Waiver and Amendment Agreement (described below).

On March 10, 2009, Group s indirect wholly-owned Canadian subsidiary, Primus Telecommunications Canada Inc. (Primus Canada), 3082833 Nova Scotia Company and certain affiliate guarantors entered into a Waiver and Amendment Agreement (the Waiver and Amendment) to their $35 million Canadian Credit Facility with Guggenheim Corporate Funding, LLC, as Administrative Agent and Collateral Agent.

The lenders under the Waiver and Amendment waived events constituting events of default and potential events of default under the Canadian Credit Facility, subject to the terms and conditions of the Waiver and Amendment. Such events included waivers covering certain specified events that have occurred and may constitute an event of default under the Canadian Credit Facility and Anticipated Events, including anticipated events of default. Anticipated events include events related to the plan of reorganization involving one or more of the guarantors and contemplated by the Waiver and Amendment (the Contemplated Plan), the occurrence of a material adverse effect arising as a result of the Chapter 11 Cases, the failure of a guarantor to make payment when due with respect to indebtedness (or the acceleration of indebtedness) of a guarantor at any time before the Contemplated Plan is effective and certain provisions of the guarantee being deemed invalid or unenforceable against a guarantor in connection with the Chapter 11 Cases for the Canadian Credit Facility. Specified waived events include:

- the failure of Primus Canada to maintain certain hedging agreements, Lehman unsecured hedging agreements or unsecured hedging agreements reasonably satisfactory to the Administrative Agent to hedge the full amount of its currency rate exposures with respect to the aggregate principal amount outstanding under the Canadian Credit Facility;

- the actions the guarantors have taken to authorize or effect certain actions related to the Reorganization; and

- the failure to deliver to the Administrative Agent an Officer s Certificate in connection with the events described in the preceding bullets.

Table of Contents

The Waiver and Amendment permits Primus Canada to incur certain second-lien secured term loans that do not exceed $5 million and guarantees by the credit parties. The Canadian Credit Facility, as amended, obligates Primus Canada to pay loan principal amounts under the Canadian Credit Facility on the dates and in the amounts set forth below:

Payment Date	Principal Payment Amount
March 31, 2009	$ 500,000
April 30, 2009	$ 500,000
May 31, 2009	$ 500,000
June 30, 2009	$ 2,250,000
The last day of each calendar month from and including July 2009 to and including April 2011	$ 500,000

On March 10, 2009, a principal prepayment of $1,750,000 was paid upon the execution of the Waiver and Amendment. On March 31, 2009, April 30, 2009 and May 31, 2009, principal payments of $500,000 were made and on June 30, 2009, a principal payment of $2,250,000 was made as required under the Waiver and Amendment.

In connection with the Waiver and Amendment, the applicable margin under the Canadian Credit Facility was increased to LIBOR +4.50%, with a 2.50% LIBOR floor, and the maturity date was changed to May 21, 2011.

The Waiver and Amendment established certain additional events of default under the Canadian Credit Facility to include any of the following:

- the Bankruptcy Court shall enter an order denying confirmation of the Plan or the Chapter 11 Cases shall be converted to a case under Chapter 7 of Title 11 of the United States Code;

- the plan of reorganization shall not have been confirmed by the Bankruptcy Court and become effective on or before August 31, 2010;

- the plan of reorganization shall be confirmed or become effective without the reinstatement after effectiveness of each guarantee on terms identical to such guarantee existing on the date hereof as a valid, unsubordinated obligation of the applicable guarantor, or the plan of reorganization is confirmed without any guarantor holding, directly or indirectly, substantially all of its current assets and businesses;

- the Bankruptcy Court shall enter any order that impairs the enforceability of this Agreement or any loan document (except as provided herein in connection with the obligations of the guarantors under the guarantee), as reasonably determined by the Administrative Agent;

- any representation or warranty made by a credit party in this Agreement shall prove to be untrue in any material respect as of the date hereof;

- any credit party shall default in the performance of any obligation under this Agreement that is not cured within 10 business days following notice thereof from the Administrative Agent; and

- the guarantee or any other loan document executed by a guarantor shall cease to be valid and binding on or enforceable against any guarantor.

Table of Contents

The Company is currently in compliance with each of these items.

Senior Notes, Senior Secured Notes, Convertible Senior Notes, Exchangeable Senior Notes, Step Up Convertible Subordinated Debentures and Convertible Subordinated Debentures (see Liabilities Subject to Compromise above)

14 1/4% Senior Secured Notes

In February 2007, subsequent to the effectiveness of the amendment of the Facility, IHC issued in a private transaction $57.2 million principal amount of the 14 1/4% Senior Secured Notes in exchange for $40.7 million principal amount of the Company s outstanding 12 3/4% Senior Notes and $23.6 million in cash. This exchange has been accounted for as a modification of debt with a portion deemed to be a troubled debt restructuring. In March 2007, IHC also issued for cash in private transactions an additional $51.0 million principal amount of 14 1/4% Senior Secured Notes with a $0.3 million discount. Net cash proceeds from the 14 1/4% Senior Secured Notes issuance, after giving effect to expenses, discounts and fees related to all of the foregoing transactions (including the amendment of the Facility) was $69.2 million. The Company recorded $5.1 million in costs associated with this issuance of the 14 1/4% Senior Secured Notes, which have been recorded as a loss on restructuring of debt.

In May 2008, IHC issued $67.1 million principal amount of the 14 1/4% Senior Secured Notes and paid $4.7 million in cash in exchange for $49.0 million principal amount of the Company s 8% Senior Notes, $33.0 million principal amount of the Company s 5% exchangeable senior notes due June 2010 (5% Exchangeable Senior Notes), $43.1 million principal amount of the Company s 3 3/4% Convertible Senior Notes, and $5.3 million principal amount of the Company s 12 3/4% Senior Notes. All exchanges were deemed troubled debt restructurings, and accordingly, have been accounted for as modifications of debt, with future cash interest payments of $26.4 million being recorded in long-term obligations. The Company recognized a gain on restructuring of debt of $32.2 million in connection with this exchange, including the expensing of $0.5 million of financing costs.

The 14 1/4% Senior Secured Notes were to mature on May 20, 2011 with early redemption at a premium to par at IHC s option at any time after February 2008. During specified periods, IHC may redeem at par up to 35% of the aggregate principal amount of the 14 1/4 % Senior Secured Notes with the net cash proceeds of certain equity offerings of the Company. Accrued interest will be paid each May 31st and November 30th, beginning May 31st, 2007. The effective interest rate for the 14 1/4% Senior Secured Notes at December 31, 2008 was 12.4% for those amounts not related to the troubled debt restructuring discussed above. (see Note 13 Guarantor/Non-Guarantor Consolidating Condensed Financial Information.)

In December 2008, the Company made open market purchases of $2.1 million principal amount of its 14 1/4% Senior Secured Notes, resulting in a $2.0 million gain on early extinguishment of debt including the write-off of related deferred financing costs. The notes were recorded as a reduction of long-term obligations.

5% Exchangeable Senior Notes

In the second quarter 2006, the Company completed the exchange of $54.8 million principal amount of the Company s 3 3/4% Convertible Senior Notes and $20.5 million in cash for $56.3 million principal amount of Holding s 5% Exchangeable Senior Notes. This exchange was deemed a troubled debt restructuring, and accordingly, has been accounted for as a modification of debt, with total future cash payments of $67.6 million being recorded in long-term obligations. The Company recognized a gain on restructuring of debt of $4.8 million in connection with this exchange, including the expensing of $2.9 million of financing costs.

The 5% Exchangeable Senior Notes were to mature on June 30, 2010, as a result of the Company increasing its equity (through designated transactions) in the aggregate of $25 million during June and July 2007. Interest on

the 5% Exchangeable Senior Notes is paid at the rate of 5% per annum on each June 30 and December 30, beginning on December 30, 2006. Under certain circumstances, the Company may elect to make interest payments in shares of common stock, although the holders of the 5% Exchangeable Senior Notes were entitled to receive the first two semi-annual interest payments wholly in cash. The 5% Exchangeable Senior Notes are exchangeable into the Company s common stock at a conversion price of $1.20 per share of common stock, subject to adjustment in certain circumstances. If the closing bid price of the Company s common stock, for at least 20 trading days in any consecutive 30 trading-day period, exceeds 150% of the conversion price then in effect, the Company may elect to exchange the senior notes for shares of the Company s common stock at the conversion price, subject to certain conditions, including that no more than 50% of the 5% Exchangeable Senior Notes may be exchanged by the Company within any 30-day period. As of June 30, 2009, such conversion trigger had not been met. In the event of a change in control, as defined, the holders may require the Company to repurchase the 5% Exchangeable Senior Notes at which time the Company has the option to settle in cash or common stock at an adjusted conversion price. The 5% Exchangeable Senior Notes are guaranteed by Primus Telecommunications Group, Incorporated (Group) (see Note 13 Guarantor/Non-Guarantor Consolidating Condensed Financial Information).

In May 2008, the Company restructured $33.0 million principal amount of the 5% Exchangeable Senior Notes; see prior disclosure regarding the 14 $^{1}/4$% Senior Secured Notes within this footnote. The outstanding 5% Exchangeable Senior Notes are convertible in the aggregate into 19,474,167 shares of the Company s common stock. This debt is in default as a result of the bankruptcy filing on March 16, 2009, and is classified as a liability subject to compromise on the balance sheet as of June 30, 2009.

8% Senior Notes

In January 2004, Holding, a direct, wholly-owned subsidiary of the Company, completed the sale of $240 million in aggregate principal amount of 8% Senior Notes which were to mature in 2014 with semi-annual interest payments due on January 15th and July 15th, with early redemption at a premium to par at Holding s option at any time after January 15, 2009. The Company recorded $6.7 million in costs associated with the issuance of the 8% Senior Notes, which have been recorded as deferred financing costs in other assets. The effective interest rate at December 31, 2008 was 8.4%. During specified periods, Holding may redeem up to 35% of the original aggregate principal amount with the net cash proceeds of certain equity offerings of the Company. The 8% Senior Notes are guaranteed by Group (see Note 13 Guarantor/Non-Guarantor Consolidating Condensed Financial Information).

During the year ended December 31, 2004, the Company reduced $5.0 million principal balance of the 8% Senior Notes through open market purchases. In May 2008, the Company restructured $49.0 million principal amount of the 8% Senior Notes; see prior disclosure regarding the 14 $^{1}/4$% Senior Secured Notes within this footnote. This debt is in default as a result of the bankruptcy filing on March 16, 2009, and is classified as a liability subject to compromise on the balance sheet as of June 30, 2009.

Step Up Convertible Subordinated Debentures

In the first quarter 2006, the Company completed the exchange of $27.4 million principal amount of the 5 $^{3}/4$% convertible subordinated debentures due 2007 (2000 Convertible Subordinated Debentures) for $27.5 million principal amount of the Step Up Convertible Subordinated Debentures through two transactions. The Company recognized a gain on early extinguishment of debt of $1.5 million in connection with this exchange.

The Step Up Convertible Subordinated Debentures were to mature on August 15, 2009. Interest will be payable from February 27, 2006 to December 31, 2006 at the rate of 6% per annum; from January 1, 2007 to December 31, 2007 at the rate of 7% per annum; and from January 1, 2008 to maturity at the rate of 8% per annum. Accrued interest will be paid each February 15 and August 15, beginning August 15, 2006, to holders of record on the preceding February 1 and August 1, respectively. The Step Up Convertible Subordinated

Table of Contents

Debentures are convertible into the Company s common stock at a conversion price of $1.187 per share of common stock through August 15, 2009, subject to adjustment in certain circumstances. The Indenture permits the Company, at its sole option, to require conversion if the Company s stock trades at 150% of the conversion price for at least 20 days within a 30 day period, subject to certain conditions, including that no more than 25% of the notes may be exchanged within any 30 day trading period. As of June 30 2009, such conversion trigger had not been met. In the event of a change in control, as defined, the holders may put the instrument to the Company at which time the Company has the option to settle in cash or common stock at an adjusted conversion price.

During the quarter ended June 30, 2007, the Company exchanged 6,000,000 shares of the Company s common stock for the extinguishment of $5.0 million in principal amount of these convertible subordinated debentures. In accordance with SFAS No. 84, Induced Conversion of Convertible Debt, the Company recognized an induced conversion expense of $1.6 million and $0.7 million write-off of debt discount and deferred financing costs in connection with this conversion. During the first quarter 2008, the Company made open market purchases of $13.8 million principal amount of its Step Up Convertible Subordinated Debentures, resulting in a $2.1 million gain on early extinguishment of debt including the write-off of related deferred financing costs. The outstanding Step Up Convertible Subordinated Debentures are convertible in the aggregate into 7,279,697 shares of the Company s common stock. This debt is in default as a result of the bankruptcy filing on March 16, 2009, and is classified as a liability subject to compromise on the balance sheet as of June 30, 2009.

3 3/4% Convertible Senior Notes

In September 2003, the Company completed the sale of $132 million in aggregate principal amount of 3 3/4% Convertible Senior Notes. The 3 3/4% Convertible Senior Notes are due September 2010, with semi-annual interest payments due on March 15th and September 15th. The Company recorded $5.2 million in costs associated with the issuance of the 3 3/4% Convertible Senior Notes, which have been recorded as deferred financing costs in other assets. Holders of these notes may convert their notes into the Company s common stock at any time prior to maturity at an initial conversion price of $9.3234 per share, which is equivalent to an initial conversion rate of 107.257 shares per $1,000 principal amount of the notes, subject to adjustment in certain circumstances. In the event of a change in control, as defined, the holders may put the instrument to the Company at which time the Company has the option to settle in cash or common stock at an adjusted conversion price.

In the second quarter 2006, the Company restructured $54.8 million principal amount of 3 3/4% Convertible Senior Notes; see prior disclosure regarding the 5% Exchangeable Senior Notes within this footnote. In May 2008, the Company restructured $43.1 million principal amount of 3 3/4% Convertible Senior Notes; see prior disclosure regarding the 14 1/4% Senior Secured Notes within this footnote. The outstanding notes are convertible in the aggregate into 3,668,190 shares of the Company s common stock. This debt is in default as a result of the bankruptcy filing on March 16, 2009, and is classified as a liability subject to compromise on the balance sheet as of June 30, 2009.

Step Up Convertible Subordinated Debentures and 3 3/4% Convertible Senior Notes Supplemental Information

At the time of issuance of the Step Up Convertible Subordinated Debentures, the Company did not have sufficient authorized and unissued shares of common stock to satisfy exercise and conversion of all of its convertible instruments. Accordingly, the Company determined that the Step Up Convertible Subordinated Debentures, the 2000 Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes were hybrid instruments with characteristics of a debt host agreement and contained embedded derivative features that had characteristics and risks that were not clearly and closely associated with the debt host. In the first quarter 2006, the conversion options were determined to be derivative instruments to be bifurcated and recorded as a current liability at fair value. In the second quarter 2006, the Company s shareholders voted to approve alternative proposals to authorize an amendment to the Company s Certificate of Incorporation to affect a one-for-ten reverse stock split or to authorize an amendment of the Company s Certificate of Incorporation allowing an

increase of authorized common stock from 150,000,000 to 300,000,000. Either authorization ensured the Company would have the ability to control whether it has sufficient authorized and unissued shares of common stock to satisfy exercise and conversion of all of its convertible instruments. Therefore, the Company determined that the Step Up Convertible Subordinated Debentures, the 2000 Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes did not contain embedded derivative features as of the date of the shareholder vote, June 20, 2006, and added back the June 20, 2006 fair value of the embedded derivative into the debt balance. On July 27, 2006, the Board of Directors determined to increase the authorized shares of the common stock to 300,000,000.

The Company recorded a corresponding debt discount to the Step Up Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes in the amount of the fair value of the embedded derivative at the issue date. An additional debt discount of $1.7 million was recorded for the Step Up Convertible Subordinated Debentures to bring the carrying value to fair value. The carrying value of the Step Up Convertible Subordinated Debentures at issuance was approximately $14.3 million, and the carrying value of the 3 3/4% Convertible Senior Notes at issuance of the Step Up Convertible Subordinated Debentures was approximately $127.8 million. The Company accreted the difference between the face values of the Step Up Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes and the corresponding carrying values to interest expense under the effective interest method on a monthly basis over the lives of the Step Up Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes. Prior to March 16, 2009, when Debtors filed bankruptcy petition, the carrying value of the Step Up Convertible Subordinated Debentures (face value of $8.6 million) was $8.4 million, and the carrying value of the 3 3/4% Convertible Senior Notes (face value of $34.2 million) was $34.0 million. The effective interest rates of the Step Up Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes at December 31, 2008 were 14.0% and 4.7%, respectively.

12 3/4% Senior Notes

In October 1999, the Company completed the sale of $250 million in aggregate principal amount of the 12 3 /4% Senior Notes. The 12 3/ 4% Senior Notes are due October 15, 2009, with semi-annual interest payments due on October 15th and April 15th with early redemption at a premium to par at the Company s option at any time after October 15, 2004 and with an early redemption at par at the Company s option at any time after October 15, 2007.

During the years ended December 31, 2002, 2001 and 2000, the Company reduced the principal balance of these senior notes through open market purchases. In June and September 2002, the Company retired all of the 12 3/4% Senior Notes that it had previously purchased in the principal amount of $134.3 million in aggregate. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. During the year ended December 31, 2004, the Company retired $33.0 million principal amount of the 12 3/4% Senior Notes through open market purchases. During the year ended December 31, 2005, the Company exchanged 5,165,175 shares of the Company s common stock for the extinguishment of $8.6 million principal amount of these senior notes. During the quarter ended March 31, 2006, the Company exchanged 1,825,000 shares of the Company s common stock for the extinguishment of $2.5 million principal amount of these senior notes. During the first quarter 2007, the Company restructured $40.7 million principal amount of the 12 3/4% Senior Notes; the Company entered into a supplemental indenture, amending the terms to eliminate certain covenants. See prior disclosure regarding the 14 1/4% Senior Secured Notes within this footnote. During the remainder of 2007, the Company retired $10.5 million principal amount of the 12 3/4% Senior Notes through open market purchases. In the first quarter 2008, the Company made open market purchases of $0.8 million principal amount of its 12 3/4% Senior Notes, resulting in a $0.1 million gain on early extinguishment of debt including the write-off of related deferred financing costs. In May 2008, the Company restructured $5.3 million principal amount of the 12 3/4% Senior Notes; see prior disclosure regarding the 14 1/4% Senior Secured Notes within this footnote. This debt is in default as a result of the bankruptcy filing on March 16, 2009, and is classified as a liability subject to compromise on the balance sheet as of June 30, 2009.

Table of Contents

Leased Fiber Capacity

In December 2000, the Company entered into a financing arrangement to purchase fiber optic capacity in Australia for 51.1 million Australian dollars (AUD) ($28.5 million at December 31, 2000) from Optus Networks Pty. Limited. As of December 31, 2001, the Company had fulfilled the total purchase obligation. The Company signed a promissory note payable over a four-year term ending in April 2005 bearing interest at a rate of 14.31%. During the three months ended June 30, 2003, the Company renegotiated the payment terms extending the payment schedule through March 2007, and lowering the interest rate to 10.2%. In October 2006, the Company renegotiated the payment terms of its promissory note payable to Optus Networks Pty. Limited to defer principal payments from April 2006 through December 2006 and was obligated to pay the remaining balance in three equal monthly principal payments in the first quarter 2007. In February 2007, the Company again renegotiated the payment terms of its $8.1 million (10.1 million AUD) promissory note payable to Optus Networks Pty. Limited to extend the payment schedule through December 2008 in 24 equal monthly payments. During the third quarter 2008, the payment terms were again renegotiated to extend payment of the principal balance of $2.5 million (3.1 million AUD) to June 2010 with monthly payments of interest at a rate of 13.5%. If certain conditions are not met, including certain purchase targets by September 30, 2009, Optus Networks Pty. Limited may give 30 days notice requiring full payment of the principal balance. At June 30, 2009 and December 31, 2008, the Company had a liability recorded in the amount of $2.5 million (3.1 million AUD) and $2.5 million (3.1 million AUD), respectively. $2.5 million (3.1 million AUD) and $0 million were classified as current portion of long-term obligations at June 30, 2009 and December 31, 2008, respectively.

Equipment Financing and Other Long-Term Obligations

In November 2005, Primus Australia entered into a financing arrangement for network equipment. Payments are made over a five-year term ending October 2010. In June 2009, the Company entered into an amendment which removed certain financial covenants and required a principal payment of $1.2 million (1.5 million AUD) in the same month. The effective interest rate on the current borrowing is 9.6%. At June 30, 2009 and December 31, 2008, the Company had a liability recorded under this agreement in the amount $1.7 million (2.1 million AUD) and $3.3 million (4.2 million AUD), respectively.

6. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments under capital leases and leased fiber capacity financing (Vendor Financing), purchase obligations and non-cancellable operating leases as of June 30, 2009 are as follows (in thousands):

Year Ending December 31,	Vendor Financing and Other	Purchase Obligations	Operating Leases
2009 (as of June 30, 2009)	$ 1,888	$ 15,888	$ 8,660
2010	5,151	16,659	13,724
2011	1,068	3,998	10,186
2012	257	2,572	8,559
2013	64		6,038
Thereafter	33		9,075
Total minimum lease payments	8,461	39,117	56,242
Less: Amount representing interest	(874)		
	$ 7,587	$ 39,117	$ 56,242

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. The Company made purchases under

Table of Contents

purchase commitments of $6.5 million and $10.2 million for the three months ended June 30, 2009 and 2008, respectively. The Company made purchases under purchase commitments of $12.8 million and $19.1 million for the six months ended June 30, 2009 and 2008, respectively.

Rent expense under operating leases was $3.5 million and $4.7 million for the three months ended June 30, 2009 and 2008, respectively. Rent expense under operating leases was $6.8 million and $9.0 million for the six months ended June 30, 2009 and 2008, respectively.

Litigation

Legal Proceedings Related to the Chapter 11 Cases

On March 16, 2009, each of Group, Holding, PTII and IHC filed Chapter 11 Cases in the United States Bankruptcy Court for the District of Delaware for reorganization relief under Chapter 11 of the Bankruptcy Code. Subsequently, the Debtors sought and received an order directing joint administration of the Debtors Chapter 11 Cases under the caption, In re: Primus Telecommunications Group, Incorporated, et al., Debtors Case No. 09-10867. On April 24, 2009, an unsecured creditors committee was appointed by the United States Trustee. On April 27, 2009, the Bankruptcy Court approved the use of the Debtor s Disclosure Statement, which attached thereto the Plan, to solicit votes for the Plan and set a Plan confirmation hearing date. The Plan was confirmed by the Bankruptcy Court on June 12, 2009 and became effective on July 1, 2009 (see Note 1 Proceedings Under Chapter 11 of The Bankruptcy Code).

Other Legal Proceedings

Group and its subsidiaries are subject to claims and legal proceedings unrelated to the Chapter 11 Cases that arise in the ordinary course of its business (Other Proceedings). 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 the Other Proceedings will not have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

7. SHARE-BASED COMPENSATION

This note does not reflect any revision that will occur as a result of the confirmation of the Company s Plan of Reorganization related to its March 16, 2009 voluntary bankruptcy petition under Chapter 11 and the resulting effects to the Company s capital structure (see Note 1 Proceeding Under Chapter 11 of the Bankruptcy Code).

The Company sponsors an employee stock compensation plan (the Equity Incentive Plan). The total number of shares of common stock authorized for issuance under the Equity Incentive Plan is 13,000,000. Under the Equity Incentive Plan, awards may be granted to key employees or consultants of the Company and its subsidiaries in the form of Incentive Stock Options, Nonqualified Stock Options or Restricted Stock Units. The Equity Incentive Plan allows the granting of options at an exercise price of not less than 100% of the stock s fair value at the date of grant and allows the grant of restricted stock units (RSUs) for no consideration. The options and RSUs vest over a period of up to three years. No option will be exercisable more than ten years from the date it is granted. On June 16, 2004, the stockholders of the Company approved amendments to the Equity Incentive Plan, including (i) renaming the employee stock option plan the Equity Incentive Plan ; (ii) expanding the forms of awards permitted to be granted, including stock appreciation rights, restricted stock awards, stock units and other equity securities, and authorizing a tax deferral feature for executive officers; (iii) prohibiting the repricing of stock options in the future without stockholder approval; and (iv) requiring vesting in full to be not less than three years for restricted stock and stock unit awards, unless accelerated following the first anniversary of the award due to the satisfaction of predetermined performance conditions.

The Company sponsors a Director Stock Option Plan (the Director Plan) for non-employee directors. Under the Director Plan, an option is granted to each qualifying non-employee director upon election or

reelection to purchase 45,000 shares of common stock, which vests in one-third increments as of the grant date and the first and second anniversaries of the grant date, over a two-year period. The option price per share is the fair market value of a share of common stock on the date the option is granted. No option will be exercisable more than five years from the date of grant. On June 16, 2004, the stockholders of the Company approved amendments to the Director Plan to (i) increase the number of shares of common stock issuable pursuant to awards under the Director Plan by 300,000 to a total of 900,000; and (ii) authorize the issuance of restricted stock (in lieu of cash compensation at the discretion of individual Directors).

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

	2009		2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding January 1, 2009	7,814,403	$ 1.85	7,368,262	$ 2.09
Granted	300,000	$ 0.04	1,035,000	$ 0.35
Exercised		$		$
Forfeitures	(361,445)	$ 2.22	(333,693)	$ 2.52
Outstanding June 30, 2009	7,752,958	$ 1.76	8,069,569	$ 1.86
Eligible for exercise June 30, 2009	6,882,953	$ 1.95	6,637,527	$ 2.15

The following table summarizes information about stock options outstanding at June 30, 2009:

Range of Option Prices			Options Outstanding				Options Exercisable			
			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
$ 0.03	to	$ 0.29	310,000	9.61	$ 0.04	$	1,666	8.83	$ 0.27	$
$ 0.36	to	$ 0.79	1,647,165	7.17	$ 0.54	$	1,085,494	6.46	$ 0.63	$
$ 0.87	to	$ 0.88	110,000	6.50	$ 0.87	$	110,000	6.50	$ 0.87	$
$ 0.90			747,664	2.02	$ 0.90	$	747,664	2.02	$ 0.90	$
$ 0.92			585,500	6.36	$ 0.92	$	585,500	6.36	$ 0.92	$
$ 0.93	to	$ 0.99	110,000	3.64	$ 0.98	$	110,000	3.64	$ 0.98	$
$ 1.33	to	$ 1.65	1,452,755	3.48	$ 1.65	$	1,452,755	3.48	$ 1.65	$
$ 1.90	to	$ 2.38	1,678,874	3.50	$ 1.97	$	1,678,874	3.50	$ 1.97	$
$ 3.03	to	$ 6.30	1,101,500	5.10	$ 4.89	$	1,101,500	5.10	$ 4.89	$
$ 12.31	to	$ 31.94	9,500	0.72	$ 27.19	$	9,500	0.72	$ 27.19	$
			7,752,958	4.86	$ 1.76	$	6,882,953	4.35	$ 1.95	$

The number of unvested options expected to vest is 0.4 million shares, with a weighted average remaining life of 8.9 years, a weighted average exercise price of $0.26, and an intrinsic value of $0.

In 2007, 100,000 restricted stock units were granted. None have vested as their vesting schedule is to vest 100% three years from grant date. In the second quarter 2008, the Company recognized $3 thousand expense related to this grant. In October 2008, the stock units were fully vested upon involuntary termination without cause. The employee withholding tax was netted against the share issuance, and the Company issued 62,850 shares of common stock and accelerated the recognition of $28 thousand expense.

In December 1998, the Company established the 1998 Restricted Stock Plan (the Restricted Plan) to facilitate the grant of restricted stock to selected individuals (excluding executive officers and directors of the Company) who contribute to the development and success of the

Company. The total number of shares of

Table of Contents

common stock that may be granted under the Restricted Plan is 750,000. The Company did not issue any restricted stock under the Restricted Plan for three months and six months ended June 30, 2009 and 2008. As of June 30, 2009, 54,000 shares have been issued and none are considered restricted.

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, 2003, 2005 2008
Australia	2001 2008
Canada	2003 2008
United Kingdom	2003 2008
Netherlands	2007 2008

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 provisions of FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in 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, 2009, the Company obtained new information supporting certain existing tax positions of its Australian subsidiaries that resulted in a reduction of $8.1 million in the unrecognized tax benefits established in accordance with FIN No. 48. The reduction in the unrecognized tax benefit had the effect of an increase in deferred tax assets with an equal offset to the valuation allowance resulting in no effect on the financial statements.

On an ongoing basis, the Company monitors activity in its 5% shareholder base for substantial changes in ownership as defined under Internal Revenue Code Section 382 (Section 382). In 2009 and prior testing periods under Section 382, the Company has had significant activity in this shareholder base, but upon review of the 13G filings and other available data the Company believes that an ownership change did not occur during the six months ended June 30, 2009. If a change is to occur, the resulting Section 382 limitation would place severe limits on the Company s ability to utilize the United States net operating losses.

Upon the Company s emergence on July 1, 2009 from bankruptcy, the amount of the Company s aggregate indebtedness was reduced. The reduction in the Company s indebtedness will result in cancellation of debt (COD) income for tax purposes of approximately $320 million for the calendar year ending 2009. Because realization of such income will occur under the Bankruptcy Code, the Company will reduce federal and state net operating losses (and other tax attributes including the basis in assets) by the amount of the COD income upon the close of its current calendar year end.

Although the Company has not completed its analysis, as a result of the 2009 COD income, for federal tax purposes, the Company currently expects to eliminate all or substantially all of the remaining net operating loss (NOL) s attributes and to have a complete or very substantial reduction to the tax basis of fixed and intangible assets. For state tax purposes, the 2009 COD income is expected to completely eliminate or substantially reduce the state NOLs.

Table of Contents

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 change on the July 1, 2009 emergence date). As a result, the use of any of the Company s federal and state NOL carryforwards and tax credits generated prior to the ownership change (that are not reduced pursuant to the provisions discussed in the preceding paragraph) will be subject to an annual limitation of approximately $1.7 million. The annual limitation will be determined based upon a special Internal Revenue Code section that allows corporations emerging from bankruptcy to determine the limitation based upon the post emergence stock value.

Section 382(l)(5) provides for an exception to the limitations of Section 382 for certain corporations that emerge from bankruptcy. The Company believes that it may meet the requirements for the benefits under Section 382(l)(5) but needs to complete its testing to confirm whether or not such requirements have been met. The Company has the ability to elect out of the benefits of Section 382(l)(5) and apply the annual limitation. The election must be made with the filing of the Company s calendar year 2009 federal income tax return no later than the extended due date of September 15, 2010. If section 382(l)(5) applies, the Company s NOLs would not be subject to the limitation; however, it would be required to reduce its existing NOL carryforward by certain interest deductions taken in the tax year that ended in 2009 as well as the three previous taxable years. It is anticipated that any remaining federal NOL carryforward would be reduced to zero if section 382(l)(5) applies. Certain consequences will result if another ownership change occurs before July 1, 2011 (the two year anniversary of the 2009 emergence date). In such case, the Section 382 limitation with respect to the subsequent ownership change would be zero.

The Company is required to determine whether it had a net unrealized built-in gain (NUBIG) or net unrealized built-in loss (NUBIL) at the 2009 emergence date. The Company believes that there was a NUBIL at the time of the 2009 emergence date. As a result, certain depreciation and loss deductions recognized during the five-year period beginning on the 2009 emergence date would be subject to the section 382 limitation if the Company does not qualify for the benefits under Section 382(l)(5).

In addition, if, as is believed, the Company had a NUBIL at the 2009 Emergence Date, the basis of the Company s assets may be required to be marked-to-market for Adjusted Current Earnings (ACE) tax purposes. ACE is an alternative federal corporate tax regime with an expanded tax base (over regular tax) and an effective tax rate of 15%. To the extent tax is owed as a result of the ACE regime, a credit is available for regular tax purposes. If the Company has a NUBIL, the ACE basis mark-to-market rule will apply if section 382(l)(5) does not apply. If Section 382(l)(5) applies, the Company intends to take the position that the ACE basis mark-to-market rule does not apply. The IRS has previously stated its position that the ACE basis mark-to-market rule applies in the context of section 382(l)(5).

9. 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, with the wholesale business from the United States and Europe managed as a separate global segment, and Brazil. 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. Net revenue by geographic segment is reported on the basis of where services are provided. The Company has no single customer representing greater than 10% of its revenues. 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.

Table of Contents

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

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net Revenue by Geographic Region				
United States	$ 36,606	$ 42,505	$ 78,060	$ 85,164
Canada	55,061	68,989	108,306	137,438
Europe				
United Kingdom	23,932	22,204	49,232	39,581
Germany		4,839	5	9,746
France	7,338	6,555	15,095	12,322
Spain	2,084	2,921	4,369	6,324
Italy	7,764	5,673	14,392	9,013
Belgium	1,689	2,141	3,376	4,283
Other	815	1,328	1,633	2,382
Total Europe	43,622	45,661	88,102	83,651
Australia				
Australia	58,475	75,992	110,502	150,066
Other		70		175
Total Australia	58,475	76,062	110,502	150,241
Brazil	2,978	2,680	6,246	4,837
Total	$ 196,742	$ 235,897	$ 391,216	$ 461,331
Net Revenue by Segment				
United States	$ 16,918	$ 22,445	$ 35,013	$ 45,578
Canada	55,061	68,989	108,306	137,438
Europe	13,031	16,925	26,667	32,690
Australia	58,475	75,992	110,502	150,067
Wholesale	50,279	48,866	104,482	90,721
Brazil	2,978	2,680	6,246	4,837
Total	$ 196,742	$ 235,897	$ 391,216	$ 461,331
Provision for Doubtful Accounts Receivable				
United States	$ 863	$ 735	$ 1,456	$ 1,168
Canada	541	531	1,106	877
Europe	93	200	210	398
Australia	1,120	961	1,738	2,228
Wholesale	243	345	516	558
Brazil	50	96	114	467
Total	$ 2,910	$ 2,868	$ 5,140	$ 5,696
Income (Loss) from Operations				
United States	$ 2,921	$ 1,311	$ 4,304	$ 3,214
Canada	9,310	11,840	18,738	23,365
Europe	(104)	(2,007)	(309)	(3,472)

Australia	5,862	7,892	10,123	7,811
Wholesale	678	(528)	1,372	(1,296)
Brazil	95	152	231	34
Total From Operating Segments	18,762	18,660	34,459	29,656
Corporate	(4,600)	(3,433)	(6,670)	(4,716)
Total	$ 14,162	$ 15,227	$ 27,789	$ 24,940
Capital Expenditures				
United States	$ 18	$ 256	$ 73	$ 566
Canada	1,179	3,181	3,127	5,323
Europe	37	214	174	680
Australia	1,488	4,017	1,997	7,906
Brazil	152	74	289	124
Total	$ 2,874	$ 7,742	$ 5,660	$ 14,599

Table of Contents

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

	June 30, 2009	December 31, 2008
Property and Equipment Net		
United States	$ 13,816	$ 15,590
Canada	46,750	44,234
Europe		
United Kingdom	6,234	5,965
Other	410	577
Total Europe	6,644	6,542
Australia		
Australia	49,679	45,151
Other	105	131
Total Australia	49,784	45,282
Brazil	846	504
Total	$ 117,840	$ 112,152

	June 30, 2009	December 31, 2008
Assets		
United States	$ 13,245	$ 28,230
Canada	124,785	121,105
Europe		
United Kingdom	22,966	23,597
Germany	593	2,710
France	5,688	6,326
Spain	2,403	2,170
Italy	12,943	9,301
Belgium	2,133	2,571
Other	28,760	28,521
Total Europe	75,486	75,196
Australia		
Australia	111,847	97,645
Other	3,941	4,005
Total Australia	115,788	101,650
Brazil	5,233	4,263
Total	$ 334,537	$ 330,444

The Company offers four main products retail voice, wholesale voice, data/Internet and VOIP. Net revenue information with respect to the Company s products is as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30 ,	
	2009	2008	2009	2008
Retail voice	$ 98,990	$ 126,038	$ 193,669	$ 250,718
Wholesale	50,279	48,866	104,482	90,721
Data/Internet	37,505	48,882	72,979	96,206
Retail VOIP	9,968	12,111	20,086	23,686
Total	$ 196,742	$ 235,897	$ 391,216	$ 461,331

Table of Contents

10. DISCONTINUED 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. The Company reported Japan retail operations as a discontinued operation.

In the second quarter 2008, the Company determined it would sell its German retail operations. However, buyers were not found; therefore the Company decided it would 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 reflect the Japan retail operations and German retail operations as discontinued operations for the three months and six months ended June 30, 2009 and 2008. 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 for the three months and six months ended June 30, 2009 and 2008 are as follows (in thousands):

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Net revenue	$ 6	$ 1,039	$ 300	$ 2,206
Operating expenses	289	1,091	995	2,308
Loss from operations	(283)	(52)	(695)	(102)
Interest income and other income		31	19	36
Loss from discontinued operations	$ (283)	$ (21)	$ (676)	$ (66)

11. 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. Potentially dilutive common shares primarily include the dilutive effects of common shares issuable under the Company s stock option compensation plans computed using the treasury stock method and the dilutive effects of shares issuable upon conversion of its 5% Exchangeable Senior Notes, the Step Up Convertible Subordinated Debentures, the 3 3/4% Convertible Senior Notes and the 2000 Convertible Subordinated Debentures.

For the three months and six months ended June 30, 2009, 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:

7.8 million shares issuable under the Company s stock option compensation plans.

For the three months ended June 30, 2008, 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 effects:

8.0 million shares issuable upon exercise of stock options.

Table of Contents

For the six months ended June 30, 2008, 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 effects:

8.0 million shares issuable upon exercise of stock options, and

7.2 million shares issuable upon conversion of the 3 3/4% Convertible Senior Notes.

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

	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
Income from continuing operations	$ 25,649	$ 46,545	$ 39,782	$ 43,591
Loss from discontinuing operations, net of tax	(283)	(21)	(676)	(66)
Gain from sale of discontinued operations, net of tax			251	
Net income attributable to common stockholders basic	25,366	46,524	39,357	43,525
Adjustment for interest expense on Step Up Convertible Subordinated Debentures		231	210	874
Adjustment for interest expense on 3 3/4% Convertible Senior Notes		741	332	
Income attributable to common stockholders diluted	$ 25,366	$ 47,496	$ 39,899	$ 44,399
Weighted average common shares outstanding basic	142,695	142,633	142,695	142,633
5% Exchangeable Senior Notes	19,474	34,261	19,474	40,598
Step Up Convertible Subordinated Debentures	7,280	7,280	7,280	11,990
3 3/4% Convertible Senior Notes	3,668	6,154	3,668	
Weighted average common shares outstanding diluted	173,117	190,328	173,117	195,221
Basic income per common share:				
Income from continuing operations attributable to common stockholders	$ 0.18	$ 0.33	$ 0.28	$ 0.31
Loss from discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Gain from sale of discontinued operations			0.00	
Net income attributable to common stockholders	$ 0.18	$ 0.33	$ 0.28	$ 0.31
Diluted income per common share:				
Income from continuing operations attributable to common stockholders	$ 0.15	$ 0.25	$ 0.23	$ 0.23
Loss from discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Gain from sale of discontinued operations			0.00	
Net income attributable to common stockholders	$ 0.15	$ 0.25	$ 0.23	$ 0.23

The note does not reflect any revision that will occur as a result of the confirmation of the Company s Plan of Reorganization and subsequent emergence from bankruptcy as of July 1, 2009. As described in Note 1 *Voluntary Reorganization under Chapter 11* above, the Plan provides that holders of Old Common Stock are entitled to receive, following the Effective Date, their pro rata share of CVRs that may enable such holders to receive, subject to certain conditions, up to approximately 15% of the fully diluted New Common Stock of Reorganized Group as of the Emergence Date.

Table of Contents

12. REORGANIZATION ITEMS, NET

Reorganization items, net, represents amounts incurred as a direct result of the Chapter 11 filings and is presented separately in the Consolidated Condensed Statements of Operations. The following describes the components of reorganization items, net (in thousands):

	For the Three Months Ended June 30, 2009	For the Six Months Ended June 30, 2009
Professional Fees	($ 8,271)	($ 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)	$ 8,297

Professional fees include financial, legal and other services directly associated with the reorganization process. Payments for the six months ended June 30, 2009 for professional fees and retainers were $4.6 million. In accordance with SOP No. 90-7, 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 Secured Notes and 5% Exchangeable Senior Notes as the issuance of these notes had been deemed troubled debt restructurings. See Note 5 Long-Term Obligations and Liabilities Subject to Compromise.

13. GUARANTOR/NON-GUARANTOR CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Consolidating Financial Statements for Holding Debt Issuances

Holding s 8% Senior Notes and 5% Exchangeable Senior Notes are fully and unconditionally guaranteed by Group on a senior basis as of June 30, 2009. As discussed in Note 1, on March 16, 2009, Holding, Group, IHC and PTII filed for bankruptcy. Group has a 100% ownership in Holding and no direct subsidiaries other than Holding. Accordingly, the following consolidating condensed financial information as of June 30, 2009 and 2008 are included for (a) Group on a stand-alone basis; (b) Holding on a stand-alone basis; (c) Group indirect non-guarantor subsidiaries on a combined basis; and (d) Group on a consolidated basis.

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.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Three Months Ended June 30, 2009				
	PTGI	PTHI	Other	Eliminations	Consolidated
NET REVENUE	$	$	$ 196,742	$	$ 196,742
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)			125,914		125,914
Selling, general and administrative	3,599	995	45,806		50,400
Depreciation and amortization			6,250		6,250
Loss on sale or disposal of assets			16		16
Total operating expenses	3,599	995	177,986		182,580
INCOME (LOSS) FROM OPERATIONS	(3,599)	(995)	18,756		14,162
INTEREST EXPENSE		(2,240)	(1,119)		(3,359)
INTEREST AND OTHER INCOME			161		161
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	2,699	(585)	22,056		24,170
INTERCOMPANY INTEREST	(2,091)	(4,397)	6,488		
MANAGEMENT FEE		2,960	(2,960)		
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(2,991)	(5,257)	43,382		35,134
REORGANIZATION ITEMS NET	(6,580)	(1,691)			(8,271)
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(9,571)	(6,948)	43,382		26,863
INCOME TAX EXPENSE			(1,110)		(1,110)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(9,571)	(6,948)	42,272		25,753
EQUITY IN NET INCOME OF SUBSIDIARIES	34,937	41,885		(76,822)	
INCOME FROM CONTINUING OPERATIONS	25,366	34,937	42,272	(76,822)	25,753
LOSS FROM DISCONTINUED OPERATIONS, net of tax			(283)		(283)
NET INCOME	25,366	34,937	41,989	(76,822)	25,470
Less: Net income attributable to the noncontrolling interest			(104)		(104)
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 25,366	$ 34,937	$ 41,885	$ (76,822)	$ 25,366
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED					
Income from continuing operations, net of tax	$ 25,366	$ 34,937	$ 42,168	$ (76,822)	$ 25,649
Loss from discontinued operations			(283)		(283)

Net income	$ 25,366	$ 34,937	$ 41,885	$ (76,822)	$ 25,366

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Six Months Ended June 30, 2009				
	PTGI	PTHI	Other	Eliminations	Consolidated
NET REVENUE	$	$	$ 391,216	$	$ 391,216
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)			255,288		255,288
Selling, general and administrative	4,638	1,985	89,213		95,836
Depreciation and amortization			12,346		12,346
Gain on sale or disposal of assets			(43)		(43)
Total operating expenses	4,638	1,985	356,804		363,427
INCOME (LOSS) FROM OPERATIONS	(4,638)	(1,985)	34,412		27,789
INTEREST EXPENSE	(794)	(7,863)	(5,478)		(14,135)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(129)		318		189
INTEREST AND OTHER INCOME			396		396
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	2,632	(778)	19,267		21,121
INTERCOMPANY INTEREST	(4,169)	(8,764)	12,933		
MANAGEMENT FEE		4,009	(4,009)		
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(7,098)	(15,381)	57,839		35,360
REORGANIZATION ITEMS NET	(8,749)	(5,597)	22,643		8,297
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(15,847)	(20,978)	80,482		43,657
INCOME TAX EXPENSE			(3,907)		(3,907)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(15,847)	(20,978)	76,575		39,750
EQUITY IN NET INCOME OF SUBSIDIARIES	55,204	76,182		(131,386)	
INCOME FROM CONTINUING OPERATIONS	39,357	55,204	76,575	(131,386)	39,750
LOSS FROM DISCONTINUED OPERATIONS, net of tax			(676)		(676)
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax			251		251
NET INCOME	39,357	55,204	76,150	(131,386)	39,325
Less: Net loss attributable to the noncontrolling interest			32		32
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 39,357	$ 55,204	$ 76,182	$ (131,386)	$ 39,357
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED					

Income from continuing operations, net of tax	$ 39,357	$ 55,204	$ 76,607	$ (131,386)	$ 39,782
Loss from discontinued operations			(676)		(676)
Gain from sale of discontinued operations			251		251
Net income	$ 39,357	$ 55,204	$ 76,182	$ (131,386)	$ 39,357

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Three Months Ended June 30, 2008				
	PTGI	PTHI	Other	Eliminations	Consolidated
NET REVENUE	$	$	$ 235,897	$	$ 235,897
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)			142,495		142,495
Selling, general and administrative	1,302	1,881	66,786		69,969
Depreciation and amortization			8,091		8,091
Loss on sale or disposal of assets			115		115
Total operating expenses	1,302	1,881	217,487		220,670
INCOME (LOSS) FROM OPERATIONS	(1,302)	(1,881)	18,410		15,227
INTEREST EXPENSE	(1,391)	(6,891)	(5,272)		(13,554)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(137)		354		217
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	9,861	22,784	(468)		32,177
INTEREST AND OTHER INCOME	5		2,122		2,127
FOREIGN CURRENCY TRANSACTION GAIN	1,399	103	6,632		8,134
INTERCOMPANY INTEREST	(4,815)	210	4,605		
MANAGEMENT FEE		1,048	(1,048)		
INCOME BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	3,620	15,373	25,335		44,328
INCOME TAX PREMIUM	294	1,558	530		2,382
INCOME BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	3,914	16,931	25,865		46,710
EQUITY IN NET INCOME OF SUBSIDIARIES	42,610	25,679		(68,289)	
INCOME FROM CONTINUING OPERATIONS	46,524	42,610	25,865	(68,289)	46,710
LOSS FROM DISCONTINUED OPERATIONS, net of tax			(21)		(21)
NET INCOME	46,524	42,610	25,844	(68,289)	46,689
Add: Net income attributable to the noncontrolling interest			(165)		(165)
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 46,524	$ 42,610	$ 25,679	$ (68,289)	$ 46,524
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED					
Income from continuing operations, net of tax	$ 46,524	$ 42,610	$ 25,700	$ (68,289)	$ 46,545
Loss from discontinued operations			(21)		(21)
Net income	$ 46,524	$ 42,610	$ 25,679	$ (68,289)	$ 46,524

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Six Months Ended June 30, 2008				
	PTGI	PTHI	Other	Eliminations	Consolidated
NET REVENUE	$	$	$ 461,331	$	$ 461,331
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)			283,979		283,979
Selling, general and administrative	2,574	3,609	132,644		138,827
Depreciation and amortization			16,050		16,050
Gain on sale or disposal of assets			(2,465)		(2,465)
Total operating expenses	2,574	3,609	430,208		436,391
INCOME (LOSS) FROM OPERATIONS	(2,574)	(3,609)	31,123		24,940
INTEREST EXPENSE	(3,308)	(14,801)	(10,638)		(28,747)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(512)		699		187
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	12,070	22,784	(367)		34,487
INTEREST AND OTHER INCOME	15		3,174		3,189
FOREIGN CURRENCY TRANSACTION GAIN	2,695	472	6,674		9,841
INTERCOMPANY INTEREST	(5,162)	(3,183)	8,345		
MANAGEMENT FEE		2,991	(2,991)		
INCOME BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	3,224	4,654	36,019		43,897
INCOME TAX BENEFIT (EXPENSE)	210	1,087	(1,335)		(38)
INCOME BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	3,434	5,741	34,684		43,859
EQUITY IN NET INCOME OF SUBSIDIARIES	40,091	34,350		(74,441)	
INCOME FROM CONTINUING OPERATIONS	43,525	40,091	34,684	(74,441)	43,859
LOSS FROM DISCONTINUED OPERATIONS, net of tax			(66)		(66)
NET INCOME	43,525	40,091	34,618	(74,441)	43,793
Less: Net income attributable to the noncontrolling interest			(268)		(268)
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 43,525	$ 40,091	$ 34,350	$ (74,441)	$ 43,525
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED					
Income from continuing operations, net of tax	$ 43,525	$ 40,091	$ 34,416	$ (74,441)	$ 43,591
Loss from discontinued operations			(66)		(66)
Net income	$ 43,525	$ 40,091	$ 34,350	$ (74,441)	$ 43,525

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED BALANCE SHEET

(in thousands)

	June 30, 2009				
	PTGI	PTHI	Other	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 31	$ 17	$ 41,413	$	$ 41,461
Accounts receivable			93,826		93,826
Prepaid expenses and other current assets	105		16,850		16,955
Total current assets	136	17	152,089		152,242
INTERCOMPANY RECEIVABLES	85,106	1,113,734		(1,198,840)	
INVESTMENTS IN SUBSIDIARIES	50,737	(640,641)		589,904	
RESTRICTED CASH			9,467		9,467
PROPERTY AND EQUIPMENT Net			117,840		117,840
GOODWILL			35,351		35,351
OTHER INTANGIBLE ASSETS Net			482		482
OTHER ASSETS		1,146	18,009		19,155
TOTAL ASSETS	$ 135,979	$ 474,256	$ 333,238	$ (608,936)	$ 334,537
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)					
CURRENT LIABILITIES:					
Accounts payable	$ 147	$ 1,303	49,440	$	$ 50,890
Accrued interconnection costs			38,778		38,778
Deferred revenue			12,322		12,322
Accrued expenses and other current liabilities	9,053	79	44,850		53,982
Accrued income taxes	74		20,912		20,986
Accrued interest		19			19
Current portion of long-term obligations		95,750	11,347		107,097
Total current liabilities	9,274	97,151	177,649		284,074
INTERCOMPANY PAYABLES	497,473	114,231	587,136	(1,198,840)	
LONG-TERM OBLIGATIONS			25,740		25,740
Total liabilities not subject to compromise	506,747	211,382	790,525	(1,198,840)	309,814
LIABILITIES SUBJECT TO COMPROMISE	58,490	212,137	180,423		451,050
Total liabilities	565,237	423,519	970,948	(1,198,840)	760,864
COMMITMENTS AND CONTINGENCIES					
STOCKHOLDERS EQUITY (DEFICIT):					
Primus Telecommunications Group, Incorporated Stockholders Deficit:					
Common stock	1,427				1,427
Additional paid-in capital	718,983	1,161,930	232,294	(1,394,224)	718,983

Accumulated deficit	(1,060,452)	(1,022,778)	(793,225)	1,816,003	(1,060,452)
Accumulated other comprehensive loss	(89,216)	(88,415)	(79,710)	168,125	(89,216)
Total Primus Telecommunications Group, Incorporated stockholders deficit	(429,258)	50,737	(640,641)	589,904	(429,258)
Noncontrolling interest			2,931		2,931
Total stockholders deficit	(429,258)	50,737	(637,710)	589,904	(426,327)
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 135,979	$ 474,256	$ 333,238	$ (608,936)	$ 334,537

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED BALANCE SHEET

(in thousands)

	December 31, 2008				
	PTGI	PTHI	Other	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 152	$ (18)	$ 36,866	$	$ 37,000
Accounts receivable			99,483		99,483
Prepaid expenses and other current assets	288	149	15,409		15,846
Total current assets	440	131	151,758		152,329
INTERCOMPANY RECEIVABLES	93,373	1,129,158		(1,222,531)	
INVESTMENTS IN SUBSIDIARIES	2,636	(709,720)		707,084	
RESTRICTED CASH			8,133		8,133
PROPERTY AND EQUIPMENT Net			112,152		112,152
GOODWILL			32,688		32,688
OTHER INTANGIBLE ASSETS Net			746		746
OTHER ASSETS	393	4,607	19,396		24,396
TOTAL ASSETS	$ 96,842	$ 424,176	$ 324,873	$ (515,447)	$ 330,444
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)					
CURRENT LIABILITIES:					
Accounts payable	$ 1,558	$ 154	56,959	$	$ 58,671
Accrued interconnection costs			41,422		41,422
Deferred revenue			13,303		13,303
Accrued expenses and other current liabilities	168	834	41,438		42,440
Accrued income taxes	70		18,143		18,213
Accrued interest	1,067	7,714	1,467		10,248
Current portion of long-term obligations	56,482	307,371	200,944		564,797
Total current liabilities	59,345	316,073	373,676		749,094
INTERCOMPANY PAYABLES	499,036	105,467	618,028	(1,222,531)	
LONG-TERM OBLIGATIONS			40,040		40,040
OTHER LIABILITIES			35		35
Total liabilities	558,381	421,540	1,031,779	(1,222,531)	789,169
COMMITMENTS AND CONTINGENCIES					
STOCKHOLDERS EQUITY (DEFICIT):					
Primus Telecommunications Group, Incorporated Stockholders Deficit:					
Common stock	1,427				1,427
Additional paid-in capital	718,956	1,161,930	232,294	(1,394,224)	718,956
Accumulated deficit	(1,099,809)	(1,077,982)	(869,407)	1,947,389	(1,099,809)
Accumulated other comprehensive loss	(82,113)	(81,312)	(72,607)	153,919	(82,113)

Total Primus Telecommunications Group, Incorporated stockholders deficit	(461,539)	2,636	(709,720)	707,084	(461,539)
Noncontrolling interest			2,814		2,814
Total stockholders deficit	(461,539)	2,636	(706,906)	707,084	(458,725)
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 96,842	$ 424,176	$ 324,873	$ (515,447)	$ 330,444

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

(in thousands)

	For the Six Month Ended June 30, 2009				
	PTGI	PTHI	Other	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 39,357	$ 55,204	$ 76,150	$ (131,386)	$ 39,325
Adjustments to reconcile net income to net cash provided by operating activities:					
Reorganization items, net	4,285	3,906	(16,488)		(8,297)
Provision for doubtful accounts receivable			5,140		5,140
Stock compensation expense		27			27
Depreciation and amortization			12,346		12,346
Gain on sale or disposal of assets			(294)		(294)
Accretion of debt (premium) discount	129		(318)		(189)
Equity in net loss of subsidiary	(55,204)	(76,150)		131,354	
Minority interest share of loss		(32)		32	
Unrealized foreign currency transaction gain (loss) on intercompany and foreign debt	(2,636)	778	(18,844)		(20,702)
Changes in assets and liabilities, net of acquisitions:					
Decrease in accounts receivable			7,798		7,798
Decrease in prepaid expenses and other current assets	183	149	129		461
Decrease in other assets	52	434	1,968		2,454
Increase (decrease) in accounts payable	(1,411)	1,149	(12,532)		(12,794)
Decrease in accrued interconnection costs			(5,361)		(5,361)
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities, and other liabilities	8,885	(753)	(6,819)		1,313
Increase in accrued income taxes	4		2,109		2,113
Increase (decrease) in accrued interest	397	(5,174)	3,177		(1,600)
Net cash provided by (used in) operating activities before reorganization items	(5,959)	(20,462)	48,161		21,740
Cash effect of reorganization items	(3,528)	(2,384)	1,317		(4,595)
Net cash provided by (used in) operating activities	(9,487)	(22,846)	49,478		17,145
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment			(5,660)		(5,660)
Sale of property and equipment			179		179
Cash from disposition of business, net of cash disposed			232		232
Cash used in business acquisitions, net of cash acquired			(199)		(199)
Increase in restricted cash			(146)		(146)
Proceeds from intercompany balance	9,366	11,604		(20,970)	
Net cash provided by (used in) investing activities	9,366	11,604	(5,594)	(20,970)	(5,594)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Principal payments on long-term obligations		(500)	(7,792)		(8,292)
Proceeds from (payments on) intercompany balance		11,777	(32,747)	20,970	

Net cash provided by (used in) financing activities		11,277	(40,539)	20,970	(8,292)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			1,202		1,202
NET CHANGE IN CASH AND CASH EQUIVALENTS	(121)	35	4,547		4,461
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	152	(18)	36,866		37,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 31	$ 17	$ 41,413	$	$ 41,461

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

(in thousands)

	For Six Months Ended June 30, 2008				
	PTGI	**PTHI**	**Other**	**Eliminations**	**Consolidated**
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 43,525	$ 40,091	$ 34,618	$ (74,441)	$ 43,793
Adjustments to reconcile net income to net cash provided by operating activities:					
Provision for doubtful accounts receivable			5,696		5,696
Stock compensation expense		132			132
Depreciation and amortization			16,056		16,056
Gain on sale or disposal of assets			(2,465)		(2,465)
Accretion of debt (premium) discount	512		(699)		(187)
Equity in net income of subsidiary	(40,091)	(34,618)		74,709	
Minority interest share of income		268		(268)	
Deferred income taxes		450	2,395		2,845
Gain (loss) on early extinguishment or restructuring of debt	(12,070)	(22,784)	367		(34,487)
Unrealized foreign currency transaction gain on intercompany and foreign debt	(2,684)	(487)	(6,457)		(9,628)
Changes in assets and liabilities, net of acquisitions:					
Increase in accounts receivable			(6,388)		(6,388)
(Increase) decrease in prepaid expenses and other current assets	185	(4)	11,053		11,234
(Increase) decrease in other assets	388	579	(62)		905
Decrease in accounts payable	(447)	(239)	(15,953)		(16,639)
Increase in accrued interconnection costs			3,159		3,159
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities, and other liabilities	67	(235)	(3,179)		(3,347)
Decrease in accrued income taxes	(222)	(1,522)	(2,711)		(4,455)
Increase (decrease) in accrued interest	(871)	(223)	173		(921)
Net cash provided by (used in) operating activities	(11,708)	(18,592)	35,603		5,303
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment			(14,599)		(14,599)
Sale of property and equipment			805		805
Cash from disposition of business, net of cash disposed			1,676		1,676
Cash used in business acquisitions, net of cash acquired			(34)		(34)
Decrease in restricted cash			103		103
Proceeds from intercompany balance	27,636	17,339		(44,975)	
Net cash provided by (used in) investing activities	27,636	17,339	(12,049)	(44,975)	(12,049)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Purchase of the Company s debt securities	(11,217)				(11,217)
Principal payments on long-term obligations	(1,200)	(5,232)	(1,855)		(8,287)
Proceeds from (payments on) intercompany balance		6,447	(51,422)	44,975	
Net cash provided by (used in) financing activities	(12,417)	1,215	(53,277)	44,975	(19,504)

EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			518		518
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,511	(38)	(29,205)		(25,732)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,299	(35)	80,018		81,282
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 4,810	$ (73)	$ 50,813	$	$ 55,550

Table of Contents

Consolidating Financial Statements for IHC Debt Issuance

Primus Telecommunications IHC, Inc. s 14¼% Senior Secured Notes are fully, unconditionally, jointly and severally guaranteed by Group on a senior basis as of June 30, 2009 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. As discussed in Note 2, on March 16, 2009, Holding, Group, and IHC filed for bankruptcy. Accordingly, the following consolidating condensed financial information as of June 30, 2009 and 2008 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.

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.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Three Month Ended June 30, 2009					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$	$	$ 30,470	$ 166,272	$	$ 196,742
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			23,291	102,623		125,914
Selling, general and administrative	3,599	4	6,015	40,782		50,400
Depreciation and amortization			638	5,612		6,250
(Gain) loss on sale or disposal of assets			(119)	135		16
Total operating expenses	3,599	4	29,825	149,152		182,580
INCOME (LOSS) FROM OPERATIONS	(3,599)	(4)	645	17,120		14,162
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)	22,149		35,134
REORGANIZATION ITEMS NET	(6,580)	(1)	(1,691)	1		(8,271)
INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES	(9,571)	19,508	(5,224)	22,150		26,863
INCOME TAX EXPENSE		(197)	617	(1,530)		(1,110)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(9,571)	19,311	(4,607)	20,620		25,753
EQUITY IN NET INCOME OF SUBSIDIARIES	34,937		41,885		(76,822)	
INCOME FROM CONTINUING OPERATIONS	25,366	19,311	37,278	20,620	(76,822)	25,753
LOSS FROM DISCONTINUED OPERATIONS, net of tax				(283)		(283)
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	$ 20,516	$ (76,822)	$ 25,649
Loss from discontinued operations				(283)		(283)
Net income	$ 25,366	$ 19,311	$ 37,278	$ 20,233	$ (76,822)	$ 25,366

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Six Month Ended June 30, 2009					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$	$	$ 65,361	$ 325,855	$	$ 391,216
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			52,058	203,230		255,288
Selling, general and administrative	4,638	23	12,587	78,588		95,836
Depreciation and amortization			1,317	11,029		12,346
(Gain) loss on sale or disposal of assets			(177)	134		(43)
Total operating expenses	4,638	23	65,785	292,981		363,427
INCOME (LOSS) FROM OPERATIONS	(4,638)	(23)	(424)	32,874		27,789
INTEREST EXPENSE	(794)	(3,331)	(7,867)	(2,143)		(14,135)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(129)	318				189
INTEREST AND OTHER INCOME			8	388		396
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	2,632	8,349	(705)	10,845		21,121
INTERCOMPANY INTEREST	(4,169)	14,549	(8,764)	(1,616)		
MANAGEMENT FEE			4,152	(4,152)		
ROYALTY FEE		5,277		(5,277)		
INCOME (LOSS) BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(7,098)	25,139	(13,600)	30,919		35,360
REORGANIZATION ITEMS NET	(8,749)	22,642	(5,597)	1		8,297
INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES	(15,847)	47,781	(19,197)	30,920		43,657
INCOME TAX EXPENSE		(380)	(53)	(3,474)		(3,907)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(15,847)	47,401	(19,250)	27,446		39,750
EQUITY IN NET INCOME OF SUBSIDIARIES	55,204		76,182		(131,386)	
INCOME FROM CONTINUING OPERATIONS	39,357	47,401	56,932	27,446	(131,386)	39,750
LOSS FROM DISCONTINUED OPERATIONS, net of tax				(676)		(676)
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax				251		251
NET INCOME	39,357	47,401	56,932	27,021	(131,386)	39,325
Less: Net loss attributable to the noncontrolling interest				32		32
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 39,357	$ 47,401	$ 56,932	$ 27,053	$ (131,386)	$ 39,357
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income from continuing operations, net of tax	$ 39,357	$ 47,401	$ 56,932	$ 27,478	$ (131,386)	$ 39,782

Loss from discontinued operations				(676)		(676)
Gain from sale of discontinued operations				251		251
Net income	$ 39,357	$ 47,401	$ 56,932	$ 27,053	$ (131,386)	$ 39,357

49

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For Three Months Ended June 30, 2008					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$	$	$ 34,664	$ 201,233	$	$ 235,897
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			28,027	114,468		142,495
Selling, general and administrative	1,302	83	9,230	59,354		69,969
Depreciation and amortization			815	7,276		8,091
(Gain) loss on sale or disposal of assets			(5)	120		115
Total operating expenses	1,302	83	38,067	181,218		220,670
INCOME (LOSS) FROM OPERATIONS	(1,302)	(83)	(3,403)	20,015		15,227
INTEREST EXPENSE	(1,391)	(3,932)	(6,894)	(1,337)		(13,554)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(137)	354				217
INCOME (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	9,861	(468)	22,784			32,177
INTEREST AND OTHER INCOME	5		2	2,120		2,127
FOREIGN CURRENCY TRANSACTION GAIN	1,399	2,762	116	3,857		8,134
INTERCOMPANY INTEREST	(4,815)	169	210	4,436		
MANAGEMENT FEE			1,146	(1,146)		
ROYALTY FEE		3,549	136	(3,685)		
INCOME BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	3,620	2,351	14,097	24,260		44,328
INCOME TAX PREMIUM	294	935	1,129	24		2,382
INCOME BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	3,914	3,286	15,226	24,284		46,710
EQUITY IN NET INCOME OF SUBSIDIARIES	42,610		25,679		(68,289)	
INCOME FROM CONTINUING OPERATIONS	46,524	3,286	40,905	24,284	(68,289)	46,710
LOSS FROM DISCONTINUED OPERATIONS, net of tax				(21)		(21)
NET INCOME	46,524	3,286	40,905	24,263	(68,289)	46,689
less: Net loss attributable to noncontrolling interest				(165)		(165)
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 46,524	$ 3,286	$ 40,905	$ 24,098	$ (68,289)	$ 46,524

AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS

TELECOMMUNICATIONS GROUP, INCORPORATED						
Income from continuing operations, net of tax	$ 46,524	$ 3,286	$ 40,905	$ 24,119	$ (68,289)	$ 46,545
Loss from discontinued operations				(21)		(21)
Net income	$ 46,524	$ 3,286	$ 40,905	$ 24,098	$ (68,289)	$ 46,524

50

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For Six Months Ended June 30, 2008					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$	$	$ 69,697	$ 391,634	$	$ 461,331
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			55,590	228,389		283,979
Selling, general and administrative	2,574	118	18,076	118,059		138,827
Depreciation and amortization			1,681	14,369		16,050
Loss on sale or disposal of assets			(805)	(1,660)		