

PRIMUS TELECOMMUNICATIONS GROUP INC

Form 10-Q/A

April 05, 2010

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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-Q/A

AMENDMENT NO. 2

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

For the quarterly period ended September 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

**54-1708481**  
(I.R.S. Employer Identification No.)

incorporation or organization)

**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)

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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 ☒ 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 ☐ 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 ☒

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

| Class                          |
|--------------------------------|
| Common Stock \$0.001 par value |

| Outstanding as of October 31, 2009 |
|------------------------------------|
| 9,600,000                          |

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### **Explanatory Note Restatement of Consolidated Condensed Financial Statements**

This amendment to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 is being filed to restate the consolidated condensed financial statements, as set forth in Note 15 of the Notes to Consolidated Condensed Financial Statements, from those previously filed with the Securities and Exchange Commission (the "SEC") on November 16, 2009 (the "Original Filing"). The Company has filed this amendment to correct an error relating to accounting for foreign exchange transaction losses on certain intercompany balances as described in Note 15 of the Notes to Consolidated Condensed Financial Statements (the "Restatement"). In this amendment, the disclosures have not been updated other than to reflect the adjustments specifically discussed in Note 15 of the Notes to Consolidated Condensed Financial Statements.

The following Part/Item disclosures have been amended solely as a result of, and to reflect, the Restatement, and no other information in the Original Filing is amended hereby as a result of the restatement:

Part I Item 1. Financial Statements

Part I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Part I Item 4. Controls and Procedures

Part II Item 1A. Risk Factors

Part II Item 6. Exhibits

This Quarterly Report on Form 10-Q/A does not reflect events occurring after the filing of the Original Filing or modify or update disclosures (including, except as otherwise provided herein, the Exhibits to the Original Filing), affected by subsequent events. In accordance with applicable SEC rules, this Quarterly Report on Form 10-Q/A includes updated certifications from the Company's Chief Executive Officer and Chief Financial Officer as Exhibits 31 and 32.

## **PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**  
**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**

(in thousands, except per share amounts)

(unaudited)

|                                                                                                           | Successor<br>Three<br>Months<br>Ended<br>September 30,<br>2009<br>Restated | Predecessor<br><br>July 1,<br>2009 | Three<br>Months<br>Ended<br>September 30,<br>2008 |
|-----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|------------------------------------|---------------------------------------------------|
| NET REVENUE                                                                                               | \$ 207,947                                                                 | \$                                 | \$ 231,256                                        |
| OPERATING EXPENSES                                                                                        |                                                                            |                                    |                                                   |
| Cost of revenue (exclusive of depreciation included below)                                                | 136,076                                                                    |                                    | 149,834                                           |
| Selling, general and administrative                                                                       | 51,139                                                                     |                                    | 69,511                                            |
| Depreciation and amortization                                                                             | 20,029                                                                     |                                    | 9,351                                             |
| (Gain) loss on sale or disposal of assets                                                                 | 83                                                                         |                                    | (4,576)                                           |
| Total operating expenses                                                                                  | 207,327                                                                    |                                    | 224,120                                           |
| INCOME FROM OPERATIONS                                                                                    | 620                                                                        |                                    | 7,136                                             |
| INTEREST EXPENSE                                                                                          | (8,763)                                                                    |                                    | (12,810)                                          |
| ACCRETION ON DEBT DISCOUNT, net                                                                           |                                                                            |                                    | 269                                               |
| GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT                                                     |                                                                            |                                    | 121                                               |
| INTEREST INCOME AND OTHER INCOME (EXPENSE), net                                                           | (4,066)                                                                    |                                    | (1,032)                                           |
| FOREIGN CURRENCY TRANSACTION GAIN (LOSS)                                                                  | 12,916                                                                     |                                    | (23,045)                                          |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION<br>ITEMS AND INCOME TAXES                  | 707                                                                        |                                    | (29,361)                                          |
| REORGANIZATION ITEMS, net                                                                                 | (307)                                                                      | 431,797                            |                                                   |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES                                              | 400                                                                        | 431,797                            | (29,361)                                          |
| INCOME TAX BENEFIT (EXPENSE)                                                                              | 2,085                                                                      |                                    | (1,489)                                           |
| INCOME (LOSS) FROM CONTINUING OPERATIONS                                                                  | 2,485                                                                      | 431,797                            | (30,850)                                          |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax                                                             |                                                                            |                                    | (436)                                             |
| LOSS FROM SALE OF DISCONTINUED OPERATIONS, net of tax                                                     | (110)                                                                      |                                    |                                                   |
| NET INCOME (LOSS)                                                                                         | 2,375                                                                      | 431,797                            | (31,286)                                          |
| Less: Net income attributable to the noncontrolling interest                                              | (210)                                                                      |                                    | (1,934)                                           |
| NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS<br>GROUP, INCORPORATED                        | \$ 2,165                                                                   | \$ 431,797                         | \$ (33,220)                                       |
| BASIC INCOME (LOSS) PER COMMON SHARE:                                                                     |                                                                            |                                    |                                                   |
| Income (loss) from continuing operations attributable to Primus Telecommunications Group,<br>Incorporated | \$ 0.24                                                                    | \$ 3.03                            | \$ (0.23)                                         |
| Loss from discontinued operations                                                                         |                                                                            |                                    |                                                   |
| Loss from sale of discontinued operations                                                                 | (0.01)                                                                     |                                    |                                                   |
| Net income (loss) attributable to Primus Telecommunications Group, Incorporated                           | \$ 0.23                                                                    | \$ 3.03                            | \$ (0.23)                                         |
| DILUTED LOSS PER COMMON SHARE:                                                                            |                                                                            |                                    |                                                   |

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|                                                                                                        |    |        |    |         |    |          |
|--------------------------------------------------------------------------------------------------------|----|--------|----|---------|----|----------|
| Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated | \$ | 0.24   | \$ | 2.49    | \$ | (0.23)   |
| Loss from discontinued operations                                                                      |    |        |    |         |    |          |
| Loss from sale of discontinued operations                                                              |    | (0.01) |    |         |    |          |
| Net income (loss) attributable to Primus Telecommunications Group, Incorporated                        | \$ | 0.23   | \$ | 2.49    | \$ | (0.23)   |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING                                                             |    |        |    |         |    |          |
| Basic                                                                                                  |    | 9,600  |    | 142,695 |    | 142,633  |
| Diluted                                                                                                |    | 9,600  |    | 173,117 |    | 142,633  |
| AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED           |    |        |    |         |    |          |
| Income (loss) from continuing operations, net of tax                                                   | \$ | 2,275  | \$ | 431,797 | \$ | (32,784) |
| Loss from discontinued operations                                                                      |    |        |    |         |    | (436)    |
| Loss from sale of discontinued operations                                                              |    | (110)  |    |         |    |          |
| Net income (loss)                                                                                      | \$ | 2,165  | \$ | 431,797 | \$ | (33,220) |

See notes to consolidated financial statements.

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**  
**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**

(in thousands, except per share amounts)

(unaudited)

|                                                                                                           | Successor<br>Three<br>Months<br>Ended<br>September 30,<br>2009<br>Restated | Predecessor<br>Six Months<br>Ended<br>July 1,<br>2009 | Nine Months<br>Ended<br>September 30,<br>2008 |
|-----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------|
| NET REVENUE                                                                                               | \$ 207,947                                                                 | \$ 391,216                                            | \$ 692,587                                    |
| OPERATING EXPENSES                                                                                        |                                                                            |                                                       |                                               |
| Cost of revenue (exclusive of depreciation included below)                                                | 136,076                                                                    | 255,288                                               | 433,813                                       |
| Selling, general and administrative                                                                       | 51,139                                                                     | 95,836                                                | 208,338                                       |
| Depreciation and amortization                                                                             | 20,029                                                                     | 12,346                                                | 25,401                                        |
| (Gain) loss on sale or disposal of assets                                                                 | 83                                                                         | (43)                                                  | (7,041)                                       |
| Total operating expenses                                                                                  | 207,327                                                                    | 363,427                                               | 660,511                                       |
| INCOME FROM OPERATIONS                                                                                    | 620                                                                        | 27,789                                                | 32,076                                        |
| INTEREST EXPENSE                                                                                          | (8,763)                                                                    | (14,135)                                              | (41,557)                                      |
| ACCRETION ON DEBT DISCOUNT, net                                                                           |                                                                            | 189                                                   | 456                                           |
| GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT                                                     |                                                                            |                                                       | 34,608                                        |
| INTEREST INCOME AND OTHER INCOME (EXPENSE), net                                                           | (4,066)                                                                    | 396                                                   | 2,157                                         |
| FOREIGN CURRENCY TRANSACTION GAIN (LOSS)                                                                  | 12,916                                                                     | 21,121                                                | (13,204)                                      |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION<br>ITEMS AND INCOME TAXES                  | 707                                                                        | 35,360                                                | 14,536                                        |
| REORGANIZATION ITEMS, net                                                                                 | (307)                                                                      | 440,094                                               |                                               |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES                                              | 400                                                                        | 475,454                                               | 14,536                                        |
| INCOME TAX BENEFIT (EXPENSE)                                                                              | 2,085                                                                      | (3,907)                                               | (1,527)                                       |
| INCOME (LOSS) FROM CONTINUING OPERATIONS                                                                  | 2,485                                                                      | 471,547                                               | 13,009                                        |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax                                                             |                                                                            | (676)                                                 | (502)                                         |
| GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax                                              | (110)                                                                      | 251                                                   |                                               |
| NET INCOME (LOSS)                                                                                         | 2,375                                                                      | 471,122                                               | 12,507                                        |
| Less: Net (income) loss attributable to the noncontrolling interest                                       | (210)                                                                      | 32                                                    | (2,202)                                       |
| NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS<br>GROUP, INCORPORATED                        | \$ 2,165                                                                   | \$ 471,154                                            | \$ 10,305                                     |
| BASIC INCOME (LOSS) PER COMMON SHARE:                                                                     |                                                                            |                                                       |                                               |
| Income (loss) from continuing operations attributable to Primus Telecommunications Group,<br>Incorporated | \$ 0.24                                                                    | \$ 3.30                                               | \$ 0.07                                       |
| Loss from discontinued operations                                                                         |                                                                            |                                                       |                                               |
| Loss from sale of discontinued operations                                                                 | (0.01)                                                                     |                                                       |                                               |
| Net income (loss) attributable to Primus Telecommunications Group, Incorporated                           | \$ 0.23                                                                    | \$ 3.30                                               | \$ 0.07                                       |
| DILUTED INCOME (LOSS) PER COMMON SHARE:                                                                   |                                                                            |                                                       |                                               |

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|                                                                                                        |    |        |    |         |    |         |
|--------------------------------------------------------------------------------------------------------|----|--------|----|---------|----|---------|
| Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated | \$ | 0.24   | \$ | 2.72    | \$ | 0.06    |
| Loss from discontinued operations                                                                      |    |        |    |         |    |         |
| Loss from sale of discontinued operations                                                              |    | (0.01) |    |         |    |         |
| Net income (loss) attributable to Primus Telecommunications Group, Incorporated                        | \$ | 0.23   | \$ | 2.72    | \$ | 0.06    |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING                                                             |    |        |    |         |    |         |
| Basic                                                                                                  |    | 9,600  |    | 142,695 |    | 142,633 |
| Diluted                                                                                                |    | 9,600  |    | 173,117 |    | 176,138 |
| AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED           |    |        |    |         |    |         |
| Income (loss) from continuing operations, net of tax                                                   | \$ | 2,275  | \$ | 471,579 | \$ | 10,807  |
| Loss from discontinued operations                                                                      |    |        |    | (676)   |    | (502)   |
| Gain (loss) from sale of discontinued operations                                                       |    | (110)  |    | 251     |    |         |
| Net income (loss)                                                                                      | \$ | 2,165  | \$ | 471,154 | \$ | 10,305  |

See notes to consolidated financial statements.

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****CONSOLIDATED CONDENSED BALANCE SHEETS**

(in thousands, except share amounts)

(unaudited)

|                                                                                                                                                                                                                                                                                                    | Successor<br>September 30,<br>2009<br>Restated | Predecessor<br>December 31,<br>2008 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|-------------------------------------|
| <b>ASSETS</b>                                                                                                                                                                                                                                                                                      |                                                |                                     |
| <b>CURRENT ASSETS:</b>                                                                                                                                                                                                                                                                             |                                                |                                     |
| Cash and cash equivalents                                                                                                                                                                                                                                                                          | \$ 41,850                                      | \$ 37,000                           |
| Accounts receivable (net of allowance for doubtful accounts receivable of \$8,210 and \$9,710)                                                                                                                                                                                                     | 92,580                                         | 99,483                              |
| Prepaid expenses and other current assets                                                                                                                                                                                                                                                          | 15,665                                         | 15,846                              |
| Total current assets                                                                                                                                                                                                                                                                               | 150,095                                        | 152,329                             |
| RESTRICTED CASH                                                                                                                                                                                                                                                                                    | 10,177                                         | 8,133                               |
| PROPERTY AND EQUIPMENT Net                                                                                                                                                                                                                                                                         | 152,028                                        | 112,152                             |
| GOODWILL                                                                                                                                                                                                                                                                                           | 61,086                                         | 32,688                              |
| OTHER INTANGIBLE ASSETS Net                                                                                                                                                                                                                                                                        | 187,552                                        | 746                                 |
| OTHER ASSETS                                                                                                                                                                                                                                                                                       | 22,130                                         | 24,396                              |
| TOTAL ASSETS                                                                                                                                                                                                                                                                                       | \$ 583,068                                     | \$ 330,444                          |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>                                                                                                                                                                                                                                               |                                                |                                     |
| <b>CURRENT LIABILITIES:</b>                                                                                                                                                                                                                                                                        |                                                |                                     |
| Accounts payable                                                                                                                                                                                                                                                                                   | \$ 43,087                                      | \$ 58,671                           |
| Accrued interconnection costs                                                                                                                                                                                                                                                                      | 43,468                                         | 41,422                              |
| Deferred revenue                                                                                                                                                                                                                                                                                   | 13,686                                         | 13,303                              |
| Accrued expenses and other current liabilities                                                                                                                                                                                                                                                     | 49,237                                         | 42,440                              |
| Accrued income taxes                                                                                                                                                                                                                                                                               | 17,601                                         | 18,213                              |
| Accrued interest                                                                                                                                                                                                                                                                                   | 4,429                                          | 10,248                              |
| Current portion of long-term obligations                                                                                                                                                                                                                                                           | 15,442                                         | 564,797                             |
| Total current liabilities                                                                                                                                                                                                                                                                          | 186,950                                        | 749,094                             |
| LONG-TERM OBLIGATIONS                                                                                                                                                                                                                                                                              | 237,119                                        | 40,040                              |
| DEFERRED INCOME TAXES                                                                                                                                                                                                                                                                              | 58,866                                         |                                     |
| OTHER LIABILITIES                                                                                                                                                                                                                                                                                  | 6,786                                          | 35                                  |
| Total liabilities                                                                                                                                                                                                                                                                                  | 489,721                                        | 789,169                             |
| <b>COMMITMENTS AND CONTINGENCIES (See Note 7.)</b>                                                                                                                                                                                                                                                 |                                                |                                     |
| <b>STOCKHOLDERS EQUITY (DEFICIT):</b>                                                                                                                                                                                                                                                              |                                                |                                     |
| <b>Primus Telecommunications Group, Incorporated Stockholders Equity (Deficit):</b>                                                                                                                                                                                                                |                                                |                                     |
| Predecessor 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 |                                                |                                     |
| Predecessor Common stock, \$0.01 par value 300,000,000 shares authorized; 142,695,390 shares issued and outstanding                                                                                                                                                                                |                                                | 1,427                               |
| Successor Preferred stock, \$0.001 par value 20,000,000 shares authorized; none issued or outstanding                                                                                                                                                                                              |                                                |                                     |
|                                                                                                                                                                                                                                                                                                    | 10                                             |                                     |

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|                                                                                                                |            |             |
|----------------------------------------------------------------------------------------------------------------|------------|-------------|
| Successor Common stock, \$0.001 par value 80,000,000 shares authorized; 9,600,000 shares issued or outstanding |            |             |
| Additional paid-in capital                                                                                     | 84,690     | 718,956     |
| Accumulated earnings (deficit)                                                                                 | 2,165      | (1,099,809) |
| Accumulated other comprehensive income (loss)                                                                  | 3,152      | (82,113)    |
| Total Primus Telecommunications Group, Incorporated stockholders equity (deficit)                              | 90,017     | (461,539)   |
| Noncontrolling interest                                                                                        | 3,330      | 2,814       |
| Total stockholders equity (deficit)                                                                            | 93,347     | (458,725)   |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)                                                            | \$ 583,068 | \$ 330,444  |

See notes to consolidated financial statements.

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

|                                                                                                      | <b>Successor<br/>Three<br/>Months<br/>Ended<br/>September 30,<br/>2009<br/>Restated</b> | <b>Predecessor<br/><br/>Six Months<br/>Ended<br/>July 1,<br/>2009</b> | <b>Nine Months<br/>Ended<br/>September 30,<br/>2008</b> |
|------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-----------------------------------------------------------------------|---------------------------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                         |                                                                                         |                                                                       |                                                         |
| Net income (loss)                                                                                    | \$ 2,375                                                                                | \$ 471,122                                                            | \$ 12,507                                               |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities:             |                                                                                         |                                                                       |                                                         |
| Reorganization items, net                                                                            | 307                                                                                     | (440,094)                                                             |                                                         |
| Provision for doubtful accounts receivable                                                           | 2,593                                                                                   | 5,140                                                                 | 8,945                                                   |
| Stock compensation expense                                                                           | 308                                                                                     | 27                                                                    | 199                                                     |
| Depreciation and amortization                                                                        | 20,029                                                                                  | 12,346                                                                | 25,407                                                  |
| (Gain) loss on sale or disposal of assets                                                            | 193                                                                                     | (294)                                                                 | (7,041)                                                 |
| Accretion of debt discount                                                                           |                                                                                         | (189)                                                                 | (456)                                                   |
| Deferred income taxes                                                                                |                                                                                         |                                                                       | 3,201                                                   |
| Gain on early extinguishment or restructuring of debt                                                |                                                                                         |                                                                       | (34,608)                                                |
| Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt                 | (14,130)                                                                                | (20,702)                                                              | 13,587                                                  |
| Changes in assets and liabilities, net of acquisitions:                                              |                                                                                         |                                                                       |                                                         |
| (Increase) decrease in accounts receivable                                                           | 2,634                                                                                   | 7,798                                                                 | (12,276)                                                |
| Decrease in prepaid expenses and other current assets                                                | 2,150                                                                                   | 461                                                                   | 8,861                                                   |
| (Increase) decrease in other assets                                                                  | (3,339)                                                                                 | 2,454                                                                 | 1,428                                                   |
| Decrease in accounts payable                                                                         | (9,949)                                                                                 | (12,794)                                                              | (7,237)                                                 |
| Increase (decrease) in accrued interconnection costs                                                 | 3,719                                                                                   | (5,361)                                                               | (4,473)                                                 |
| Increase in accrued expenses, deferred revenue, other current liabilities and other liabilities, net | 5,426                                                                                   | 1,313                                                                 | 845                                                     |
| Increase (decrease) in accrued income taxes                                                          | (3,734)                                                                                 | 2,113                                                                 | (3,503)                                                 |
| Increase (decrease) in accrued interest                                                              | 4,410                                                                                   | (1,600)                                                               | (691)                                                   |
| Net cash provided by operating activities before cash reorganization items                           | 12,992                                                                                  | 21,740                                                                | 4,695                                                   |
| Cash effect of reorganization items                                                                  | (6,121)                                                                                 | (4,595)                                                               |                                                         |
| Net cash provided by operating activities                                                            | 6,871                                                                                   | 17,145                                                                | 4,695                                                   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                         |                                                                                         |                                                                       |                                                         |
| Purchase of property and equipment                                                                   | (3,886)                                                                                 | (5,660)                                                               | (20,756)                                                |
| Sale of property and equipment                                                                       | 12                                                                                      | 179                                                                   | 5,741                                                   |
| Cash from disposition of business, net of cash disposed                                              | (110)                                                                                   | 232                                                                   | 1,676                                                   |
| Cash used in business acquisitions, net of cash acquired                                             |                                                                                         | (199)                                                                 | (583)                                                   |
| (Increase) decrease in restricted cash                                                               | 17                                                                                      | (146)                                                                 | (100)                                                   |
| Net cash used in investing activities                                                                | (3,967)                                                                                 | (5,594)                                                               | (14,022)                                                |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                         |                                                                                         |                                                                       |                                                         |
| Purchase of the Company's debt securities                                                            |                                                                                         |                                                                       | (11,217)                                                |
| Principal payments on long-term obligations                                                          | (4,598)                                                                                 | (8,292)                                                               | (10,536)                                                |
| Net cash used in financing activities                                                                | (4,598)                                                                                 | (8,292)                                                               | (21,753)                                                |

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|                                                                         |           |           |              |
|-------------------------------------------------------------------------|-----------|-----------|--------------|
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS           | 2,083     | 1,202     | (2,572)      |
| NET CHANGE IN CASH AND CASH EQUIVALENTS                                 | 389       | 4,461     | (33,652)     |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                          | 41,461    | 37,000    | 81,282       |
| CASH AND CASH EQUIVALENTS, END OF PERIOD                                | \$ 41,850 | \$ 41,461 | \$ 47,630    |
| SUPPLEMENTAL CASH FLOW INFORMATION:                                     |           |           |              |
| Cash paid for interest                                                  | \$ 3,977  | \$ 14,909 | \$ 40,533    |
| Cash paid for taxes                                                     | \$ 2,810  | \$ 962    | \$ 1,133     |
| Non-cash investing and financing activities:                            |           |           |              |
| Capital lease additions                                                 | \$ 321    | \$ 1,882  | \$ 364       |
| 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    |
| Business acquisition financed with note payable                         | \$        | \$        | \$ 247       |

See notes to consolidated financial statements.

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(in thousands)****(unaudited)**

|                                                                                                 | <b>Successor<br/>Three<br/>Months<br/>Ended<br/>September 30,<br/>2009<br/>Restated</b> | <b>Predecessor<br/><br/>Three<br/>Months<br/>Ended<br/>July 1,<br/>2009</b> | <b>September 30,<br/>2008</b> |
|-------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|-------------------------------|
| NET INCOME (LOSS)                                                                               | \$ 2,375                                                                                | \$ 431,797                                                                  | \$ (31,286)                   |
| OTHER COMPREHENSIVE INCOME (LOSS)                                                               |                                                                                         |                                                                             |                               |
| Foreign currency translation adjustment                                                         | 3,341                                                                                   |                                                                             | 6,302                         |
| Fresh-start adjustment                                                                          |                                                                                         | 89,216                                                                      |                               |
| COMPREHENSIVE INCOME (LOSS)                                                                     | 5,716                                                                                   | 521,013                                                                     | (24,984)                      |
| Less: Comprehensive income attributable to the noncontrolling interest                          | (399)                                                                                   |                                                                             | (1,857)                       |
| COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PRIMUS<br>TELECOMMUNICATIONS GROUP,<br>INCORPORATED | \$ 5,317                                                                                | \$ 521,013                                                                  | \$ (26,841)                   |

See notes to consolidated financial statements.

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**  
**CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

(unaudited)

|                                                                                          | Successor<br>Three<br>Months<br>Ended<br>September 30,<br>2009<br>Restated | Predecessor<br>Six Months<br>Ended<br>July 1,<br>2009 | Nine Months<br>Ended<br>September 30,<br>2008 |
|------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------|
| NET INCOME (LOSS)                                                                        | \$ 2,375                                                                   | \$ 471,122                                            | \$ 12,507                                     |
| OTHER COMPREHENSIVE INCOME (LOSS)                                                        |                                                                            |                                                       |                                               |
| Foreign currency translation adjustment                                                  | 3,341                                                                      | (6,954)                                               | 2,229                                         |
| Fresh-start adjustment                                                                   |                                                                            | 89,216                                                |                                               |
| COMPREHENSIVE INCOME                                                                     | 5,716                                                                      | 553,384                                               | 14,736                                        |
| Less: Comprehensive (income) loss attributable to the noncontrolling interest            | (399)                                                                      | (117)                                                 | 2,100                                         |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO PRIMUS<br>TELECOMMUNICATIONS GROUP,<br>INCORPORATED | \$ 5,317                                                                   | \$ 553,267                                            | \$ 16,836                                     |

See notes to consolidated financial statements.

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**1. EMERGENCE FROM VOLUNTARY REORGANIZATION 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<sup>1</sup>/<sub>4</sub>% 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<sup>1</sup>/<sub>4</sub>% Senior Subordinated Secured Notes due May 20, 2013 (see Amendment of IHC s 1<sup>1</sup>/<sub>4</sub>% 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;

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the 3<sup>3</sup>/<sub>4</sub> % Senior Notes due September 2010, 12<sup>3</sup>/<sub>4</sub>% 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, 387,403 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<br>Reorganization<br>Adjustments | Successor         |
|------------------------------------------------|-------------------|------------------------------------------|-------------------|
| <b>Long-Term Obligations</b>                   |                   |                                          |                   |
| 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           |
| <b>Subtotal</b>                                | <b>132,837</b>    | <b>123,472</b>                           | <b>256,309</b>    |
| Less: Current portion of long-term obligations | (107,097)         | 91,100                                   | (15,997)          |
| <b>Total long-term obligations</b>             | <b>\$ 25,740</b>  | <b>\$ 214,572</b>                        | <b>\$ 240,312</b> |
| <b>Liabilities Subject to Compromise</b>       |                   |                                          |                   |
| 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)                                 |                   |
| <b>Total liabilities subject to compromise</b> | <b>\$ 451,050</b> | <b>\$ (451,050)</b>                      | <b>\$</b>         |

Notwithstanding effectiveness 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 \$94.8 million principal amount of Senior Secured Term Loan Facility and the \$28.0 million principal amount of 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.

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### **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. 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 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~~<sup>14</sup>/<sub>4</sub>% Senior Secured Notes due 2011 (the *Original Indenture*). The Supplemental Indenture amended the Original Indenture to provide for the issuance of ~~14~~<sup>14</sup>/<sub>4</sub>% Senior Subordinated Secured Notes due May 20, 2013 (the *Senior Subordinated Secured 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 Senior Subordinated Secured 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 <sup>1</sup>/<sub>4</sub>% 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 Senior Subordinated Secured 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 Senior Subordinated Secured 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.

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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 Senior Subordinated Secured 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 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

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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.

Upon Effective Date, the Company determined the fair value of the warrants issued was approximately \$1.0 million and included as part of our new equity value recorded upon emergence.

### *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 certain financial thresholds outlined in the CVR Agreement are met, 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

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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.

Due to the nature of CVR, the company accounted for the instrument in accordance with ASC No. 815, Derivatives and Hedging, as well as related interpretations of these standards. The Company determined these CVRs to be derivative instruments to be accounted for as liabilities and marked to fair value at each balance sheet date. Upon issuance, the Company recorded a liability of \$2.6 million in other liabilities as part of fresh-start accounting, and will adjust the liability quarterly to its estimated fair value. The change in value is reflected in our Statements of Operations as other income (expense). The Company recognized \$4.2 million of expense during the three months ended September 30, 2009 (the Successor Period ).

*Current Impact on Group's Subsidiaries that have not sought Reorganization.* Group's subsidiaries other than Holding, IHC and PTII were 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 were unaffected by the filing of the Chapter 11 Cases.

The New Common Stock is quoted on the Over-the-Counter Bulletin Board (OTCBB) and trades under the symbol PMUG.

## **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 Company's three months ended September 30, 2009 and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

In accordance with Financial Accounting Standard Board ( FASB ) Accounting Standards Codification ( ASC ) No. 852, Reorganizations, for periods including and subsequent to the filing of the Chapter 11 petition through the bankruptcy emergence date of July 1, 2009, all pre-petition liabilities subject to compromise were 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 were separately classified as current and non-current in the unaudited Consolidated Condensed Balance Sheet. Revenues, expenses, realized gains and losses, and provisions for losses that result from the reorganization were

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reported separately as reorganization items, net, in the unaudited Consolidated Condensed Statements of Operations. Net cash used for reorganization items was disclosed separately in the unaudited Consolidated Condensed Statements of Cash Flows. The outcome of the Plan materially changed the amounts reported in the financial statements, which did not give effect to all adjustments of the carrying value of assets or liabilities that were necessary as a consequence of the Plan, or the effect of any operational changes that may be made in the business.

As of July 1, 2009, the Company adopted fresh-start accounting in accordance with ASC No. 852. The adoption of fresh-start accounting resulted in the Company becoming a new entity for financial reporting purposes. Accordingly, the financial statements on or prior to July 1, 2009 are not comparable with the financial statements for periods after July 1, 2009. The consolidated condensed statements of operations, comprehensive income (loss) and any references to Successor or Successor Company for the three months ended September 30, 2009, show the operations of the reorganized Company from and including July 1, 2009, the Effective Date, through September 30, 2009. References to Predecessor or Predecessor Company refer to the operations of the Company prior to July 1, 2009, except for Predecessor's July 1, 2009 statements of operations and comprehensive income (loss), which reflect only the effect of the plan adjustments and fresh-start accounting as of such date and do not reflect any operating results. See Note 4 Fresh-Start Accounting in the notes to these Consolidated Condensed Financial Statements for further details.

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

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

### **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 ASC 810, Consolidation. 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 discontinued operation. During the second quarter of 2008, the Company intended and had the authority to sell certain assets of its German retail operations, and therefore, reported this unit as a discontinued operation. However, buyers were not found; therefore the Company decided it would cease operations of the German retail business effective the first quarter of 2009.

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Effective January 1, 2009, the Company adopted ASC No. 810, Consolidation. This statement changes the presentation of outstanding noncontrolling interests in one or more subsidiaries or the deconsolidation of those subsidiaries. Reconciliations at the beginning and the end of the period of the total equity, equity attributable to the Company and equity attributable to the noncontrolling interest for Successor's three months ended September 30, 2009 and Predecessor's six months ended July 1, 2009 and nine months ended September 30, 2008 are as follows (in thousands):

| <b>Predecessor</b><br><b>As of September 30, 2008</b><br><b>Primus Telecommunications Group, Incorporated</b><br><b>Shareholders</b> |              |                                            |                     |               |                                           |                                             |                                                         |                                    |
|--------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------------------------------------|---------------------|---------------|-------------------------------------------|---------------------------------------------|---------------------------------------------------------|------------------------------------|
|                                                                                                                                      |              |                                            | <b>Common Stock</b> |               |                                           |                                             |                                                         |                                    |
|                                                                                                                                      | <b>Total</b> | <b>Comprehensive<br/>Income<br/>(Loss)</b> | <b>Shares</b>       | <b>Amount</b> | <b>Additional<br/>Paid-In<br/>Capital</b> | <b>Accumulated<br/>Income<br/>(Deficit)</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Loss</b> | <b>Noncontrolling<br/>Interest</b> |
| Balance as of January 1, 2008                                                                                                        | \$ (446,701) |                                            | 142,633             | \$ 1,426      | \$ 718,695                                | \$ (1,074,778)                              | \$ (92,883)                                             | \$ 839                             |
| Stock Option Compensation Expense                                                                                                    | 200          |                                            |                     |               | 200                                       |                                             |                                                         |                                    |
| Comprehensive Income                                                                                                                 |              |                                            |                     |               |                                           |                                             |                                                         |                                    |
| Net income                                                                                                                           | 12,507       | \$ 12,507                                  |                     |               |                                           | 10,305                                      |                                                         | 2,202                              |
| Other comprehensive income                                                                                                           | 2,229        | 2,229                                      |                     |               |                                           |                                             | 2,331                                                   | (102)                              |
| Comprehensive Income                                                                                                                 | 14,736       | \$ 14,736                                  |                     |               |                                           |                                             |                                                         |                                    |
| Balance as of September 30, 2008                                                                                                     | \$ (431,765) |                                            | 142,633             | \$ 1,426      | \$ 718,895                                | \$ (1,064,473)                              | \$ (90,552)                                             | \$ 2,939                           |

| <b>Predecessor</b><br><b>As of July 1, 2009</b><br><b>Primus Telecommunications Group, Incorporated</b><br><b>Shareholders</b> |              |                                 |                     |               |                                           |                                |                                                         |                                    |
|--------------------------------------------------------------------------------------------------------------------------------|--------------|---------------------------------|---------------------|---------------|-------------------------------------------|--------------------------------|---------------------------------------------------------|------------------------------------|
|                                                                                                                                |              |                                 | <b>Common Stock</b> |               |                                           |                                |                                                         |                                    |
|                                                                                                                                | <b>Total</b> | <b>Comprehensive<br/>Income</b> | <b>Shares</b>       | <b>Amount</b> | <b>Additional<br/>Paid-In<br/>Capital</b> | <b>Accumulated<br/>Deficit</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Loss</b> | <b>Noncontrolling<br/>Interest</b> |
| 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                           |
| Plan and fresh-start adjustments                                                                                               | 513,650      |                                 | (133,095)           | (1,417)       | (634,601)                                 | 1,060,452                      | 89,216                                                  |                                    |
| Balance as of July 1, 2009                                                                                                     | \$ 87,323    |                                 | 9,600               | \$ 10         | \$ 84,382                                 | \$                             | \$                                                      | \$ 2,931                           |

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| <p style="text-align: center;"> <b>Successor</b><br/> <b>As of September 30, 2009</b><br/> <b>Primus Telecommunications Group, Incorporated</b><br/> <b>Shareholders</b> </p> |              |                      |            |        |                 |          |                            |                         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|----------------------|------------|--------|-----------------|----------|----------------------------|-------------------------|
|                                                                                                                                                                               | Common Stock |                      | Additional |        | Accumulated     |          | Accumulated                |                         |
|                                                                                                                                                                               | Total        | Comprehensive Income | Shares     | Amount | Paid-In Capital | Earnings | Other Comprehensive Income | Noncontrolling Interest |
| Balance as of July 1, 2009                                                                                                                                                    | \$ 87,323    |                      | 9,600      | \$ 10  | \$ 84,382       | \$       | \$                         | \$ 2,931                |
| Stock Option Compensation Expense                                                                                                                                             | 308          |                      |            |        | 308             |          |                            |                         |
| Comprehensive Income                                                                                                                                                          |              |                      |            |        |                 |          |                            |                         |
| Net income (loss)                                                                                                                                                             | 2,375        | \$ 2,375             |            |        |                 | 2,165    |                            | 210                     |
| Other comprehensive income (loss)                                                                                                                                             | 3,341        | 3,341                |            |        |                 |          | 3,152                      | 189                     |
| Comprehensive Income                                                                                                                                                          | 5,716        | \$ 5,716             |            |        |                 |          |                            |                         |
| Balance as of September 30, 2009                                                                                                                                              | \$ 93,347    |                      | 9,600      | \$ 10  | \$ 84,690       | \$ 2,165 | \$ 3,152                   | \$ 3,330                |

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

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

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

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

Upon the emergence from the bankruptcy on July 1, 2009, the Company entered into an arrangement for issuing Contingent Value Rights (CVRs) that contained derivative features. The Company accounted for the

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arrangement in accordance with ASC No. 815, Derivatives and Hedging. The Company determined these CVRs to be derivative instruments to be accounted for as liabilities and marked to fair value at each balance sheet date. Upon issuance, the Company recorded CVRs as a liability in its balance sheet at their estimated fair value. Changes in their estimated fair value of are recognized in earnings during the period of change.

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

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

### *Newly Adopted Accounting Principles*

Effective July 1, 2009, the Company adopted ASC No. 105, Generally Accepted Accounting Principles. ASC No. 105 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 adoption did not have a material impact on its results of operations, financial position and cash flows.

Effective April 1, 2009, the Company adopted ASC No. 855, Subsequent Events. ASC No. 855 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. ASC No. 855 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.

Effective January 1, 2009, the Company adopted ASC No. 470-20, Debt with Conversion and Other Options. ASC No. 470-20 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. ASC No. 470-20 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.

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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 ASC No. 805, Business Combinations. ASC No. 805 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; however, the Company applied this standard on July 1, 2009 to the Fresh Start Balance Sheet.

In February 2008, the FASB issued ASC No. 820, Fair Value Measurements. The provisions of ASC No. 820 provide guidance for, among other things, the definition of fair value and the methods used to measure fair value, were adopted January 1, 2008 for financial instruments. The provisions adopted in 2008 did not have a material impact on the Company's financial statements. ASC No. 820 delayed the effective date 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 ASC No. 820. On January 1, 2009, the Company adopted the provisions of ASC No. 820 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 September 30, 2009.

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

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

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

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

The Company had 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 estimated the value to be zero, requiring a write-off of \$1.2 million in the third quarter of 2008, and moved the instrument from Level 2 to Level 3 because the counter party's credit risk is not observable.

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

|                         | September 30,<br>2009 | Fair Value as of September 30, 2009, using:                                |                                                     |                                                 |
|-------------------------|-----------------------|----------------------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------|
|                         |                       | Quoted prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) |
| Liabilities:            |                       |                                                                            |                                                     |                                                 |
| Contingent Value Rights | \$ 6,786              |                                                                            | \$ 6,786                                            |                                                 |
| Total                   | \$ 6,786              |                                                                            | \$ 6,786                                            |                                                 |

In March 2008, the FASB issued ASC No. 815, Derivatives and Hedging. ASC No. 815 amends and expands the disclosure requirements 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. ASC No. 815 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. 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. FRESH-START ACCOUNTING**

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

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

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

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Fresh-start accounting reflects the value of the Company as determined in the confirmed Plan. Under fresh-start accounting, the Company's asset values are remeasured and allocated in conformity with ASC No. 805, Business Combinations. The excess of reorganization value over the fair value of tangible and identifiable intangible assets is recorded as goodwill in the accompanying consolidated condensed balance sheet.

Fresh-start accounting also requires that all liabilities, other than deferred taxes and pension and other postretirement benefit obligations, should be stated at fair value.

Estimates of fair value included in the Successor Company financial statements, in conformity with ASC No. 820, represent the Company's best preliminary estimates based on independent appraisals and valuations and, where the foregoing have not yet been completed or are not available, industry data and trends and by reference to relevant market rates and transactions. The foregoing estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond the control of the Company. Accordingly, the Company cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially. In accordance with ASC No. 805, the preliminary allocation of the reorganization value is subject to additional adjustment until the Company has completed its analysis, but not to exceed one year after emergence from bankruptcy, to provide the Company with the time to complete the valuation of its assets and liabilities. The final determination of the fair value of individual assets and liabilities and the final allocation of the reorganization value may differ from the amounts included in the consolidated financial statements and there can be no assurance that such adjustments will not be material.

The following fresh-start Consolidated Condensed Balance Sheet presents the financial effects on the Company of the implementation of the Plan and the adoption of fresh-start accounting. The effect of the consummation of the transactions contemplated in the Plan includes the settlement of liabilities and the issuance of common stock as described in more detail in Note 1.

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

|                                                                                                                     | Predecessor  |           | Plan of        | Fresh-Start | Successor    |
|---------------------------------------------------------------------------------------------------------------------|--------------|-----------|----------------|-------------|--------------|
|                                                                                                                     | July 1, 2009 |           | Reorganization | Accounting  | July 1, 2009 |
|                                                                                                                     |              |           | Adjustments    | Adjustments |              |
| <b>ASSETS</b>                                                                                                       |              |           |                |             |              |
| <b>CURRENT ASSETS:</b>                                                                                              |              |           |                |             |              |
| Cash and cash equivalents                                                                                           | \$ 41,461    | \$        |                | \$          | \$ 41,461    |
| Accounts receivable                                                                                                 | 93,826       |           |                |             | 93,826       |
| Prepaid expenses and other current assets                                                                           | 16,955       |           |                |             | 16,955       |
| Total current assets                                                                                                | 152,242      |           |                |             | 152,242      |
| RESTRICTED CASH                                                                                                     | 9,467        |           |                |             | 9,467        |
| PROPERTY AND EQUIPMENT Net                                                                                          | 117,840      |           |                | 34,173 d    | 152,013      |
| GOODWILL                                                                                                            | 35,351       |           |                | 23,997 d, h | 59,348       |
| OTHER INTANGIBLE ASSETS Net                                                                                         | 482          |           |                | 187,518 d   | 188,000      |
| OTHER ASSETS                                                                                                        | 19,155       |           |                | 182 h       | 19,337       |
| TOTAL ASSETS                                                                                                        | \$ 334,537   | \$        |                | \$ 245,870  | \$ 580,407   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>                                                               |              |           |                |             |              |
| <b>CURRENT LIABILITIES:</b>                                                                                         |              |           |                |             |              |
| Accounts payable                                                                                                    | \$ 50,890    | \$        |                | \$          | \$ 50,890    |
| Accrued interconnection costs                                                                                       | 38,778       |           |                |             | 38,778       |
| Deferred revenue                                                                                                    | 12,322       |           |                |             | 12,322       |
| Accrued expenses and other current liabilities                                                                      | 53,982       |           |                |             | 53,982       |
| Accrued income taxes                                                                                                | 20,986       |           |                |             | 20,986       |
| Accrued interest                                                                                                    | 19           |           |                |             | 19           |
| Current portion of long-term obligations                                                                            | 107,097      | (91,100)  | g              |             | 15,997       |
| Total current liabilities                                                                                           | 284,074      | (91,100)  |                |             | 192,974      |
| LONG-TERM OBLIGATIONS                                                                                               | 25,740       | 214,572   | e, g           |             | 240,312      |
| OTHER LIABILITIES                                                                                                   |              | 2,557     | b              | 57,241 h    | 59,798       |
| Total liabilities not subject to compromise                                                                         | 309,814      | 126,029   |                | 57,241      | 493,084      |
| LIABILITIES SUBJECT TO COMPROMISE                                                                                   | 451,050      | (451,050) | a              |             |              |
| Total Liabilities                                                                                                   | 760,864      | (325,021) |                | 57,241      | 493,084      |
| <b>COMMITMENTS AND CONTINGENCIES</b>                                                                                |              |           |                |             |              |
| <b>STOCKHOLDERS' EQUITY (DEFICIT):</b>                                                                              |              |           |                |             |              |
| Primus Telecommunications Group, Incorporated Stockholders' Equity (Deficit):                                       |              |           |                |             |              |
| Predecessor Common stock, \$0.01 par value 300,000,000 shares authorized; 142,695,390 shares issued and outstanding | 1,427        | (1,427)   | c              |             |              |
| Successor Common stock, \$0.001 par value 80,000,000 shares authorized; 9,600,000 shares issued or outstanding      |              | 10        | a              |             | 10           |
| Predecessor Additional paid-in capital                                                                              | 718,983      | (1,129)   | c, b           | (717,854)   | f            |
| Successor Additional paid-in capital                                                                                |              | 84,382    | a              |             | 84,382       |
| Accumulated deficit                                                                                                 | (1,060,452)  | 243,185   | a              | 817,267     | d, f         |
| Accumulated other comprehensive income (loss)                                                                       | (89,216)     |           |                | 89,216      | f            |
|                                                                                                                     | (429,258)    | 325,021   |                | 188,629     | 84,392       |

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Total Primus Telecommunications Group, Incorporated stockholders  
income (deficit)

|                         |       |       |
|-------------------------|-------|-------|
| Noncontrolling interest | 2,931 | 2,931 |
|-------------------------|-------|-------|

|                                     |           |         |         |        |
|-------------------------------------|-----------|---------|---------|--------|
| Total stockholders income (deficit) | (426,327) | 325,021 | 188,629 | 87,323 |
|-------------------------------------|-----------|---------|---------|--------|

|                                                     |            |            |            |
|-----------------------------------------------------|------------|------------|------------|
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT) | \$ 334,537 | \$ 245,870 | \$ 580,407 |
|-----------------------------------------------------|------------|------------|------------|

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

- (a) This adjustment reflects the discharge of \$451.0 million of liabilities subject to compromise (see Liabilities Subject to Compromise below) in accordance with the terms of the Plan and the issuance of 4.8 million shares of Successor Company common stock to the holders of each of the Senior Subordinated Secured Notes and the Holding Senior Notes.
- (b) To record the issuance of Contingent Value Rights to the holders of the Old Common Stock.
- (c) To record the cancellation of the Old Common Stock.
- (d) To record assets and liabilities at their estimated fair values per fresh-start accounting and the related revaluation gain of \$188.6 million.
- (e) To reclass Term Loan from current portion of long-term obligations to long-term obligations and record the issuance of \$123.5 million of the Senior Subordinated Secured Notes.
- (f) To eliminate Predecessor additional paid-in capital, accumulated other comprehensive loss and accumulated deficit.
- (g) To reclass long-term portion of the Term Loan to long-term obligations.
- (h) To record the deferred tax attributes related to fresh-start accounting.

## **5. GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill reflects the excess of the reorganization value of Successor over the fair value of tangible and identifiable intangible assets as determined upon the adoption of fresh-start accounting. The Company recorded goodwill of \$59.3 million upon emergence from bankruptcy as well as intangible assets of \$188.0 million, which includes \$81.6 million of indefinite-lived trade names, \$102.4 million of amortizable customer relationships, and \$4.0 million of amortizable trade names.

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

|             | Successor<br>September 30,<br>2009 | Predecessor<br>December 31,<br>2008 |
|-------------|------------------------------------|-------------------------------------|
| Trade names | \$ 81,808                          | \$                                  |
| Goodwill    | \$ 61,086                          | \$ 32,688                           |

The Company allocated goodwill to all of its reporting units as part of fresh-start accounting, excluding the wholesale reporting unit which had nominal value relative to the total value of the Company. The changes in the carrying amount of trade names and goodwill by reporting unit for Successor's balance as of September 30, 2009 and Predecessor's balance as of December 31, 2008 are as follows (in thousands):

### *Goodwill*

|                                  | United States | Canada     | Predecessor |            | Brazil   | Total      |
|----------------------------------|---------------|------------|-------------|------------|----------|------------|
|                                  |               |            | Australia   | Europe     |          |            |
| Balance as of January 1, 2009    | \$ 194,256    | \$ 102,777 | \$ 30,775   | \$ 110,229 | \$ 3,884 | \$ 441,921 |
| Accumulated impairment losses    | (194,256)     | (80,864)   | (20,157)    | (110,229)  | (3,727)  | (409,233)  |
| Net goodwill                     |               | 21,913     | 10,618      |            | 157      | 32,688     |
| Effect of currency exchange      |               | 1,266      | 1,365       |            | 32       | 2,663      |
| Balance as of June 30, 2009      | \$            | \$ 23,179  | \$ 11,983   | \$         | \$ 189   | \$ 35,351  |
| Fresh-start adjustments          | 32,273        | 2,462      | (11,337)    | 750        | (151)    | 23,997     |
| Balance as of July 1, 2009       | \$ 32,273     | \$ 25,641  | \$ 646      | \$ 750     | \$ 38    | \$ 59,348  |
|                                  |               |            | Successor   |            |          |            |
| Balance as of July 1, 2009       | \$ 32,273     | \$ 25,641  | \$ 646      | \$ 750     | \$ 38    | \$ 59,348  |
| Effect of currency exchange      |               | 1,651      | 53          | 29         | 5        | 1,738      |
| Balance as of September 30, 2009 | \$ 32,273     | \$ 27,292  | \$ 699      | \$ 779     | \$ 43    | \$ 61,086  |

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### Trade Names

|                                  | United States | Canada | Predecessor |          |        | Total     |
|----------------------------------|---------------|--------|-------------|----------|--------|-----------|
|                                  |               |        | Australia   | Europe   | Brazil |           |
| Fresh-start adjustments          | 76,200        |        |             | 5,400    |        | 81,600    |
| Balance as of July 1, 2009       | \$ 76,200     | \$     | \$          | \$ 5,400 | \$     | \$ 81,600 |
|                                  |               |        |             |          |        |           |
|                                  |               |        | Successor   |          |        |           |
| Balance as of July 1, 2009       | \$ 76,200     | \$     | \$          | \$ 5,400 | \$     | \$ 81,600 |
| Effect of currency exchange      |               |        |             | 208      |        | 208       |
| Balance as of September 30, 2009 | \$ 76,200     | \$     | \$          | \$ 5,608 | \$     | \$ 81,808 |

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

|                        | Successor<br>September 30, 2009 |                             |                   | Predecessor<br>December 31, 2008 |                             |                   |
|------------------------|---------------------------------|-----------------------------|-------------------|----------------------------------|-----------------------------|-------------------|
|                        | Gross<br>Carrying<br>Amount     | Accumulated<br>Amortization | Net Book<br>Value | Gross<br>Carrying<br>Amount      | Accumulated<br>Amortization | Net Book<br>Value |
| Trade names            | \$ 4,043                        | \$ (100)                    | \$ 3,943          | \$ 1,665                         | \$ (1,575)                  | \$ 90             |
| Customer relationships | 108,708                         | (6,907)                     | 101,801           | 3,806                            | (3,150)                     | 656               |
| Total                  | \$ 112,751                      | \$ (7,007)                  | \$ 105,744        | \$ 5,471                         | \$ (4,725)                  | \$ 746            |

Amortization expense for customer relationships and trade names for Successor's three months ended September 30, 2009 was \$7.0 million. The Company expects amortization expense for customer relationships and trade names for Successor's remainder of 2009, the years ended December 31, 2010, 2011, 2012 and thereafter to be approximately \$7.0 million, \$23.2 million, \$18.8 million, \$13.3 million and \$43.4 million, respectively.

## 6. LONG-TERM OBLIGATIONS

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

|                                            | Successor<br>September 30,<br>2009 | Predecessor<br>December 31,<br>2008 |
|--------------------------------------------|------------------------------------|-------------------------------------|
| Obligations under capital leases and other | \$ 3,518                           | \$ 4,851                            |
| Leased fiber capacity                      | 2,746                              | 2,172                               |
| Senior secured term loan facility          | 94,825                             | 96,250                              |
| Canadian credit facility                   | 28,000                             | 35,000                              |
| Senior notes                               |                                    | 200,186                             |

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|                                                |            |           |
|------------------------------------------------|------------|-----------|
| Senior subordinated secured notes              | 123,472    | 198,960   |
| Exchangeable senior notes                      |            | 25,122    |
| Convertible senior notes                       |            | 34,006    |
| Step up convertible subordinated debentures    |            | 8,290     |
| Subtotal                                       | 252,561    | 604,837   |
| Less: Current portion of long-term obligations | (15,442)   | (564,797) |
| Total long-term obligations                    | \$ 237,119 | \$ 40,040 |

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### Successor

The following table reflects the contractual payments of principal and interest for Successor's long-term obligations as of September 30, 2009 as follows:

| Year Ending December 31,                    | Vendor<br>Financing<br>and<br>Other | Senior<br>Secured<br>Term<br>Loan<br>Facility<br>(1) | Senior<br>Subordinated<br>Secured<br>Notes | Canadian<br>Credit<br>Facility (2) | Total      |
|---------------------------------------------|-------------------------------------|------------------------------------------------------|--------------------------------------------|------------------------------------|------------|
| 2009 (as of September 30, 2009)             | \$ 727                              | \$ 3,833                                             | \$ 7,331                                   | \$ 1,992                           | \$ 13,883  |
| 2010                                        | 4,497                               | 16,767                                               | 17,595                                     | 7,685                              | 46,544     |
| 2011                                        | 1,223                               | 89,713                                               | 17,595                                     | 21,036                             | 129,567    |
| 2012                                        | 349                                 |                                                      | 17,595                                     |                                    | 17,944     |
| 2013                                        | 161                                 |                                                      | 132,269                                    |                                    | 132,430    |
| Thereafter                                  | 33                                  |                                                      |                                            |                                    | 33         |
| Total Minimum Principal & Interest Payments | 6,990                               | 110,313                                              | 192,385                                    | 30,713                             | 340,401    |
| Less: Amount Representing Interest          | (726)                               | (15,488)                                             | (68,913)                                   | (2,713)                            | (87,840)   |
| Total Long Term Obligations                 | \$ 6,264                            | \$ 94,825                                            | \$ 123,472                                 | \$ 28,000                          | \$ 252,561 |

(1) For preparation of this table, the Company has assumed the interest rate of the Senior Secured Term Loan Facility to be 12.0%.

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

### 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%.

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The debt under the Facility was in default as a result of the bankruptcy filings on March 16, 2009. On the Effective Date, Group and Holding entered into a Third Amendment to the Term Loan Agreement (the Amended Term Loan). 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 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 the counsel and financial advisors to the Term Loan lenders.

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

| <b>Payment Date</b> | <b>Principal Payment Amount</b> |
|---------------------|---------------------------------|
| 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   | \$88,300,000                    |

On March 31, 2009, June 30, 2009 and September 30, 2009, principal payments of \$250,000, \$250,000 and \$925,000, respectively, were paid as required under the Amended Term Loan.

The Third Amendments 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 outstanding as of September 30, 2009);
- (b) an additional unsecured debt basket of up to an aggregate dollar cap of \$7.5 million;
- (c) debt to finance acquisitions, 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 Third Amendment 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

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retirement for value of any debt, including but not limited to any of the 14 <sup>1</sup>/<sub>4</sub>% Senior Subordinated 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 contains customary restrictions, including, but not limited to, a cap of \$1 million;

modification of the limitation on liens covenant deleting the incurrence test and expressly prohibiting any liens other than permitted liens;

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

The Third Amendment 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) (Minimum Adjusted EBITDA);

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 is 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 is \$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 is required to be maintained at all times following substantial consummation of the plan of reorganization; and

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

### **Canadian Credit Facility**

In March 2007, an indirect wholly-owned subsidiary of the Company, Primus Telecommunications Canada, Inc. (Primus Canada) 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 provided for a \$35.0 million non-amortizing loan bearing interest at a rate of LIBOR plus 425 basis points and matured 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 was secured by the assets of Primus Canada and certain guarantees.



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In October 2007, Primus Canada 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 was 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 Canada nor, correspondingly, were payments made from Primus Canada 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. The Waiver and Amendment Agreement (described below), eliminated any currency swap requirements of the Canadian Credit Facility.

On August 25, 2009, Primus Canada provided notice of Early Termination of the swap agreement, effective August 26, 2009. On September 16, 2009, Primus Canada filed Proofs of Claim in the bankruptcy proceedings of Lehman SFI and Lehman Brothers Holdings Inc. ( "LBHI" ), which was the guarantor of Lehman SFI's obligations under the swap agreement and which also is in bankruptcy. Lehman SFI and LBHI have stated they reserve all rights to dispute the Proof of Claim, including the effectiveness of Primus Canada's termination notice. The eventual outcome of this matter is unknown. As of September 30, 2009, the Company has not maintained any balances concerning the Lehman cross-currency principal and interest rate swap agreement.

On March 10, 2009, 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.

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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:

| <b>Payment Date</b>                                                                          | <b>Principal Payment Amount</b> |
|----------------------------------------------------------------------------------------------|---------------------------------|
| 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                      |

As of September 30, 2009, principal payments of each month were made as required under the Waiver and Amendment and the Company had an outstanding liability of \$28.0 million under the Canadian Credit Facility.

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.

**14 1/4% Senior Subordinated Secured Notes**

In February 2007, 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 1/4% Senior Notes and \$23.6 million in cash. This exchange was 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 1/4% Convertible Senior Notes, and \$5.3 million principal amount of the Company's 12 1/4% Senior Notes. All exchanges were deemed troubled debt restructurings, and accordingly, were accounted for as modifications of debt, with scheduled future cash interest payments of \$26.4 million 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 31<sup>st</sup> and November 30<sup>th</sup>, beginning May 31<sup>st</sup>, 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 15 – 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.

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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 ~~5/4%~~ Senior Secured Notes due 2011 (the Original Indenture). The Supplemental Indenture amended the Original Indenture to provide for the issuance of the Senior Subordinated Secured Notes. The maturity of the Senior Subordinated Secured Notes was extended to May 20, 2013. 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 Canadian Credit Facility, and (2) June 1, 2011, up to 4.25% per annum of the interest on the Senior Subordinated Secured 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.

On the Effective Date, IHC entered into a First Amendment to the Intercreditor Agreement (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 Senior Subordinated Secured Notes are 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 (as amended through the date hereof, the Amended Collateral Agreement), to provide that the obligations of both IHC and PTIL, an indirect wholly owned subsidiary of Group, are secured by PTIL's assets, including 65% of the voting stock of foreign subsidiaries owned by PTIL. 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 Senior Subordinated Secured Notes are secured by a lien on the property of Group and Holding, respectively.

## **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 \$8.8 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 \$2.7 million (3.1 million AUD) to June 2010 with monthly payments of interest at a rate of 13.5%. Certain volume purchase targets were not met by September 30, 2009. Accordingly, Optus Networks Pty. Limited may give, but has not given, 30 days notice requiring full payment of the principal balance. At September 30, 2009 and December 31, 2008, the Company had a liability recorded in the amount of \$2.7 million (3.1 million AUD). Also, \$2.7 million (3.1 million AUD) and \$0 million were classified as current portion of long-term obligations at September 30, 2009 and December 31, 2008, respectively.

**Table of Contents****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. In September 2009, the Company made a principal payment of \$1.6 million (1.8 million AUD) and completed the full repayment of the debt.

***Predecessor***

In accordance with the Plan, on the Effective Date all of the obligations of Group and its subsidiaries with respect to the following indentures were terminated and the respective notes and debentures issued under each such indenture were cancelled:

Indenture, dated as of January 16, 2004, by and among Holding, as Issuer, Group, as Guarantor, and Wachovia Bank N.A., as Trustee, relating to the 8% Senior Notes due 2014;

Indenture, dated as of June 28, 2006, by and among Holding, as Issuer, Group, as Guarantor, and U.S. Bank N.A., as Trustee, relating to the 5% Exchangeable Senior Notes due 2009;

Indenture, dated as of September 15, 2003, by and between Group and Wachovia Bank, N.A., as Trustee, relating to the 3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes due 2010;

Indenture, dated as of February 27, 2006, by and between Group and U.S. Bank N.A., as Trustee, relating to the Step-up Convertible Subordinated Debentures due 2009; and

Indenture, dated as of October 15, 1999, by and between Group and First Union National Bank, as Trustee, relating to the 12<sup>3</sup>/<sub>4</sub>% Senior Notes due 2009.

**7. 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 September 30, 2009 are as follows (in thousands):

| Year Ending December 31,           | Vendor              | Successor            |                  |
|------------------------------------|---------------------|----------------------|------------------|
|                                    | Financing and Other | Purchase Obligations | Operating Leases |
| 2009 (as of September 30, 2009)    | \$ 727              | \$ 7,093             | \$ 4,330         |
| 2010                               | 4,497               | 17,719               | 13,724           |
| 2011                               | 1,223               | 4,305                | 10,186           |
| 2012                               | 349                 | 2,761                | 8,559            |
| 2013                               | 161                 |                      | 6,038            |
| Thereafter                         | 33                  |                      | 9,075            |
| Total minimum lease payments       | 6,990               | 31,878               | 51,912           |
| Less: Amount representing interest | (726)               |                      |                  |

|          |           |           |
|----------|-----------|-----------|
| \$ 6,264 | \$ 31,878 | \$ 51,912 |
|----------|-----------|-----------|

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 Successor made purchases under purchase commitments of \$7.0 million for the three months ended September 30, 2009. The Predecessor made purchases under purchase commitments of \$12.8 million, \$8.7 million and \$27.7 million for the six months ended June 30, 2009, three months and nine months ended September 30, 2008, respectively.

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Successor's rent expense under operating leases was \$3.8 million for the Successor Period. Predecessor's rent expense under operating leases was \$6.8 million, \$4.0 million and \$13.0 million for the six months ended June 30, 2009, three months and nine months ended September 30, 2008, respectively.

### ***Litigation***

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

## **8. SHARE-BASED COMPENSATION**

### ***Successor***

On the Effective Date, pursuant to the Plan, the Predecessor's employee stock compensation plan (the "Equity Incentive Plan") was cancelled and the Group's Management Compensation Plan became effective. The Management Compensation Plan provides that awards may be granted for up to 1,000,000 shares of New Common Stock, subject to adjustment in the case of certain changes in capitalization of reorganized Group, including, among other things, a reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, or other similar corporate transaction or event that affects the New Common Stock. The maximum aggregate number of shares of New Common Stock that may be granted during any fiscal year to any single individual who is likely to be a "covered employee" within the meaning of section 162(m)(3) of the Internal Revenue Code is 600,000, in the case of stock options or stock appreciation rights, and 400,000, in the case of restricted stock or other stock-based awards (other than stock appreciation rights).

The Compensation Committee (the "Committee") of the Board of Directors of Group administers the Management Compensation Plan. The Committee has broad authority to administer, construe and interpret the Management Compensation Plan; however, it may not take any action with respect to an award that would be treated, for accounting purposes, as a "repricing" of an award unless the action is approved by the shareholders of Group.

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

### ***Grants of Awards under the Management Compensation Plan Emergence Awards***

#### ***Restricted Stock Unit Award Agreements***

On July 2, 2009, 400,000 restricted stock units (RSUs) were granted to certain employees and executive officers pursuant to the terms and conditions set forth in the form of restricted stock unit agreement (the "Emergence RSU Agreement").

Pursuant to the Emergence RSU Agreement, RSUs will vest in two equal tranches if reorganized Group attains at least ninety percent (90%) of the specified Adjusted EBITDA Targets for any fiscal year during the ten-year term of the Emergence RSU Agreement. Under certain circumstances specified in the Emergence RSU Agreement, if a participant's employment is terminated during any fiscal year in which the applicable percentage of the Adjusted EBITDA Target for such fiscal year is met, a pro rata portion of such participant's RSUs will vest based on the number of days such participant was employed during such fiscal year. The aggregate grant date fair value of the RSUs issued during the period was \$1.6 million. For three months ended September 30, 2009, the Company recognized \$0.3 million expense regarding this RSUs grant.

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### *Stock Option Award Agreements*

On July 1, 2009, 387,403 service-based stock options were granted to certain employees and executive officers pursuant to the terms and conditions set forth in the form of stock option agreement (the "Emergence Option Agreement") and 100,000 performance-based stock options were granted to certain employees and executive officers pursuant to the terms and conditions set forth in the form of performance stock option agreement (the "Emergence Performance Option Agreement").

#### *Emergence Option Agreement*

The Emergence Option Agreement provides for the grant of a nonqualified stock option to purchase shares of New Common Stock at an exercise price per share equal to \$12.22. The option vests ratably over two years, with 25% of the option vesting every six months after the date of grant. The stock option expires on the tenth anniversary of the Effective Date (the "Expiration Date"). A copy of the Emergence Option Agreement was filed as an exhibit to the Company's Form 8-K filed with the SEC on July 1, 2009. The aggregate grant date fair value of the emergence stock options granted was \$48 thousand. For three months ended September 30, 2009, the Company recognized \$6 thousand expense regarding this emergence option grant.

#### *Emergence Performance Option Agreement*

The Emergence Performance Option Agreement provides for the grant of a nonqualified stock option to purchase shares of New Common Stock at an exercise price per share equal to \$12.22. The performance option vests in two equal tranches if at least 115% of the specified Adjusted EBITDA Target is attained for any fiscal year during the term of the Emergence Performance Option Agreement. Under certain circumstances specified in the Emergence Performance Option Agreement, if a participant's employment is terminated during any fiscal year in which the applicable percentage of the Adjusted EBITDA Target for such fiscal year is met, a pro rata portion (based on the number of days such participant was employed during such fiscal year) of such participant's performance options will vest and remain exercisable until the earlier of one year following the date on which the Committee determines the applicable percentage of such Adjusted EBITDA Target has been attained (the "Measurement Date") and the tenth anniversary of the Effective Date (the "Expiration Date"). Any unvested portion of the performance option which is not vested and exercisable as of the Measurement Date will thereafter terminate. The performance option expires on the Expiration Date. A copy of the Emergence Performance Option Agreement was filed as an exhibit to the Company's Form 8-K filed with the SEC on July 1, 2009. The aggregate grant date fair value of the emergence performance stock options granted was \$12 thousand. For three months ended September 30, 2009, the Company recognized \$2 thousand expense regarding this emergence performance option grant.

### *Non-Employee Directors' Grants*

Unless otherwise provided by the Committee, immediately following each annual meeting of the shareholders of Group during the term of the Management Compensation Plan commencing with the 2010 annual meeting of shareholders, each non-employee director will be granted a nonqualified stock option to purchase 10,000 shares of New Common Stock with an exercise price per share equal to the fair market value of a share of New Common Stock on the date of grant. Each stock option so granted will vest one third upon grant, one third on the first anniversary and one third on the second anniversary, such that 100% of the option will be vested and exercisable on the second anniversary of the grant date (subject to continued service as a non-employee director through each applicable vesting date). All other terms and conditions of the grants will be established by the Committee and set forth in the non-employee director's award agreement.

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A summary of Successor's stock option activity during the three months ended September 30, 2009 is as follows:

|                                | Successor<br>Three Months Ended<br>September 30, 2009 |                                          |
|--------------------------------|-------------------------------------------------------|------------------------------------------|
|                                | Shares                                                | Weighted<br>Average<br>Exercise<br>Price |
| Outstanding July 1, 2009       |                                                       | \$                                       |
| Granted                        | 487,403                                               | \$ 12.22                                 |
| Exercised                      |                                                       | \$                                       |
| Forfeitures                    |                                                       | \$                                       |
| Outstanding September 30, 2009 | 487,403                                               | \$ 12.22                                 |

Eligible for exercise \$

The weighted average fair value at date of grant for options granted during the three months ended September 30, 2009 was \$0.12 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:

|                                     | Successor<br>Three Months Ended<br>September 30, 2009 |
|-------------------------------------|-------------------------------------------------------|
| Expected dividend yield             | 0%                                                    |
| Expected stock price volatility (1) | 42%                                                   |
| Risk-free interest rate             | 2.0%                                                  |
| Expected option term                | 4 years                                               |

- (1) Expected volatility is based upon the historical volatility of the Company's stock price. Because of the short trading history of the Company's new Common Stock, the Company calculates the expected volatility by averaging the historical volatility of the Company's New Common Stock price from July 13, 2009 to September 30, 2009 at a rate of 36.4% and the historical volatility of the stock price of a peer group in the telecommunications industry with similar market capitalization from October 1, 2004 to September 30, 2009 at a rate of 48.3%.

The following table summarizes information about Successor's stock options outstanding at September 30, 2009:

|                        | Options Outstanding |                                                      |                                          |                    | Options Exercisable |                                                      |                                          |                    |
|------------------------|---------------------|------------------------------------------------------|------------------------------------------|--------------------|---------------------|------------------------------------------------------|------------------------------------------|--------------------|
|                        | Total               | Weighted<br>Average<br>Remaining<br>Life in<br>Years | Weighted<br>Average<br>Exercise<br>Price | Intrinsic<br>Value | Total               | Weighted<br>Average<br>Remaining<br>Life in<br>Years | Weighted<br>Average<br>Exercise<br>Price | Intrinsic<br>Value |
| Range of Option Prices | Outstanding         |                                                      |                                          |                    | Exercisable         |                                                      |                                          |                    |
| \$12.22                | 487,403             | 9.75                                                 | \$ 12.22                                 | \$                 |                     |                                                      | \$                                       | \$                 |
|                        | 487,403             | 9.75                                                 | \$ 12.22                                 | \$                 |                     |                                                      | \$                                       | \$                 |

For Emergence Performance Option and RSU compensation expense calculation, the Company assumes that it will meet the specified Adjusted EBITDA Targets in the next two consecutive fiscal years; therefore, according to the Plan, the two equal tranches of the options and RSUs will

vest in Year 1 and Year 2, consecutively.

As of September 30, 2009, Successor had 0.9 million unvested awards outstanding of which \$1.4 million of compensation expense will be recognized over the weighted average remaining vesting period of 1.47 years. The number of unvested awards expected to vest is 0.4 million shares, with a weighted average remaining life of 9.75 years, a weighted average exercise price of \$12.22, and an intrinsic value of \$0.

**Table of Contents*****Predecessor***

Under the Plan of Reorganization, all stock options granted under the Predecessor's Equity Incentive Plan were cancelled as of the Effective Date and \$64 thousand of share-based compensation expense was recognized due to the accelerated recognition of the cancelled options. The Predecessor Company recorded an incremental \$67 thousand and \$199 thousand stock-based compensation expenses for the three and nine months ended September 30, 2008, respectively.

**9. 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:

| <b>Jurisdiction</b>   | <b>Open Tax Years</b>       |
|-----------------------|-----------------------------|
| United States Federal | 2000, 2002, 2003, 2005 2008 |
| Australia             | 2001 2008                   |
| Canada                | 2003 2008                   |
| United Kingdom        | 2003 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 ASC No. 740, Income Taxes, on January 1, 2007. It is expected that the amount of unrecognized tax benefits, reflected in the Company's financial statements, will change in the next twelve months; however, the Company does not expect the change to have a significant impact on the results of operations or the financial position of the Company. During the three months ended June 30, 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 ASC No. 740. 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.

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 \$329 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 (NOLs) attributes and will reduce the tax basis in other assets including U.S. and foreign stock basis and certain loan receivables. For state tax purposes, the 2009 COD income is expected to substantially reduce or completely eliminate the state NOLs.

As a result of the adoption of fresh start accounting upon emergence from bankruptcy as discussed in Note 4, the Company has increased its deferred tax liabilities by \$57.1 million and increased goodwill by \$57.1 million to reflect the increase in book basis certain assets adjusted for the fresh start, which had no increase in basis for tax purposes. \$31.7 million of the goodwill and deferred tax liabilities relate to the fresh start increase to indefinite lived intangibles other than goodwill. This deferred tax liability will remain indefinitely, subject to reduction only if the related indefinite lived intangibles which gave rise to the deferred tax liabilities are impaired. The reduction of the deferred tax liability due to impairment of the underlying intangibles will provide a tax-benefited offset to any future impairment expense. The remaining \$25.4 million of deferred tax liability will result in a tax benefit as the underlying amortizable intangible asset is amortized to the income statement. The relief of these deferred tax liability will not result in any payment of cash by the company.

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In accordance with ASC No 805, the preliminary allocation of the reorganization value is subject to additional adjustment until the Company has completed its analysis, but not to exceed one year after emergence from bankruptcy, to provide the Company with the time to complete the valuation of the various attributes as a result of the Plan. The final determination of the tax assets and liabilities may differ from the amounts included in the consolidated financial statements and there can be no assurance that such adjustments will not be material.

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 ). 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 Company continues to monitor its ownership shifts and believes that there has not been a further ownership change as of September 30, 2009.

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 analysis to confirm whether or not such requirement 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. Certain future requirements must be met to receive the benefits of Section 382(l)(5). The Company will continue to monitor its tax position and evaluate the requirements to qualify for Section 382(l)(5) and make a final determination related to this tax treatment.

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).

## **10. OPERATING SEGMENT AND RELATED INFORMATION**

The Company has six reportable operating segments based on management's organization of the enterprise into geographic areas: United States, Canada, Europe, Australia, Brazil and the wholesale business from the United States and Europe managed as a separate global segment. During the quarter ended June 30, 2009, management identified its Brazil operating segment as a reportable segment due to management's increased focus on it as a separate market and operations. The Company has appropriately presented its Brazil segment for the current periods and prior periods presented. 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.

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

|                                                   | Successor<br>Three<br>Months<br>Ended<br>September 30,<br>2009 | Predecessor<br>Three<br>Months<br>Ended<br>September 30,<br>2008 |
|---------------------------------------------------|----------------------------------------------------------------|------------------------------------------------------------------|
| <b>Net Revenue by Geographic Region</b>           |                                                                |                                                                  |
| United States                                     | \$ 36,960                                                      | \$ 43,247                                                        |
| Canada                                            | 57,367                                                         | 66,811                                                           |
| Europe                                            |                                                                |                                                                  |
| <i>United Kingdom</i>                             | 22,807                                                         | 22,383                                                           |
| <i>Germany</i>                                    |                                                                | 5,619                                                            |
| <i>France</i>                                     | 9,533                                                          | 6,604                                                            |
| <i>Spain</i>                                      | 3,102                                                          | 2,879                                                            |
| <i>Italy</i>                                      | 7,807                                                          | 7,286                                                            |
| <i>Belgium</i>                                    | 1,790                                                          | 1,928                                                            |
| <i>Other</i>                                      | 811                                                            | 1,023                                                            |
| Total Europe                                      | 45,850                                                         | 47,722                                                           |
| <i>Australia</i>                                  | 63,665                                                         | 70,715                                                           |
| Brazil                                            | 4,105                                                          | 2,761                                                            |
| Total                                             | \$ 207,947                                                     | \$ 231,256                                                       |
| <b>Net Revenue by Segment</b>                     |                                                                |                                                                  |
| United States                                     | \$ 15,863                                                      | \$ 21,038                                                        |
| Canada                                            | 57,367                                                         | 66,811                                                           |
| Europe                                            | 13,376                                                         | 15,916                                                           |
| Australia                                         | 63,665                                                         | 70,715                                                           |
| Wholesale                                         | 53,571                                                         | 54,015                                                           |
| Brazil                                            | 4,105                                                          | 2,761                                                            |
| Total                                             | \$ 207,947                                                     | \$ 231,256                                                       |
| <b>Provision for Doubtful Accounts Receivable</b> |                                                                |                                                                  |
| United States                                     | \$ 580                                                         | \$ 901                                                           |
| Canada                                            | 548                                                            | 1,015                                                            |
| Europe                                            | 221                                                            | 128                                                              |
| Australia                                         | 998                                                            | 875                                                              |
| Wholesale                                         | 165                                                            | 271                                                              |
| Brazil                                            | 81                                                             | 59                                                               |
| Total                                             | \$ 2,593                                                       | \$ 3,249                                                         |
| <b>Income from Operations</b>                     |                                                                |                                                                  |
| United States                                     | \$ 721                                                         | \$ 61                                                            |
| Canada                                            | 1,256                                                          | 10,158                                                           |
| Europe                                            | (1,425)                                                        | (1,500)                                                          |
| Australia                                         | 1,612                                                          | 1,119                                                            |
| Wholesale                                         | 554                                                            | (441)                                                            |
| Brazil                                            | 177                                                            | (617)                                                            |
| Total From Operating Segments                     | 2,895                                                          | 8,780                                                            |
| Corporate                                         | (2,275)                                                        | (1,644)                                                          |

|                             |    |       |    |       |
|-----------------------------|----|-------|----|-------|
| Total                       | \$ | 620   | \$ | 7,136 |
| <b>Capital Expenditures</b> |    |       |    |       |
| United States               | \$ | 196   | \$ | 640   |
| Canada                      |    | 2,328 |    | 2,315 |
| Europe                      |    | 79    |    | 88    |
| Australia                   |    | 1,193 |    | 3,023 |
| Brazil                      |    | 90    |    | 91    |
| Total                       | \$ | 3,886 | \$ | 6,157 |

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|                                                   | Successor<br>Three<br>Months<br>Ended<br>September 30,<br>2009 | Predecessor<br>Six Months<br>Ended<br>July 1,<br>2009 | Nine Months<br>Ended<br>September 30,<br>2008 |
|---------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------|
| <b>Net Revenue by Geographic Region</b>           |                                                                |                                                       |                                               |
| United States                                     | \$ 36,960                                                      | \$ 78,060                                             | \$ 128,411                                    |
| Canada                                            | 57,367                                                         | 108,306                                               | 204,248                                       |
| Europe                                            |                                                                |                                                       |                                               |
| <i>United Kingdom</i>                             | 22,807                                                         | 49,232                                                | 61,964                                        |
| <i>Germany</i>                                    |                                                                | 5                                                     | 15,367                                        |
| <i>France</i>                                     | 9,533                                                          | 15,095                                                | 18,926                                        |
| <i>Spain</i>                                      | 3,102                                                          | 4,369                                                 | 9,203                                         |
| <i>Italy</i>                                      | 7,807                                                          | 14,392                                                | 16,299                                        |
| <i>Belgium</i>                                    | 1,790                                                          | 3,376                                                 | 6,211                                         |
| <i>Other</i>                                      | 811                                                            | 1,633                                                 | 3,402                                         |
| Total Europe                                      | 45,850                                                         | 88,102                                                | 131,372                                       |
| Australia                                         | 63,665                                                         | 110,502                                               | 220,957                                       |
| Brazil                                            | 4,105                                                          | 6,246                                                 | 7,599                                         |
| Total                                             | \$ 207,947                                                     | \$ 391,216                                            | \$ 692,587                                    |
| <b>Net Revenue by Segment</b>                     |                                                                |                                                       |                                               |
| United States                                     | \$ 15,863                                                      | \$ 35,013                                             | \$ 66,616                                     |
| Canada                                            | 57,367                                                         | 108,306                                               | 204,248                                       |
| Europe                                            | 13,376                                                         | 26,667                                                | 48,605                                        |
| Australia                                         | 63,665                                                         | 110,502                                               | 220,783                                       |
| Wholesale                                         | 53,571                                                         | 104,482                                               | 144,736                                       |
| Brazil                                            | 4,105                                                          | 6,246                                                 | 7,599                                         |
| Total                                             | \$ 207,947                                                     | \$ 391,216                                            | \$ 692,587                                    |
| <b>Provision for Doubtful Accounts Receivable</b> |                                                                |                                                       |                                               |
| United States                                     | \$ 580                                                         | \$ 1,456                                              | \$ 2,069                                      |
| Canada                                            | 548                                                            | 1,106                                                 | 1,892                                         |
| Europe                                            | 221                                                            | 210                                                   | 527                                           |
| Australia                                         | 998                                                            | 1,738                                                 | 3,103                                         |
| Wholesale                                         | 165                                                            | 516                                                   | 828                                           |
| Brazil                                            | 81                                                             | 114                                                   | 526                                           |
| Total                                             | \$ 2,593                                                       | \$ 5,140                                              | \$ 8,945                                      |
| <b>Income (Loss) from Operations</b>              |                                                                |                                                       |                                               |
| United States                                     | \$ 721                                                         | \$ 4,304                                              | \$ 2,670                                      |
| Canada                                            | 1,256                                                          | 18,738                                                | 33,523                                        |
| Europe                                            | (1,425)                                                        | (309)                                                 | (4,971)                                       |
| Australia                                         | 1,612                                                          | 10,123                                                | 8,930                                         |
| Wholesale                                         | 554                                                            | 1,372                                                 | (1,738)                                       |
| Brazil                                            | 177                                                            | 231                                                   | (582)                                         |
| Total From Operating Segments                     | 2,895                                                          | 34,459                                                | 37,832                                        |
| Corporate                                         | (2,275)                                                        | (6,670)                                               | (5,756)                                       |
| Total                                             | \$ 620                                                         | \$ 27,789                                             | \$ 32,076                                     |

**Capital Expenditures**

|               |    |       |    |       |    |        |
|---------------|----|-------|----|-------|----|--------|
| United States | \$ | 196   | \$ | 73    | \$ | 1,206  |
| Canada        |    | 2,328 |    | 3,127 |    | 7,638  |
| Europe        |    | 79    |    | 174   |    | 769    |
| Australia     |    | 1,193 |    | 1,997 |    | 10,928 |
| Brazil        |    | 90    |    | 289   |    | 215    |
| Total         | \$ | 3,886 | \$ | 5,660 | \$ | 20,756 |

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

|                                   | Successor<br>September 30,<br>2009 | Predecessor<br>December 31,<br>2008 |
|-----------------------------------|------------------------------------|-------------------------------------|
| <b>Property and Equipment Net</b> |                                    |                                     |
| United States                     | \$ 13,602                          | \$ 15,590                           |
| Canada                            | 57,108                             | 44,234                              |
| Europe                            |                                    |                                     |
| <i>United Kingdom</i>             | 4,472                              | 5,965                               |
| <i>Other</i>                      | 1,635                              | 577                                 |
| Total Europe                      | 6,107                              | 6,542                               |
| Australia                         | 73,856                             | 45,282                              |
| Brazil                            | 1,355                              | 504                                 |
| Total                             | \$ 152,028                         | \$ 112,152                          |

|                       | Successor<br>September 30,<br>2009 | Predecessor<br>December 31,<br>2008 |
|-----------------------|------------------------------------|-------------------------------------|
| <b>Assets</b>         |                                    |                                     |
| United States         | \$ 138,151                         | \$ 28,230                           |
| Canada                | 209,323                            | 121,105                             |
| Europe                |                                    |                                     |
| <i>United Kingdom</i> | 30,334                             | 23,597                              |
| <i>Germany</i>        | 541                                | 2,710                               |
| <i>France</i>         | 8,625                              | 6,326                               |
| <i>Spain</i>          | 3,916                              | 2,170                               |
| <i>Italy</i>          | 9,985                              | 9,301                               |
| <i>Belgium</i>        | 2,955                              | 2,571                               |
| <i>Other</i>          | 32,113                             | 28,521                              |
| Total Europe          | 88,469                             | 75,196                              |
| Australia             | 139,004                            | 101,650                             |
| Brazil                | 8,121                              | 4,263                               |
| Total                 | \$ 583,068                         | \$ 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):

|              | Successor<br>Three Months<br>Ended<br>September 30,<br>2009 | Predecessor<br>Three Months<br>Ended<br>September 30,<br>2008 |
|--------------|-------------------------------------------------------------|---------------------------------------------------------------|
| Retail voice | \$ 99,806                                                   | \$ 117,874                                                    |

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|               |            |            |
|---------------|------------|------------|
| Wholesale     | 53,571     | 54,015     |
| Data/Internet | 41,312     | 46,211     |
| Retail VOIP   | 13,258     | 13,156     |
| Total         | \$ 207,947 | \$ 231,256 |

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|               | Successor<br>Three Months<br>Ended<br>September 30,<br>2009 | Predecessor<br>Six Months<br>Ended<br>July 1,<br>2009 | Predecessor<br>Nine Months<br>Ended<br>September 30,<br>2008 |
|---------------|-------------------------------------------------------------|-------------------------------------------------------|--------------------------------------------------------------|
| Retail voice  | \$ 99,806                                                   | \$ 193,669                                            | \$ 365,342                                                   |
| Wholesale     | 53,571                                                      | 104,482                                               | 144,736                                                      |
| Data/Internet | 41,312                                                      | 72,979                                                | 142,416                                                      |
| Retail VOIP   | 13,258                                                      | 20,086                                                | 40,093                                                       |
| Total         | \$ 207,947                                                  | \$ 391,216                                            | \$ 692,587                                                   |

**11. 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 to cease operations of the German retail business during the first quarter of 2009.

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

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

|                                          | Successor<br>Three Months<br>Ended<br>September 30, 2009 | Predecessor<br>Three Months<br>Ended<br>September 30, 2008 |
|------------------------------------------|----------------------------------------------------------|------------------------------------------------------------|
| Net revenue                              | \$                                                       | \$ 907                                                     |
| Operating expenses                       |                                                          | 1,369                                                      |
| Loss from operations                     |                                                          | (462)                                                      |
| Interest income and other income         |                                                          | 27                                                         |
| Foreign currency transaction gain (loss) |                                                          | (1)                                                        |
| Loss from discontinued operations        | \$                                                       | \$ (436)                                                   |

|                    | Successor<br>Three Months<br>Ended<br>September 30, 2009 | Predecessor<br>Six Months<br>Ended<br>July 1, 2009 | Predecessor<br>Nine Months<br>Ended<br>September 30, 2008 |
|--------------------|----------------------------------------------------------|----------------------------------------------------|-----------------------------------------------------------|
| Net revenue        | \$                                                       | \$ 300                                             | \$ 3,113                                                  |
| Operating expenses |                                                          | 995                                                | 3,677                                                     |

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|                                   |    |          |    |       |
|-----------------------------------|----|----------|----|-------|
| Loss from operations              |    | (695)    |    | (564) |
| Interest income and other income  |    | 19       |    | 62    |
| Loss from discontinued operations | \$ | \$ (676) | \$ | (502) |

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

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

#### ***Successor***

Potentially dilutive common shares for Successor include the dilutive effects of common shares issuable under the Successor's Management Compensation Plan, including stock options, stock warrants and restricted stock units, using the treasury stock method.

For Successor's three months ended September 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:

0.9 million shares issuable upon exercise of stock options and RSUs under the Successor's Management Compensation Plan;

4.5 million shares issuable upon exercise of stock warrants; and

2.7 million shares issuable upon exercise of CVRs.

#### ***Predecessor***

Potentially dilutive common shares for Predecessor primarily included the dilutive effects of common shares issuable under Predecessor's Equity Incentive Plan 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<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes and the 2000 Convertible Subordinated Debentures.

For the six months ended July 1, 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 Predecessor's Equity Incentive Plan.

For the three months ended September 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,

19.5 million shares issuable upon conversion of the 5% Exchangeable Senior Notes,

7.3 million shares issuable upon conversion of the Step Up Convertible Subordinated Debentures, and

3.7 million shares issuable upon conversion of the 3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes.

For the nine months ended September 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,

10.4 million shares issuable upon conversion of the Step Up Convertible Subordinated Debentures, and

6.0 million shares issuable upon conversion of the 3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes.

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

|                                                                                             | Six<br>Months<br>Ended<br>July 1, 2009 | Predecessor<br>Three Months<br>Ended<br>September 30, 2008 | Nine Months<br>Ended<br>September 30, 2008 |
|---------------------------------------------------------------------------------------------|----------------------------------------|------------------------------------------------------------|--------------------------------------------|
| Income from continuing operations                                                           | \$ 471,579                             | \$ (32,784)                                                | \$ 10,807                                  |
| Loss from discontinuing operations, net of tax                                              | (676)                                  | (436)                                                      | (502)                                      |
| Gain from sale of discontinued operations, net of tax                                       | 251                                    |                                                            |                                            |
| Net income attributable to common stockholders basic                                        | 471,154                                | (32,220)                                                   | 10,305                                     |
| Adjustment for interest expense on Step Up Convertible Subordinated Debentures              | 210                                    |                                                            |                                            |
| Adjustment for interest expense on 3 <sup>3</sup> / <sub>4</sub> % Convertible Senior Notes | 332                                    |                                                            |                                            |
| Income attributable to common stockholders diluted                                          | \$ 471,696                             | \$ (32,220)                                                | \$ 10,305                                  |
| Weighted average common shares outstanding basic                                            | 142,695                                | 142,633                                                    | 142,633                                    |
| 5% Exchangeable Senior Notes                                                                | 19,474                                 |                                                            | 33,505                                     |
| Step Up Convertible Subordinated Debentures                                                 | 7,280                                  |                                                            |                                            |
| 3 <sup>3</sup> / <sub>4</sub> % Convertible Senior Notes                                    | 3,668                                  |                                                            |                                            |
| Weighted average common shares outstanding diluted                                          | 173,117                                | 142,633                                                    | 176,138                                    |
| Basic income per common share:                                                              |                                        |                                                            |                                            |
| Income from continuing operations attributable to common stockholders                       | \$ 3.30                                | \$ (0.23)                                                  | \$ 0.07                                    |
| Loss from discontinued operations                                                           | (0.00)                                 | (0.00)                                                     | (0.00)                                     |
| Gain from sale of discontinued operations                                                   | 0.00                                   |                                                            |                                            |
| Net income attributable to common stockholders                                              | \$ 3.30                                | \$ (0.23)                                                  | \$ (0.07)                                  |
| Diluted income per common share:                                                            |                                        |                                                            |                                            |
| Income from continuing operations attributable to common stockholders                       | \$ 2.72                                | \$ (0.23)                                                  | \$ 0.06                                    |
| Loss from discontinued operations                                                           | (0.00)                                 | (0.00)                                                     | (0.00)                                     |
| Gain from sale of discontinued operations                                                   | 0.00                                   |                                                            |                                            |
| Net income attributable to common stockholders                                              | \$ 2.72                                | \$ (0.23)                                                  | \$ 0.06                                    |

**13. 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):

| Successor<br>Three Months<br>Ended | Predecessor<br>Six Months<br>Ended |
|------------------------------------|------------------------------------|
|------------------------------------|------------------------------------|

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|                                                                        | September 30, 2009 | July 1, 2009 |
|------------------------------------------------------------------------|--------------------|--------------|
| Professional Fees                                                      | \$ (307)           | \$ (12,067)  |
| Gain on Extinguishment of debt                                         |                    | 243,185      |
| Revaluation of assets and liabilities                                  |                    | 188,612      |
| 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                                              | \$ (307)           | \$ 440,094   |

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Professional fees include financial, legal and other services directly associated with the reorganization process. Payment for reorganization expense for the three months ended September 30, 2009 were \$6.1 million. Payments for reorganization expense for the six months ended July 1, 2009 were \$4.6 million. In accordance with ASC No. 852, the Company ceased amortization of debt premiums, discounts and deferred financing costs related to the liabilities subject to compromise on the Petition Date. The \$3.5 million of unamortized debt premiums and discounts have 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. Upon emergence from bankruptcy, Predecessor debt in the amount of \$439.6 million was written off along with the accrued interest related to this debt in the amount of \$11.5 million. In addition, the Successor Company issued \$123.5 million of new debt upon emergence.

### **14. GUARANTOR/NON-GUARANTOR CONDENSED CONSOLIDATED FINANCIAL INFORMATION** **Consolidating Financial Statements for IHC Debt Issuance**

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

On the Effective Date, IHC, each of the Grantors party and U.S. Bank National Association, as collateral agent, entered into a First Amendment to the Collateral Agreement (the Amended Collateral Agreement ), to provide that the obligations of both IHC and PTII, an indirect wholly owned subsidiary of Group, was 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 Senior Subordinated Secured Notes are secured by a lien on the property of Group and Holding, respectively.

Accordingly, the following consolidating condensed financial information for the three months ended September 30, 2009 for Successor and for the six months ended July 1, 2009, and three months and nine months ended September 30, 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. The plan and fresh-start accounting adjustments reflected in Predecessor s Consolidated Condensed Statements of Operations on July 1, 2009 are not presented separately in this presentation.

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

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**  
**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**

(in thousands)

Successor  
For the Three Months Ended September 30, 2009

|                                                                                                  | PTGI     | IHC       | Guarantor<br>Subsidiaries | Non Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--------------------------------------------------------------------------------------------------|----------|-----------|---------------------------|-------------------------------|--------------|--------------|
| NET REVENUE                                                                                      | \$       | \$        | \$ 31,287                 | \$ 176,660                    | \$           | \$ 207,947   |
| OPERATING EXPENSES                                                                               |          |           |                           |                               |              |              |
| Cost of revenue (exclusive of depreciation included below)                                       |          |           | 25,260                    | 110,816                       |              | 136,076      |
| Selling, general and administrative                                                              | 612      | 1         | 6,428                     | 44,098                        |              | 51,139       |
| Depreciation and amortization                                                                    |          |           | 1,541                     | 18,488                        |              | 20,029       |
| Loss on sale or disposal of assets                                                               |          |           | 11                        | 72                            |              | 83           |
| Total operating expenses                                                                         | 612      | 1         | 33,240                    | 173,474                       |              | 207,327      |
| INCOME (LOSS) FROM OPERATIONS                                                                    | (612)    | (1)       | (1,953)                   | 3,186                         |              | 620          |
| INTEREST EXPENSE                                                                                 |          | (4,399)   | (3,121)                   | (1,243)                       |              | (8,763)      |
| INTEREST INCOME AND OTHER INCOME (EXPENSE)                                                       | (4,230)  |           |                           | 164                           |              | (4,066)      |
| FOREIGN CURRENCY TRANSACTION GAIN (LOSS)                                                         | (2)      | 6,282     | 2                         | 6,634                         |              | 12,916       |
| INTERCOMPANY INTEREST                                                                            | (2,114)  | 7,507     | (4,446)                   | (947)                         |              |              |
| MANAGEMENT FEE                                                                                   |          |           | 984                       | (984)                         |              |              |
| ROYALTY FEE                                                                                      |          | 3,134     |                           | (3,134)                       |              |              |
| INCOME (LOSS) BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES | (6,958)  | 12,523    | (8,534)                   | 3,676                         |              | 707          |
| REORGANIZATION ITEMS NET                                                                         | (413)    |           | 106                       |                               |              | (307)        |
| INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES                         | (7,371)  | 12,523    | (8,428)                   | 3,676                         |              | 400          |
| INCOME TAX EXPENSE                                                                               |          | 441       | 236                       | 1,408                         |              | 2,085        |
| INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES                                        | (7,371)  | 12,964    | (8,192)                   | 5,084                         |              | 2,485        |
| EQUITY IN NET INCOME OF SUBSIDIARIES                                                             | 9,536    |           | 17,663                    |                               | (27,199)     |              |
| INCOME FROM CONTINUING OPERATIONS                                                                | 2,165    | 12,964    | 9,471                     | 5,084                         | (27,199)     | 2,485        |
| GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax                                            |          |           |                           |                               | (110)        | (110)        |
| NET INCOME                                                                                       | 2,165    | 12,964    | 9,471                     | 4,974                         | (27,199)     | 2,375        |
| Less: Net loss attributable to the noncontrolling interest                                       |          |           |                           |                               | (210)        | (210)        |
| NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED                         | \$ 2,165 | \$ 12,964 | \$ 9,471                  | \$ 4,764                      | \$ (27,199)  | \$ 2,165     |

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## AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

|                                                      |          |           |          |          |             |          |
|------------------------------------------------------|----------|-----------|----------|----------|-------------|----------|
| Income (loss) from continuing operations, net of tax | \$ 2,165 | \$ 12,964 | \$ 9,471 | \$ 4,874 | \$ (27,199) | \$ 2,275 |
| Loss from sale of discontinued operations            |          |           |          | (110)    |             | (110)    |
| Net income (loss)                                    | \$ 2,165 | \$ 12,964 | \$ 9,471 | \$ 4,764 | \$ (27,199) | \$ 2,165 |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**

(in thousands)

|                                                                                                        | Predecessor<br>For the Six Months Ended July 1, 2009 |            |                           |                               |              |              |
|--------------------------------------------------------------------------------------------------------|------------------------------------------------------|------------|---------------------------|-------------------------------|--------------|--------------|
|                                                                                                        | PTGI                                                 | IHC        | Guarantor<br>Subsidiaries | Non Guarantor<br>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,<br>INCOME TAXES AND EQUITY IN NET INCOME OF<br>SUBSIDIARIES | (7,098)                                              | 25,139     | (13,600)                  | 30,919                        |              | 35,360       |
| REORGANIZATION ITEMS NET                                                                               | (34,650)                                             | 79,592     | 286,279                   | 108,873                       |              | 440,094      |
| INCOME (LOSS) BEFORE INCOME TAX AND EQUITY<br>IN NET INCOME OF SUBSIDIARIES                            | (41,748)                                             | 104,731    | 272,679                   | 139,792                       |              | 475,454      |
| INCOME TAX EXPENSE                                                                                     |                                                      | (380)      | (53)                      | (3,474)                       |              | (3,907)      |
| INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF<br>SUBSIDIARIES                                           | (41,748)                                             | 104,351    | 272,626                   | 136,318                       |              | 471,547      |
| EQUITY IN NET INCOME OF SUBSIDIARIES                                                                   | 512,902                                              |            | 321,743                   |                               | (834,645)    |              |
| INCOME FROM CONTINUING OPERATIONS                                                                      | 471,154                                              | 104,351    | 594,369                   | 136,318                       | (834,645)    | 471,547      |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax                                                          |                                                      |            |                           | (676)                         |              | (676)        |
| GAIN FROM SALE OF DISCONTINUED OPERATIONS,<br>net of tax                                               |                                                      |            |                           | 251                           |              | 251          |
| NET INCOME                                                                                             | 471,154                                              | 104,351    | 594,369                   | 135,893                       | (834,645)    | 471,122      |
| Less: Net loss attributable to the noncontrolling interest                                             |                                                      |            |                           | 32                            |              | 32           |
| NET INCOME ATTRIBUTABLE TO PRIMUS<br>TELECOMMUNICATIONS GROUP, INCORPORATED                            | \$ 471,154                                           | \$ 104,351 | \$ 594,369                | \$ 135,925                    | \$ (834,645) | \$ 471,154   |
| AMOUNTS ATTRIBUTABLE TO COMMON<br>SHAREHOLDERS OF PRIMUS<br>TELECOMMUNICATIONS GROUP, INCORPORATED     |                                                      |            |                           |                               |              |              |
| Income from continuing operations, net of tax                                                          | \$ 471,154                                           | \$ 104,351 | \$ 594,369                | \$ 136,350                    | \$ (834,645) | \$ 471,579   |
| Loss from discontinued operations                                                                      |                                                      |            |                           | (676)                         |              | (676)        |
| Gain from sale of discontinued operations                                                              |                                                      |            |                           | 251                           |              | 251          |

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|            |            |            |            |            |              |            |
|------------|------------|------------|------------|------------|--------------|------------|
| Net income | \$ 471,154 | \$ 104,351 | \$ 594,369 | \$ 135,925 | \$ (834,645) | \$ 471,154 |
|------------|------------|------------|------------|------------|--------------|------------|

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**  
**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**

(in thousands)

|                                                                        | Predecessor<br>For Three Months Ended September 30, 2008 |          |                           |                               |              |              |
|------------------------------------------------------------------------|----------------------------------------------------------|----------|---------------------------|-------------------------------|--------------|--------------|
|                                                                        | PTGI                                                     | IHC      | Guarantor<br>Subsidiaries | Non Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| NET REVENUE                                                            | \$                                                       | \$       | \$ 36,321                 | \$ 194,935                    | \$           | \$ 231,256   |
| OPERATING EXPENSES                                                     |                                                          |          |                           |                               |              |              |
| Cost of revenue (exclusive of depreciation included below)             |                                                          |          | 29,125                    | 120,709                       |              | 149,834      |
| Selling, general and administrative                                    | 1,181                                                    | 28       | 7,599                     | 60,703                        |              | 69,511       |
| Depreciation and amortization                                          |                                                          |          | 809                       | 8,542                         |              | 9,351        |
| Gain from sale or disposal of assets                                   |                                                          |          |                           | (4,576)                       |              | (4,576)      |
| Total operating expenses                                               | 1,181                                                    | 28       | 37,533                    | 185,378                       |              | 224,120      |
| INCOME (LOSS) FROM OPERATIONS                                          | (1,181)                                                  | (28)     | (1,212)                   | 9,557                         |              | 7,136        |
| INTEREST EXPENSE                                                       | (996)                                                    | (4,050)  | (6,446)                   | (1,318)                       |              | (12,810)     |
| ACCRETION ON DEBT PREMIUM (DISCOUNT)                                   | (96)                                                     | 365      |                           |                               |              | 269          |
| INCOME (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT         | 162                                                      | (41)     |                           |                               |              | 121          |
| INTEREST INCOME AND OTHER INCOME                                       | 3                                                        |          |                           | (1,035)                       |              | (1,032)      |
| FOREIGN CURRENCY TRANSACTION GAIN (LOSS)                               | (4,199)                                                  | (7,712)  | 290                       | (11,424)                      |              | (23,045)     |
| INTERCOMPANY INTEREST                                                  | (2,114)                                                  | 7,408    | (4,446)                   | (848)                         |              |              |
| MANAGEMENT FEE                                                         |                                                          |          | 1,567                     | (1,567)                       |              |              |
| ROYALTY FEE                                                            |                                                          | 3,509    |                           | (3,509)                       |              |              |
| LOSS BEFORE INCOME TAXES AND EQUITY IN NET LOSS OF SUBSIDIARIES        | (8,421)                                                  | (549)    | (10,247)                  | (10,144)                      |              | (29,361)     |
| INCOME TAX BENEFIT (EXPENSE)                                           |                                                          | (344)    | 165                       | (1,310)                       |              | (1,489)      |
| LOSS BEFORE EQUITY IN NET LOSS OF SUBSIDIARIES                         | (8,421)                                                  | (893)    | (10,082)                  | (11,454)                      |              | (30,850)     |
| EQUITY IN NET LOSS OF SUBSIDIARIES                                     | (24,799)                                                 |          | (15,357)                  |                               | 40,156       |              |
| LOSS FROM CONTINUING OPERATIONS                                        | (33,220)                                                 | (893)    | (25,439)                  | (11,454)                      | 40,156       | (30,850)     |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax                          |                                                          |          |                           | (436)                         |              | (436)        |
| GAIN ON SALE OF DISCONTINUED OPERATIONS, net of tax                    |                                                          |          |                           |                               |              |              |
| NET LOSS                                                               | (33,220)                                                 | (893)    | (25,439)                  | (11,890)                      | 40,156       | (31,286)     |
| Less: Net income attributable to the noncontrolling interest           |                                                          |          |                           | (1,934)                       |              | (1,934)      |
| NET LOSS ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED | \$ (33,220)                                              | \$ (893) | \$ (25,439)               | \$ (13,824)                   | \$ 40,156    | \$ (33,220)  |

AMOUNTS ATTRIBUTABLE TO COMMON  
SHAREHOLDERS OF PRIMUS  
TELECOMMUNICATIONS GROUP,  
INCORPORATED

|                                             |             |          |             |             |           |             |
|---------------------------------------------|-------------|----------|-------------|-------------|-----------|-------------|
| Loss from continuing operations, net of tax | \$ (33,220) | \$ (893) | \$ (25,439) | \$ (13,388) | \$ 40,156 | \$ (32,784) |
| Loss from discontinued operations           |             |          |             | (436)       |           | (436)       |
| Net income                                  | \$ (33,220) | \$ (893) | \$ (25,439) | \$ (13,824) | \$ 40,156 | \$ (33,220) |

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**  
**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**

(in thousands)

|                                                                            | Predecessor<br>For Nine Months Ended September 30, 2008 |          |                           |                               |              | Consolidated |
|----------------------------------------------------------------------------|---------------------------------------------------------|----------|---------------------------|-------------------------------|--------------|--------------|
|                                                                            | PTGI                                                    | IHC      | Guarantor<br>Subsidiaries | Non Guarantor<br>Subsidiaries | Eliminations |              |
| NET REVENUE                                                                | \$                                                      | \$       | \$ 106,018                | \$ 586,569                    | \$           | \$ 692,587   |
| OPERATING EXPENSES                                                         |                                                         |          |                           |                               |              |              |
| Cost of revenue (exclusive of depreciation included below)                 |                                                         |          | 84,715                    | 349,098                       |              | 433,813      |
| Selling, general and administrative                                        | 3,755                                                   | 146      | 25,675                    | 178,762                       |              | 208,338      |
| Depreciation and amortization                                              |                                                         |          | 2,490                     | 22,911                        |              | 25,401       |
| Loss on sale or disposal of assets                                         |                                                         |          | (805)                     | (6,236)                       |              | (7,041)      |
| Total operating expenses                                                   | 3,755                                                   | 146      | 112,075                   | 544,535                       |              | 660,511      |
| INCOME (LOSS) FROM OPERATIONS                                              | (3,755)                                                 | (146)    | (6,057)                   | 42,034                        |              | 32,076       |
| INTEREST EXPENSE                                                           | (4,304)                                                 | (11,854) | (21,418)                  | (3,981)                       |              | (41,557)     |
| ACCRETION ON DEBT PREMIUM (DISCOUNT)                                       | (608)                                                   | 1,064    |                           |                               |              | 456          |
| INCOME (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT             | 12,232                                                  | (516)    | 22,784                    | 108                           |              | 34,608       |
| INTEREST INCOME AND OTHER INCOME (EXPENSE)                                 | 18                                                      |          | (5)                       | 2,144                         |              | 2,157        |
| FOREIGN CURRENCY TRANSACTION GAIN (LOSS)                                   | (1,504)                                                 | (4,224)  | 804                       | (8,280)                       |              | (13,204)     |
| INTERCOMPANY INTEREST                                                      | (7,276)                                                 | 13,267   | (7,629)                   | 1,638                         |              |              |
| MANAGEMENT FEE                                                             |                                                         |          | 4,818                     | (4,818)                       |              |              |
| ROYALTY FEE                                                                |                                                         | 10,815   |                           | (10,815)                      |              |              |
| INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES | (5,197)                                                 | 8,406    | (6,703)                   | 18,030                        |              | 14,536       |
| INCOME TAX BENEFIT (EXPENSE)                                               | 210                                                     | 126      | 790                       | (2,653)                       |              | (1,527)      |
| INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES                  | (4,987)                                                 | 8,532    | (5,913)                   | 15,377                        |              | 13,009       |
| EQUITY IN NET INCOME OF SUBSIDIARIES                                       | 15,292                                                  |          | 18,993                    |                               | (34,285)     |              |
| INCOME FROM CONTINUING OPERATIONS                                          | 10,305                                                  | 8,532    | 13,080                    | 15,377                        | (34,285)     | 13,009       |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax                              |                                                         |          |                           | (502)                         |              | (502)        |
| NET INCOME                                                                 | 10,305                                                  | 8,532    | 13,080                    | 14,875                        | (34,285)     | 12,507       |
| Less: Net income attributable to the noncontrolling interest               |                                                         |          |                           | (2,202)                       |              | (2,202)      |
| NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED   | \$ 10,305                                               | \$ 8,532 | \$ 13,080                 | \$ 12,673                     | \$ (34,285)  | \$ 10,305    |

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## AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

|                                               |           |          |           |           |             |           |
|-----------------------------------------------|-----------|----------|-----------|-----------|-------------|-----------|
| Income from continuing operations, net of tax | \$ 10,305 | \$ 8,532 | \$ 13,080 | \$ 13,175 | \$ (34,285) | \$ 10,807 |
| Loss from discontinued operations             |           |          |           | (502)     |             | (502)     |
| Net income                                    | \$ 10,305 | \$ 8,532 | \$ 13,080 | \$ 12,673 | \$ (34,285) | \$ 10,305 |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****CONSOLIDATING CONDENSED BALANCE SHEET**

(in thousands)

|                                                      |                   |                   | Successor<br>September 30, 2009 |                               |                       |                   |
|------------------------------------------------------|-------------------|-------------------|---------------------------------|-------------------------------|-----------------------|-------------------|
|                                                      | PTGI              | IHC               | Guarantor<br>Subsidiaries       | Non Guarantor<br>Subsidiaries | Eliminations          | Consolidated      |
| <b>ASSETS</b>                                        |                   |                   |                                 |                               |                       |                   |
| <b>CURRENT ASSETS:</b>                               |                   |                   |                                 |                               |                       |                   |
| Cash and cash equivalents                            | \$ 1,643          | \$                | \$ 1,475                        | \$ 38,732                     | \$                    | \$ 41,850         |
| Restricted cash                                      |                   |                   |                                 |                               |                       |                   |
| Accounts receivable                                  |                   |                   | 11,646                          | 80,934                        |                       | 92,580            |
| Prepaid expenses and other current assets            | 370               |                   | 5,932                           | 9,363                         |                       | 15,665            |
| Total current assets                                 | 2,013             |                   | 19,053                          | 129,029                       |                       | 150,095           |
| INTERCOMPANY RECEIVABLES                             |                   | 229,482           | 561,636                         | 48,238                        | (839,356)             |                   |
| INVESTMENTS IN SUBSIDIARIES                          | 471,469           |                   | 67,652                          |                               | (539,121)             |                   |
| RESTRICTED CASH                                      |                   |                   | 253                             | 9,924                         |                       | 10,177            |
| PROPERTY AND EQUIPMENT Net                           |                   |                   | 12,763                          | 139,265                       |                       | 152,028           |
| GOODWILL                                             |                   | 31,742            | 531                             | 28,813                        |                       | 61,086            |
| OTHER INTANGIBLE ASSETS Net                          |                   |                   | 83,166                          | 104,386                       |                       | 187,552           |
| OTHER ASSETS                                         |                   |                   | 940                             | 21,190                        |                       | 22,130            |
| <b>TOTAL ASSETS</b>                                  | <b>\$ 473,482</b> | <b>\$ 261,224</b> | <b>\$ 745,994</b>               | <b>\$ 480,845</b>             | <b>\$ (1,378,476)</b> | <b>\$ 583,068</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b> |                   |                   |                                 |                               |                       |                   |
| <b>CURRENT LIABILITIES:</b>                          |                   |                   |                                 |                               |                       |                   |
| Accounts payable                                     | \$ 37             | \$                | \$ 2,240                        | \$ 40,810                     | \$                    | \$ 43,087         |
| Accrued interconnection costs                        |                   |                   | 16,524                          | 26,944                        |                       | 43,468            |
| Deferred revenue                                     |                   |                   | 1,106                           | 12,580                        |                       | 13,686            |
| Accrued expenses and other current liabilities       | 3,673             |                   | 5,400                           | 40,164                        |                       | 49,237            |
| Accrued income taxes                                 | 79                | 3,403             | 333                             | 13,786                        |                       | 17,601            |
| Accrued interest                                     |                   | 4,398             | 30                              | 1                             |                       | 4,429             |
| Current portion of long-term obligations             |                   |                   | 5,212                           | 10,230                        |                       | 15,442            |
| Total current liabilities                            | 3,789             | 7,801             | 30,845                          | 144,515                       |                       | 186,950           |
| INTERCOMPANY PAYABLES                                | 372,890           |                   | 153,864                         | 312,603                       | (839,356)             |                   |
| LONG-TERM OBLIGATIONS                                |                   | 123,472           | 89,817                          | 23,830                        |                       | 237,119           |
| OTHER LIABILITIES                                    | 6,786             | 31,742            |                                 | 27,124                        |                       | 65,652            |
| <b>Total liabilities</b>                             | <b>383,465</b>    | <b>163,015</b>    | <b>274,526</b>                  | <b>508,072</b>                | <b>(839,356)</b>      | <b>489,721</b>    |
| <b>COMMITMENTS AND CONTINGENCIES</b>                 |                   |                   |                                 |                               |                       |                   |
| <b>STOCKHOLDERS EQUITY (DEFICIT):</b>                |                   |                   |                                 |                               |                       |                   |
| Primus Telecommunications Group, Incorporated        |                   |                   |                                 |                               |                       |                   |
| Stockholders Deficit:                                |                   |                   |                                 |                               |                       |                   |
| Common stock                                         | 10                |                   |                                 |                               |                       | 10                |
| Additional paid-in capital                           | 84,690            | 85,245            | 458,781                         | (38,515)                      | (505,511)             | 84,690            |
| Accumulated deficit                                  | 2,165             | 12,964            | 9,536                           | 4,764                         | (27,264)              | 2,165             |
| Accumulated other comprehensive income (loss)        | 3,152             |                   | 3,152                           | 3,194                         | (6,346)               | 3,152             |

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|                                                     |            |            |            |            |                |            |  |
|-----------------------------------------------------|------------|------------|------------|------------|----------------|------------|--|
| Total Primus Telecommunications Group, Incorporated |            |            |            |            |                |            |  |
| stockholders deficit                                | 90,017     | 98,209     | 471,469    | (30,557)   | (539,121)      | 90,017     |  |
| Noncontrolling interest                             |            |            |            | 3,330      |                | 3,330      |  |
| Total stockholders deficit                          | 90,017     | 98,209     | 471,469    | (27,227)   | (539,121)      | 93,347     |  |
| TOTAL LIABILITIES AND STOCKHOLDERS                  |            |            |            |            |                |            |  |
| EQUITY (DEFICIT)                                    | \$ 473,482 | \$ 261,224 | \$ 745,994 | \$ 480,845 | \$ (1,378,476) | \$ 583,068 |  |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****CONSOLIDATING CONDENSED BALANCE SHEET**

(in thousands)

|                                                                          |             |            | Predecessor<br>December 31, 2008 |                               |              |              |
|--------------------------------------------------------------------------|-------------|------------|----------------------------------|-------------------------------|--------------|--------------|
|                                                                          | PTGI        | IHC        | Guarantor<br>Subsidiaries        | Non Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| <b>ASSETS</b>                                                            |             |            |                                  |                               |              |              |
| <b>CURRENT ASSETS:</b>                                                   |             |            |                                  |                               |              |              |
| Cash and cash equivalents                                                | \$ 152      | \$         | \$ 3,551                         | \$ 33,297                     | \$           | \$ 37,000    |
| Restricted cash                                                          |             |            |                                  |                               |              |              |
| Accounts receivable                                                      |             |            | 14,224                           | 85,259                        |              | 99,483       |
| Prepaid expenses and other current assets                                | 288         |            | 1,705                            | 13,853                        |              | 15,846       |
| Total current assets                                                     | 440         |            | 19,480                           | 132,409                       |              | 152,329      |
| INTERCOMPANY RECEIVABLES                                                 | 93,373      | 284,190    | 641,341                          | 95,409                        | (1,114,313)  |              |
| INVESTMENTS IN SUBSIDIARIES                                              | 2,636       |            | (132,306)                        |                               | 129,670      |              |
| RESTRICTED CASH                                                          |             |            | 314                              | 7,819                         |              | 8,133        |
| PROPERTY AND EQUIPMENT Net                                               |             |            | 14,041                           | 98,111                        |              | 112,152      |
| GOODWILL                                                                 |             |            |                                  | 32,688                        |              | 32,688       |
| OTHER INTANGIBLE ASSETS Net                                              |             |            |                                  | 746                           |              | 746          |
| OTHER ASSETS                                                             | 393         | 230        | 5,326                            | 18,447                        |              | 24,396       |
| TOTAL ASSETS                                                             | \$ 96,842   | \$ 284,420 | \$ 548,196                       | \$ 385,629                    | \$ (984,643) | \$ 330,444   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>                     |             |            |                                  |                               |              |              |
| <b>CURRENT LIABILITIES:</b>                                              |             |            |                                  |                               |              |              |
| Accounts payable                                                         | \$ 1,558    | \$         | \$ 4,775                         | \$ 52,338                     | \$           | \$ 58,671    |
| Accrued interconnection costs                                            |             |            | 16,462                           | 24,960                        |              | 41,422       |
| Deferred revenue                                                         |             |            | 1,225                            | 12,078                        |              | 13,303       |
| Accrued expenses and other current liabilities                           | 168         |            | 6,432                            | 35,840                        |              | 42,440       |
| Accrued income taxes                                                     | 70          | 3,243      | 1,220                            | 13,680                        |              | 18,213       |
| Accrued interest                                                         | 1,067       | 1,321      | 7,714                            | 146                           |              | 10,248       |
| Current portion of long-term obligations                                 | 56,482      | 198,961    | 307,463                          | 1,891                         |              | 564,797      |
| Total current liabilities                                                | 59,345      | 203,525    | 345,291                          | 140,933                       |              | 749,094      |
| INTERCOMPANY PAYABLES                                                    | 499,036     |            | 200,132                          | 415,145                       | (1,114,313)  |              |
| LONG-TERM OBLIGATIONS                                                    |             |            | 137                              | 39,903                        |              | 40,040       |
| OTHER LIABILITIES                                                        |             |            |                                  | 35                            |              | 35           |
| Total liabilities                                                        | 558,381     | 203,525    | 545,560                          | 596,016                       | (1,114,313)  | 789,169      |
| <b>COMMITMENTS AND CONTINGENCIES</b>                                     |             |            |                                  |                               |              |              |
| <b>STOCKHOLDERS EQUITY (DEFICIT):</b>                                    |             |            |                                  |                               |              |              |
| Primus Telecommunications Group, Incorporated                            |             |            |                                  |                               |              |              |
| Stockholders Deficit:                                                    |             |            |                                  |                               |              |              |
| Common stock                                                             | 1,427       |            |                                  |                               |              | 1,427        |
| Additional paid-in capital                                               | 718,956     |            | 1,161,930                        | 232,359                       | (1,394,289)  | 718,956      |
| Accumulated deficit                                                      | (1,099,809) | 80,895     | (1,077,982)                      | (368,208)                     | 1,365,295    | (1,099,809)  |
| Accumulated other comprehensive loss                                     | (82,113)    |            | (81,312)                         | (77,352)                      | 158,664      | (82,113)     |
| Total Primus Telecommunications Group, Incorporated stockholders deficit | (461,539)   | 80,895     | 2,636                            | (213,201)                     | 129,670      | (461,539)    |

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|                                                      |           |            |            |            |              |            |  |       |
|------------------------------------------------------|-----------|------------|------------|------------|--------------|------------|--|-------|
| Noncontrolling interest                              |           |            |            |            | 2,814        |            |  | 2,814 |
| Total stockholders' deficit                          | (461,539) | 80,895     | 2,636      | (210,387)  | 129,670      | (458,725)  |  |       |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | \$ 96,842 | \$ 284,420 | \$ 548,196 | \$ 385,629 | \$ (984,643) | \$ 330,444 |  |       |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**

(in thousands)

|                                                                                                                  | Successor<br>For the Three Months Ended September 30, 2009 |           |                           |                               |              |              |
|------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|-----------|---------------------------|-------------------------------|--------------|--------------|
|                                                                                                                  | PTGI                                                       | IHC       | Guarantor<br>Subsidiaries | Non Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                                     |                                                            |           |                           |                               |              |              |
| Net income                                                                                                       | \$ 2,165                                                   | \$ 12,964 | \$ 9,471                  | \$ 4,974                      | \$ (27,199)  | \$ 2,375     |
| Adjustments to reconcile net income to net cash provided by operating activities:                                |                                                            |           |                           |                               |              |              |
| Reorganization items, net                                                                                        | 413                                                        |           | (106)                     |                               |              | 307          |
| Provision for doubtful accounts receivable                                                                       |                                                            |           | 310                       | 2,283                         |              | 2,593        |
| Stock compensation expense                                                                                       |                                                            |           | 308                       |                               |              | 308          |
| Depreciation and amortization                                                                                    |                                                            |           | 1,541                     | 18,488                        |              | 20,029       |
| Gain on sale or disposal of assets                                                                               |                                                            |           | 11                        | 182                           |              | 193          |
| Accretion of debt (premium) discount                                                                             |                                                            |           |                           |                               |              |              |
| Equity in net income of subsidiary                                                                               | (9,536)                                                    |           | (17,663)                  |                               | 27,199       |              |
| intercompany and foreign debt                                                                                    |                                                            | (6,603)   | (42)                      | (7,485)                       |              | (14,130)     |
| Changes in assets and liabilities, net of acquisitions:                                                          |                                                            |           |                           |                               |              |              |
| Decrease in accounts receivable                                                                                  |                                                            |           | (1,761)                   | 4,395                         |              | 2,634        |
| (Increase) decrease in prepaid expenses and other current assets                                                 | (265)                                                      |           | 41                        | 2,374                         |              | 2,150        |
| Decrease in other assets                                                                                         |                                                            |           | 183                       | (3,522)                       |              | (3,339)      |
| (Increase) decrease in intercompany balance                                                                      |                                                            | 174       | 172,473                   | (172,647)                     |              |              |
| Decrease in accounts payable                                                                                     | (110)                                                      |           | (2,034)                   | (7,805)                       |              | (9,949)      |
| Decrease in accrued interconnection costs                                                                        |                                                            |           | (239)                     | 3,958                         |              | 3,719        |
| Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities and other liabilities | 4,556                                                      |           | 2,688                     | (1,818)                       |              | 5,426        |
| Increase (decrease) in accrued income taxes                                                                      | 5                                                          | (539)     |                           | (3,200)                       |              | (3,734)      |
| Increase (decrease) in accrued interest                                                                          |                                                            | 4,398     | (86)                      | 98                            |              | 4,410        |
| Net cash provided by (used in) operating activities before reorganization items                                  | (2,772)                                                    | 10,394    | 165,095                   | (159,725)                     |              | 12,992       |
| Cash effect of reorganization items                                                                              | (6,121)                                                    |           | 106                       | (106)                         |              | (6,121)      |
| Net cash provided by (used in) operating activities                                                              | (8,893)                                                    | 10,394    | 165,201                   | (159,831)                     |              | 6,871        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                                     |                                                            |           |                           |                               |              |              |
| Purchase of property and equipment                                                                               |                                                            |           |                           | (3,886)                       |              | (3,886)      |
| Sale of property and equipment and intangible assets                                                             |                                                            |           |                           | 12                            |              | 12           |
| Cash from disposition of business, net of cash disposed                                                          |                                                            |           |                           | (110)                         |              | (110)        |
| Increase in restricted cash                                                                                      |                                                            |           |                           | 17                            |              | 17           |
| Proceeds from intercompany balance                                                                               | 10,505                                                     |           | 80,733                    |                               | (91,238)     |              |
| Net cash provided by (used in) investing activities                                                              | 10,505                                                     |           | 80,733                    | (3,967)                       | (91,238)     | (3,967)      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                                     |                                                            |           |                           |                               |              |              |
| Principal payments on other long-term obligations                                                                |                                                            |           | (932)                     | (3,666)                       |              | (4,598)      |
| Proceeds from (payments on) intercompany balance                                                                 |                                                            | (10,394)  | (254,236)                 | 173,392                       | 91,238       |              |
| Net cash provided by (used in) financing activities                                                              |                                                            | (10,394)  | (255,168)                 | 169,726                       | 91,238       | (4,598)      |
| <b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>                                             |                                                            |           |                           |                               |              |              |
|                                                                                                                  |                                                            |           |                           | 2,083                         |              | 2,083        |

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|                                                |          |          |           |           |
|------------------------------------------------|----------|----------|-----------|-----------|
| NET CHANGE IN CASH AND CASH EQUIVALENTS        | 1,612    | (9,234)  | 8,011     | 389       |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 31       | 10,709   | 30,721    | 41,461    |
| CASH AND CASH EQUIVALENTS, END OF PERIOD       | \$ 1,643 | \$ 1,475 | \$ 38,732 | \$ 41,850 |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**

(in thousands)

|                                                                                                                  | Predecessor<br>For the Six Months Ended July 1, 2009 |            |                           |                               |              |              |
|------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|------------|---------------------------|-------------------------------|--------------|--------------|
|                                                                                                                  | PTGI                                                 | IHC        | Guarantor<br>Subsidiaries | Non Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                                     |                                                      |            |                           |                               |              |              |
| Net income                                                                                                       | \$ 471,154                                           | \$ 104,351 | \$ 594,369                | \$ 135,893                    | \$ (834,645) | \$ 471,122   |
| Adjustments to reconcile net income to net cash provided by operating activities:                                |                                                      |            |                           |                               |              |              |
| Reorganization items, net                                                                                        | 30,186                                               | (79,592)   | (287,970)                 | (102,718)                     |              | (440,094)    |
| Provision for doubtful accounts receivable                                                                       |                                                      |            | 937                       | 4,203                         |              | 5,140        |
| Stock compensation expense                                                                                       |                                                      |            | 27                        |                               |              | 27           |
| Depreciation and amortization                                                                                    |                                                      |            | 1,317                     | 11,029                        |              | 12,346       |
| Gain on sale or disposal of assets                                                                               |                                                      |            | (177)                     | (117)                         |              | (294)        |
| Accretion of debt (premium) discount                                                                             | 129                                                  | (318)      |                           |                               |              | (189)        |
| Equity in net income of subsidiary                                                                               | (512,902)                                            |            | (321,743)                 |                               | 834,645      |              |
| Deferred income taxes                                                                                            |                                                      |            | 141                       | (141)                         |              |              |
| Unrealized foreign currency transaction gain (loss) on intercompany and foreign debt                             | (2,636)                                              | (8,668)    | 778                       | (10,176)                      |              | (20,702)     |
| Changes in assets and liabilities, net of acquisitions:                                                          |                                                      |            |                           |                               |              |              |
| Decrease in accounts receivable                                                                                  |                                                      |            | 3,628                     | 4,170                         |              | 7,798        |
| (Increase) decrease in prepaid expenses and other current assets                                                 | 183                                                  |            | 327                       | (49)                          |              | 461          |
| Decrease in other assets                                                                                         | 52                                                   | 17         | 1,036                     | 1,349                         |              | 2,454        |
| (Increase) decrease in intercompany balance                                                                      |                                                      | (6,885)    | 15,765                    | (8,880)                       |              |              |
| Decrease in accounts payable                                                                                     | (1,411)                                              |            | (500)                     | (10,883)                      |              | (12,794)     |
| Decrease in accrued interconnection costs                                                                        |                                                      |            | (1,768)                   | (3,593)                       |              | (5,361)      |
| Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities and other liabilities | 8,885                                                |            | (1,910)                   | (5,662)                       |              | 1,313        |
| Increase (decrease) in accrued income taxes                                                                      | 4                                                    | 699        | (649)                     | 2,059                         |              | 2,113        |
| Increase (decrease) in accrued interest                                                                          | 397                                                  | 3,314      | (5,174)                   | (137)                         |              | (1,600)      |
| Net cash provided by (used in) operating activities before reorganization items                                  | (5,959)                                              | 12,918     | (1,566)                   | 16,347                        |              | 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)                                              | 12,918     | (3,950)                   | 17,664                        |              | 17,145       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                                     |                                                      |            |                           |                               |              |              |
| Purchase of property and equipment                                                                               |                                                      |            | (115)                     | (5,545)                       |              | (5,660)      |
| Sale of property and equipment and intangible assets                                                             |                                                      |            | 177                       | 2                             |              | 179          |
| Cash from disposition of business, net of cash disposed                                                          |                                                      |            |                           | 232                           |              | 232          |
| Cash used for business acquisitions, net of cash acquired                                                        |                                                      |            |                           | (199)                         |              | (199)        |
| Increase in restricted cash                                                                                      |                                                      |            | 61                        | (207)                         |              | (146)        |
| Proceeds from intercompany balance                                                                               | 9,366                                                |            | 7,992                     |                               | (17,358)     |              |
| Net cash provided by (used in) investing activities                                                              | 9,366                                                |            | 8,115                     | (5,717)                       | (17,358)     | (5,594)      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                                     |                                                      |            |                           |                               |              |              |
| Principal payments on other long-term obligations                                                                |                                                      |            | (517)                     | (7,775)                       |              | (8,292)      |
| Proceeds from (payments on) intercompany balance                                                                 |                                                      | (12,918)   | 3,510                     | (7,950)                       | 17,358       |              |
| Net cash provided by (used in) financing activities                                                              |                                                      | (12,918)   | 2,993                     | (15,725)                      | 17,358       | (8,292)      |

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|                                                                  |       |           |           |           |
|------------------------------------------------------------------|-------|-----------|-----------|-----------|
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH<br>AND CASH EQUIVALENTS |       |           | 1,202     | 1,202     |
| NET CHANGE IN CASH AND CASH EQUIVALENTS                          | (121) | 7,158     | (2,576)   | 4,461     |
| CASH AND CASH EQUIVALENTS, BEGINNING OF<br>PERIOD                | 152   | 3,551     | 33,297    | 37,000    |
| CASH AND CASH EQUIVALENTS, END OF PERIOD                         | \$ 31 | \$ 10,709 | \$ 30,721 | \$ 41,461 |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**

(in thousands)

|                                                                                                                  | Predecessor<br>For Nine Months Ended September 30, 2008 |          |                           |                               |              |              |
|------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|----------|---------------------------|-------------------------------|--------------|--------------|
|                                                                                                                  | PTGI                                                    | IHC      | Guarantor<br>Subsidiaries | Non Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| CASH FLOWS FROM OPERATING ACTIVITIES:                                                                            |                                                         |          |                           |                               |              |              |
| Net income                                                                                                       | \$ 10,305                                               | \$ 8,532 | \$ 13,080                 | \$ 14,875                     | \$ (34,285)  | \$ 12,507    |
| Adjustments to reconcile net income to net cash provided by operating activities:                                |                                                         |          |                           |                               |              |              |
| Provision for doubtful accounts receivable                                                                       |                                                         |          | 1,786                     | 7,159                         |              | 8,945        |
| Stock compensation expense                                                                                       |                                                         |          | 199                       |                               |              | 199          |
| Depreciation and amortization                                                                                    |                                                         |          | 2,491                     | 22,916                        |              | 25,407       |
| Gain on sale or disposal of assets                                                                               |                                                         |          | (805)                     | (6,236)                       |              | (7,041)      |
| Accretion of debt (premium) discount                                                                             | 608                                                     | (1,065)  |                           | 1                             |              | (456)        |
| Equity in net income of subsidiary                                                                               | (15,292)                                                |          | (18,993)                  |                               | 34,285       |              |
| Deferred income taxes                                                                                            |                                                         |          | 591                       | 2,610                         |              | 3,201        |
| (Gain) loss on early extinguishment or restructuring of debt                                                     | (12,232)                                                | 515      | (22,784)                  | (107)                         |              | (34,608)     |
| Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt                             | 1,518                                                   | 4,708    | (823)                     | 8,184                         |              | 13,587       |
| Changes in assets and liabilities, net of acquisitions:                                                          |                                                         |          |                           |                               |              |              |
| Increase in accounts receivable                                                                                  |                                                         |          | (1,687)                   | (10,589)                      |              | (12,276)     |
| (Increase) decrease in prepaid expenses and other current assets                                                 | 277                                                     |          | (28)                      | 8,612                         |              | 8,861        |
| Decrease in other assets                                                                                         | 455                                                     | 29       | 820                       | 124                           |              | 1,428        |
| (Increase) decrease in intercompany balance                                                                      |                                                         | (8,857)  | (2,423)                   | 11,280                        |              |              |
| Decrease in accounts payable                                                                                     | (604)                                                   |          | (1,281)                   | (5,352)                       |              | (7,237)      |
| Decrease in accrued interconnection costs                                                                        |                                                         |          | (1,934)                   | (2,539)                       |              | (4,473)      |
| Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities and other liabilities | 812                                                     | (505)    | (2,193)                   | 2,731                         |              | 845          |
| Decrease in accrued income taxes                                                                                 | (224)                                                   | (609)    | (1,271)                   | (1,399)                       |              | (3,503)      |
| Increase (decrease) in accrued interest                                                                          | (929)                                                   | 4,091    | (3,920)                   | 67                            |              | (691)        |
| Net cash provided by (used in) operating activities                                                              | (15,306)                                                | 6,839    | (39,175)                  | 52,337                        |              | 4,695        |
| CASH FLOWS FROM INVESTING ACTIVITIES:                                                                            |                                                         |          |                           |                               |              |              |
| Purchase of property and equipment                                                                               |                                                         |          | (1,044)                   | (19,712)                      |              | (20,756)     |
| Sale of property and equipment and intangible assets                                                             |                                                         |          | 805                       | 4,936                         |              | 5,741        |
| Cash from disposition of business, net of cash disposed                                                          |                                                         |          |                           | 1,676                         |              | 1,676        |
| Cash used for business acquisitions, net of cash acquired                                                        |                                                         |          |                           | (583)                         |              | (583)        |
| Decrease in restricted cash                                                                                      |                                                         |          |                           | (100)                         |              | (100)        |
| Proceeds from intercompany balance                                                                               | 26,516                                                  |          | 20,693                    |                               | (47,209)     |              |
| Net cash provided by (used in) investing activities                                                              | 26,516                                                  |          | 20,454                    | (13,783)                      | (47,209)     | (14,022)     |
| CASH FLOWS FROM FINANCING ACTIVITIES:                                                                            |                                                         |          |                           |                               |              |              |
| Purchase of the Company's debt securities                                                                        | (11,217)                                                |          |                           |                               |              | (11,217)     |
| Principal payments on other long-term obligations                                                                | (1,200)                                                 | (3)      | (5,502)                   | (3,831)                       |              | (10,536)     |
| Proceeds from (payments on) intercompany balance                                                                 |                                                         | (6,836)  | 26,976                    | (67,349)                      | 47,209       |              |
| Net cash provided by (used in) financing activities                                                              | (12,417)                                                | (6,839)  | 21,474                    | (71,180)                      | 47,209       | (21,753)     |
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS                                                    |                                                         |          |                           |                               |              |              |
|                                                                                                                  |                                                         |          |                           | (2,572)                       |              | (2,572)      |
| NET CHANGE IN CASH AND CASH EQUIVALENTS                                                                          | (1,207)                                                 |          | 2,753                     | (35,198)                      |              | (33,652)     |

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|                                                |       |          |           |           |
|------------------------------------------------|-------|----------|-----------|-----------|
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 1,299 | 670      | 79,313    | 81,282    |
| CASH AND CASH EQUIVALENTS, END OF PERIOD       | \$ 92 | \$ 3,423 | \$ 44,115 | \$ 47,630 |

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### 15. Restatement

Subsequent to the issuance of the Company's consolidated condensed financial statements for the quarterly period ended September 30, 2009, the Company determined that for the three months ended September 30, 2009, it had incorrectly recorded unrealized foreign currency transaction losses on intercompany payables that were permanent in nature and, therefore, should have been recorded as currency translation adjustments to accumulated other comprehensive income (loss) on the Consolidated Condensed Balance Sheet. As a result, the consolidated condensed financial statements have been restated from amounts previously reported to correct this error as follows:

|                                                                                                        | Successor<br>Three Months Ended |             |
|--------------------------------------------------------------------------------------------------------|---------------------------------|-------------|
|                                                                                                        | September 30, 2009              |             |
|                                                                                                        | As Previously<br>Reported       | As Restated |
| <b>Consolidated Condensed Statements of Operations</b>                                                 |                                 |             |
| Foreign currency transaction gain (loss)                                                               | \$ (4,447)                      | \$ 12,916   |
| Income (loss) from continuing operations before reorganization items and income taxes                  | \$ (16,656)                     | \$ 707      |
| Income (loss) from continuing operations before income taxes                                           | \$ (16,963)                     | \$ 400      |
| Income (loss) from continuing operations                                                               | \$ (14,878)                     | \$ 2,485    |
| Net income (loss)                                                                                      | \$ (14,988)                     | \$ 2,375    |
| Net income (loss) attributable to Primus Telecommunications Group, Incorporated                        | \$ (15,198)                     | \$ 2,165    |
| Basic income (loss) per common share:                                                                  |                                 |             |
| Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated | \$ (1.57)                       | \$ 0.24     |
| Net income (loss) attributable to Primus Telecommunications Group, Incorporated                        | \$ (1.58)                       | \$ 0.23     |
| Diluted income (loss) per common share:                                                                |                                 |             |
| Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated | \$ (1.57)                       | \$ 0.24     |
| Net income (loss) attributable to Primus Telecommunications Group, Incorporated                        | \$ (1.58)                       | \$ 0.23     |
| Amounts attributable to common shareholders of Primus Telecommunications Group, Incorporated           |                                 |             |
| Income (loss) from continuing operations, net of tax                                                   | \$ (15,088)                     | \$ 2,275    |
| Net income (loss)                                                                                      | \$ (15,198)                     | \$ 2,165    |
| <b>Consolidated Condensed Balance Sheet</b>                                                            |                                 |             |
| Accumulated earnings (deficit)                                                                         | \$ (15,198)                     | \$ 2,165    |
| Accumulated other comprehensive income (loss)                                                          | \$ 20,515                       | \$ 3,152    |
| <b>Consolidated Condensed Statements of Cash Flows</b>                                                 |                                 |             |
| Net income (loss)                                                                                      | \$ (14,988)                     | \$ 2,375    |
| Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt                   | \$ 3,233                        | \$ (14,130) |
| <b>Consolidated Condensed Statements of Comprehensive Income (Loss)</b>                                |                                 |             |
| Net income (loss)                                                                                      | \$ (14,988)                     | \$ 2,375    |
| Foreign currency translation adjustment                                                                | \$ 20,704                       | \$ 3,341    |

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### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following management's discussion and analysis gives effect to the Restatement discussed in Note 15 to the Consolidated Condensed Financial Statements.*

#### **Introduction and Overview of Operations**

We are an integrated facilities based telecommunications services provider offering a portfolio of international and domestic voice, wireless, Internet, voice-over-Internet protocol (VOIP), data and hosting services to customers located primarily in the United States, Australia, Canada, the United Kingdom and western Europe. Our focus is to service the demand for high quality, competitively priced communications services that is being driven by the globalization of the world's economies, the worldwide trend toward telecommunications deregulation and the growth of broadband, Internet, VOIP, wireless and data traffic.

Generally, we price our services competitively with the major carriers and service providers operating in our principal service regions. We seek to generate net revenue through sales and marketing efforts focused on customers with significant communications needs, including small- and medium-sized enterprises (SMEs), multinational corporations, residential customers, and other telecommunications carriers and resellers and through acquisitions.

Our challenge concerning net revenue in recent years has been to overcome declines in long distance voice minutes of use per customer as more customers are using wireless devices and the Internet as alternatives to the use of wireline phones. Also, product substitution (e.g., wireless/Internet for fixed line voice) has resulted in revenue declines in our long distance voice services. Additionally, we believe that because deregulatory influences have begun to affect telecommunications markets outside the United States, the deregulatory trend is resulting in greater competition from the existing wireline and wireless competitors and from more recent entrants, such as cable companies and VOIP companies, which could continue to affect adversely our net revenue per minute, as well as minutes of use. More recently, adverse global economic conditions have resulted in a contraction of spending by business and residential customers generally which, we believe, has had an adverse affect on our net revenues.

In order to manage our traffic network transmission costs, we pursue a flexible approach with respect to the management of our network capacity. In most instances, we optimize the cost of traffic by using the least expensive cost routing; negotiate lower variable usage based costs with domestic and foreign service providers and negotiate additional and lower cost foreign carrier agreements with the foreign incumbent carriers and others; and continue to expand/reduce the capacity of our network when traffic volumes justify such actions.

Our overall margin may fluctuate based on the relative volumes of international versus domestic long distance services; carrier services versus business and residential long distance services; prepaid services versus traditional post-paid voice services; Internet, VOIP and data services versus fixed line voice services; the amount of services that are resold; and the proportion of traffic carried on our network versus resale of other carriers' services. Our margin is also affected by customer transfer and migration fees. We generally pay a charge to install and transfer a new customer onto our network, and to migrate broadband and local customers. However, installing and migrating customers to our own networks, such as the local and broadband networks in Australia and Canada, enable us to increase our margin on such services as compared to resale of services using other carriers' networks.

SG&A expenses are comprised primarily of salaries and benefits, commissions, occupancy costs, sales and marketing expenses, advertising, professional fees, and other administrative costs. All SG&A expenses are expensed when incurred. Emphasis on cost containment and the shift of expenditures from non-revenue producing expenses to sales and marketing expenses has been heightened since growth in net revenue has been under pressure.

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### **Emergence From Voluntary Reorganization under Chapter 11 Proceedings**

On March 16, 2009, Primus Telecommunications Group, Incorporated ( *Group* ) and three of its subsidiaries, Primus Telecommunications Holding, Inc. ( *Holding* ), 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 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. See Note 1 *Proceedings Under Chapter 11 of the Bankruptcy Code* within the financial statements included in Part I, Item 1 of this Form 10-Q/A.

As of July 1, 2009, the Company adopted fresh-start accounting in accordance with ASC No. 852. The adoption of fresh-start accounting resulted in the Company becoming a new entity for financial reporting purposes. Accordingly, the financial statements on or prior to July 1, 2009 are not comparable with the financial statements for periods after July 1, 2009. The consolidated condensed statements of operations, comprehensive income (loss) and any references to *Successor* or *Successor Company* for the three months ended September 30, 2009, show the operations of the reorganized Company from and including July 1, 2009, the Effective Date, through September 30, 2009. References to *Predecessor* or *Predecessor Company* refer to the operations of the Company prior to July 1, 2009, except for *Predecessor's* July 1, 2009 statements of operations and comprehensive income (loss), which reflect only the effect of the plan adjustments and fresh-start accounting as of such date and do not reflect any operating results. See Note 4 *Fresh-Start Accounting* in the notes to these Consolidated Condensed Financial Statements for further details.

In this Management Discussion and Analysis of Financial Condition and Results of Operations, we compare *Successor's* results of operations for period from July 2, 2009 to September 30, 2009 (the *Successor Period* ) with *Predecessor's* results of operations for the three months ended September 30, 2008. We combine *Successor's* results of operations for the Successor Period with *Predecessor's* results of operations for the period from January 1, 2009 to July 2, 2009. The combined periods have been compared to *Predecessor's* nine months ended September 30, 2008. We believe that the comparison of the combined financial results provide management and investors a more meaningful analysis of our performance and trends for comparative purposes. The application of fresh-start accounting will have a significant non-cash impact on our future results of operations, but will have no impact on the underlying cash flows of the Company.

### **Foreign Currency**

Foreign currency can have a major impact on our financial results. Currently approximately 80% of our net revenue is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the United States dollar (USD). The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive the majority of our net revenue and incur a significant portion of our operating costs from

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outside the United States, and therefore changes in exchange rates have had and may continue to have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the following exchange rates: USD/Canadian dollar (CAD), USD/Australian dollar (AUD), USD/British pound (GBP), and USD/Euro (EUR). Due to the large percentage of our revenue derived outside of the United States, changes in the USD relative to one or more of the foregoing currencies could have an adverse impact on our future results of operations. We have agreements with certain subsidiaries for repayment of a portion of the investments and advances made to these subsidiaries. As we anticipate repayment in the foreseeable future, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations. We historically have not engaged in hedging transactions. However, during the fourth quarter 2007, we completed a forward currency previously contract required by the Canadian Credit Facility and an interest rate swap agreement. Despite the counterparty to the interest rate swap agreement entering bankruptcy in October 2008, management did not believe that breach or event of default had occurred in relation to the Canadian Credit Facility. As of March 10, 2009, under the Waiver and Amendment Agreement, the Lenders under the Canadian Credit Facility waived any such possible breach or event of default. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies.

We are exposed to financial statement gains and losses as a result of translating the operating results and financial position of our international subsidiaries. We translate the local currency statements of operations of our foreign subsidiaries into USD using the average exchange rate during the reporting period. Changes in foreign exchange rates affect the reported profits and losses and cash flows and may distort comparisons from year to year. By way of example, when the USD strengthens compared to the EUR, there could be a negative or positive effect on the reported results for Europe, depending upon whether Europe is operating profitably or at a loss. It takes more profits in EUR to generate the same amount of profits in USD and a greater loss in EUR to generate the same amount of loss in USD. The opposite is also true. For instance, when the USD weakens there is a positive effect on reported profits and a negative effect on the reported losses for Europe.

In the three months and nine months ended September 30, 2009, as compared to the three months and nine months ended September 30, 2008, the USD was stronger on average as compared to the CAD, AUD, GBP and EUR. The following tables demonstrate the impact of currency fluctuations on our net revenue for the three months and nine months ended September 30, 2009 and 2008 (in thousands, except percentages):

### Net Revenue by Location in USD

|                | For the Three Months<br>Ended September 30, |           |            |            | For the Nine Months<br>Ended September 30, |            |             |            |
|----------------|---------------------------------------------|-----------|------------|------------|--------------------------------------------|------------|-------------|------------|
|                | 2009                                        | 2008      | Variance   | Variance % | 2009                                       | 2008       | Variance    | Variance % |
| Canada         | \$ 57,367                                   | \$ 66,811 | \$ (9,444) | (14)%      | \$ 165,673                                 | \$ 204,248 | \$ (38,575) | (19)%      |
| Australia      | \$ 63,665                                   | \$ 70,715 | \$ (7,050) | (10)%      | \$ 174,167                                 | \$ 220,782 | \$ (46,615) | (21)%      |
| United Kingdom | \$ 22,807                                   | \$ 22,383 | \$ 424     | 2%         | \$ 72,039                                  | \$ 61,964  | \$ 10,075   | 16%        |
| Europe*        | \$ 22,617                                   | \$ 24,801 | \$ (2,184) | (9)%       | \$ 60,622                                  | \$ 67,455  | \$ (6,833)  | (10)%      |

### Net Revenue by Location in Local Currencies

|                         | For the Three Months<br>Ended September 30, |        |          |            | For the Nine Months<br>Ended September 30, |         |          |            |
|-------------------------|---------------------------------------------|--------|----------|------------|--------------------------------------------|---------|----------|------------|
|                         | 2009                                        | 2008   | Variance | Variance % | 2009                                       | 2008    | Variance | Variance % |
| Canada (in CAD)         | 63,063                                      | 69,502 | (6,439)  | (9)%       | 193,597                                    | 207,975 | (14,378) | (7)%       |
| Australia (in AUD)      | 76,509                                      | 79,372 | (2,863)  | (4)%       | 232,150                                    | 241,865 | (9,715)  | (4)%       |
| United Kingdom (in GBP) | 14,037                                      | 11,815 | 2,222    | 19%        | 47,156                                     | 31,869  | 15,287   | 48%        |
| Europe* (in EUR)        | 15,802                                      | 16,428 | (626)    | (4)%       | 44,307                                     | 44,271  | 36       | 0%         |

\* Europe includes only subsidiaries whose functional currency is the Euro dollar.

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### **Critical Accounting Policies**

See Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the year ended December 31, 2008 for a detailed discussion of our critical accounting policies. These policies include revenue recognition, determining our allowance for doubtful accounts receivable, accounting for cost of revenue, valuation of long-lived assets and goodwill and accounting for income taxes.

In accordance with ASC No. 852, for periods including and subsequent to the filing of the Chapter 11 petition prior to emergence from bankruptcy, all pre-petition liabilities subject to compromise were 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 were separately classified as current and non-current in the unaudited Consolidated Condensed Balance Sheet. Revenues, expenses, realized gains and losses, and provisions for losses that result from the reorganization were reported separately as reorganization items, net, in the unaudited Consolidated Condensed Statements of Operations. Net cash used for reorganization items was disclosed separately in the unaudited Consolidated Condensed Statements of Cash Flows.

After the emergence from bankruptcy on July 1, 2009, the amounts reported on our subsequent financial statements materially changed. We adopted the fresh start provisions of ASC No. 852, which requires that all assets and liabilities except deferred taxes be restated to their fair value. Deferred tax balances have been established as a result of the differences in the basis adjustments from fresh-start accounting. Certain of these fair values differ materially from the values recorded on the Predecessor Consolidated Condensed Balance Sheets. Our emergence from reorganization resulted in a new reporting entity that had no retained earnings or accumulated deficit before the Effective Date. Additionally, we must also adopt any changes in GAAP that it is otherwise required to adopt within twelve months of such date. For all of these reasons, our Successor's financial statements are not comparable to our Predecessor's.

No other significant changes in our critical accounting policies have occurred since December 31, 2008.

### **Results of Operations**

*Results of operations for the Successor Period as compared to the three months ended September 30, 2008*

*Net revenue*, exclusive of the currency effect, decreased \$10.5 million, or 4.5%, to \$220.7 million for the three months ended September 30, 2009 from \$231.3 million for the three months ended September 30, 2008. Inclusive of the currency effect, which accounted for a decrease of \$12.8 million, net revenue decreased \$23.3 million to \$207.9 million for the three months ended September 30, 2009 from \$231.3 millions for the three months ended September 30, 2008.

*Canada*: Canada net revenue, exclusive of the currency effect, decreased \$6.2 million, or 9.3%, to \$60.6 million for the three months ended September 30, 2009 from \$66.8 million for the three months ended September 30, 2008. The revenue decrease is primarily attributable to a decrease of \$3.9 million in retail voice services, a decrease of \$2.3 million in prepaid voice services, a decrease of \$0.3 million in wireless services and a decrease of \$0.2 million in local services offset, in part, by an increase of \$0.5 million in internet, data and hosting. Inclusive of the currency effect, which accounted for a \$3.2 million decrease, net revenue decreased \$9.4 million to \$57.4 million for the three months ended September 30, 2009 from \$66.8 million for the three months ended September 30, 2008.

*Australia*: Australia net revenue, exclusive of the currency effect, decreased \$2.6 million, or 3.7%, to \$68.2 million for the three months ended September 30, 2009 from \$70.7 million for the three months ended September 30, 2008. The revenue decrease is primarily attributable to a decrease of \$3.1 million in internet services, a decrease of \$1.0 million in residential voice, a decrease of \$0.4 million in broadband services offset, in part, by increases of \$1.4 million in business services and \$0.5 million in wireless services. Inclusive of the currency effect, which accounted for a \$4.5 million decrease, net revenue decreased \$7.1 million to \$63.7 million for the three months ended September 30, 2009 from \$70.7 million for the three months ending September 30, 2008.

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Wholesale: Wholesale net revenue, exclusive of the currency effect, increased \$3.0 million, or 5.6%, to \$57.0 million for the three months ended September 30, 2009 from \$54.0 million for the three months ended September 30, 2008. Inclusive of the currency effect, which accounted for a \$3.5 million decrease, net revenue decreased \$0.5 million to \$53.6 million for the three months ended September 30, 2009 from \$54.0 million for the three months ended September 30, 2008. Due to the decision to cease our German retail operations, all German wholesale operations were transferred to the United Kingdom beginning in the third quarter 2008. This transfer was completed in the first quarter 2009 (see Note 11 Discontinued Operations to the Consolidated Condensed Financial Statements presented herein). The following table reflects net revenue for each major country (in thousands, except percentages):

### Wholesale Revenue by Country in USD

|                 | Exclusive of Currency Effect<br>Three Months Ended |               |                                      |               | Year-over-Year |            | Currency<br>Effect | Inclusive of<br>Currency<br>Three Months Ended<br>September 30,<br>2009 |               |
|-----------------|----------------------------------------------------|---------------|--------------------------------------|---------------|----------------|------------|--------------------|-------------------------------------------------------------------------|---------------|
|                 | September 30, 2009<br>Net<br>Revenue               | % of<br>Total | September 30, 2008<br>Net<br>Revenue | % of<br>Total | Variance       | Variance % |                    | Net<br>Revenue                                                          | % of<br>Total |
| United States   | \$ 21,097                                          | 37%           | \$ 22,210                            | 41%           | \$ (1,113)     | -5%        | \$ 0               | \$ 21,097                                                               | 39%           |
| United Kingdom  | 21,852                                             | 38%           | 15,902                               | 29%           | 5,950          | 37%        | (2,872)            | 18,980                                                                  | 35%           |
| France          | 3,935                                              | 7%            | 1,542                                | 3%            | 2,393          | 155%       | (144)              | 3,791                                                                   | 7%            |
| Spain           | 2,512                                              | 5%            | 1,967                                | 4%            | 545            | 28%        | (75)               | 2,437                                                                   | 5%            |
| Italy           | 7,642                                              | 13%           | 6,775                                | 13%           | 867            | 13%        | (376)              | 7,266                                                                   | 14%           |
| Germany         |                                                    | 0%            | 5,619                                | 10%           | (5,619)        | -100%      |                    |                                                                         | 0%            |
| Wholesale Total | \$ 57,038                                          | 100%          | \$ 54,015                            | 100%          | \$ 3,023       | 6%         | \$ (3,467)         | \$ 53,571                                                               | 100%          |

United States: United States net revenue decreased \$5.2 million, or 24.6%, to \$15.9 million for the three months ended September 30, 2009 from \$21.0 million for the three months ended September 30, 2008. The decrease is primarily attributable to a decrease of \$3.2 million in retail voice services (for residential and small businesses), a decrease of \$1.5 million in VOIP services and a decrease of \$0.5 million in Internet services.

Europe: Europe net revenue, exclusive of the currency effect, decreased \$1.5 million, or 9.1%, to \$14.5 million for the three months ended September 30, 2009 from \$15.9 million for the three months ended September 30, 2008. Inclusive of the currency effect, which accounted for a \$1.1 million decrease, net revenue decreased \$2.5 million to \$13.4 million for the three months ended September 30, 2009 from \$15.9 million for the three months ended September 30, 2008.

The following table reflects net revenue for each major country in Europe (in thousands, except percentages):

### Revenue by Country (Excluding Wholesale) in USD

|                | Exclusive of Currency Effect<br>Three Months Ended |                |                                      |                | Year-over-Year |            | Currency<br>Effect | Inclusive of<br>Currency Effect<br>Three Months Ended<br>September 30, 2009 |                |
|----------------|----------------------------------------------------|----------------|--------------------------------------|----------------|----------------|------------|--------------------|-----------------------------------------------------------------------------|----------------|
|                | September 30, 2009<br>Net<br>Revenue               | % of<br>Europe | September 30, 2008<br>Net<br>Revenue | % of<br>Europe | Variance       | Variance % |                    | Net<br>Revenue                                                              | % of<br>Europe |
| United Kingdom | \$ 4,409                                           | 30%            | \$ 6,480                             | 41%            | \$ (2,071)     | -32%       | \$ (582)           | \$ 3,827                                                                    | 29%            |
| France         | 6,055                                              | 42%            | 5,062                                | 32%            | 993            | 20%        | (313)              | 5,742                                                                       | 43%            |
| Belgium        | 1,890                                              | 13%            | 1,928                                | 12%            | (38)           | -2%        | (100)              | 1,790                                                                       | 13%            |
| Spain          | 701                                                | 5%             | 912                                  | 6%             | (211)          | -23%       | (36)               | 665                                                                         | 5%             |
| Italy          | 572                                                | 4%             | 511                                  | 3%             | 61             | 12%        | (30)               | 542                                                                         | 4%             |
| Other          | 833                                                | 6%             | 1,022                                | 5%             | (189)          | -18%       | (22)               | 811                                                                         | 6%             |

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|              |           |      |           |      |            |     |            |           |      |
|--------------|-----------|------|-----------|------|------------|-----|------------|-----------|------|
| Europe Total | \$ 14,460 | 100% | \$ 15,915 | 100% | \$ (1,455) | -9% | \$ (1,083) | \$ 13,377 | 100% |
|--------------|-----------|------|-----------|------|------------|-----|------------|-----------|------|

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Brazil: Brazil net revenue, exclusive of the currency effect, increased \$1.8 million, or 67.0%, to \$4.6 million for the three months ended September 30, 2009 from \$2.8 million for the three months ended September 30, 2008. The revenue increase is due primarily to an increase in VOIP services. Inclusive of the currency effect, which accounted for a \$0.5 million decrease, net revenue increased \$1.3 million to \$4.1 million for the three months ended September 30, 2009 from \$2.8 million for the three months ended September 30, 2008.

*Cost of revenue*, exclusive of the currency effect, decreased \$4.9 million to \$144.9 million, or 65.6% of net revenue, for the three months ended September 30, 2009 from \$149.8 million, or 64.8% of net revenue, for the three months ended September 30, 2008. Inclusive of the currency effect, which accounted for a \$8.8 million decrease, cost of revenue decreased \$13.8 million to \$136.1 million for the three months ended September 30, 2009 from \$149.8 million for the three months ended September 30, 2008.

Canada: Canada cost of revenue, exclusive of the currency effect, decreased \$3.0 million to \$26.7 million, or 44.0% of net revenue, for the three months ended September 30, 2009 from \$29.7 million, or 44.4% of net revenue, for the three months ended September 30, 2008. The decrease is primarily attributable to a decrease in net revenue of \$6.2 million. Inclusive of the currency effect, which accounted for a \$1.4 million decrease, cost of revenue decreased \$4.4 million to \$25.3 million for the three months ended September 30, 2009 from \$29.7 million for the three months ended September 30, 2008.

Australia: Australia cost of revenue, exclusive of the currency effect, decreased \$1.8 million to \$42.7 million, or 62.6% of net revenue, for the three months ended September 30, 2009 from \$44.4 million, or 62.8% of net revenue, for the three months ended September 30, 2008. The decrease is primarily attributable to a \$2.6 million decrease in net revenue. Inclusive of the currency effect, which accounted for a \$2.8 million decrease, cost of revenue decreased \$4.6 million to \$39.8 million for the three months ended September 30, 2009 from \$44.4 million for the three months ended September 30, 2008.

Wholesale: Wholesale cost of revenue, exclusive of the currency effect, increased \$2.5 million to \$54.8 million, or 96.0% of net revenue, for the three months ended September 30, 2009 from \$52.3 million, or 96.8% of net revenue, for the three months ended September 30, 2008. The increase is primarily attributable to an increase in net revenue of \$3.0 million offset, in part, by lower costs, as a percentage of net revenues, in the United States. Inclusive of the currency effect, which accounted for a \$3.4 million decrease, cost of revenues decreased \$0.9 million to \$51.4 million for the three months ended September 30, 2009 from \$52.3 million for the three months ended September 30, 2008.

United States: United States cost of revenue decreased \$3.3 million to \$7.2 million, or 45.5% of net revenue, for the three months ended September 30, 2009 from \$10.5 million, or 49.9% of net revenue, for the three months ended September 30, 2008. The decrease is attributable to a decrease in net revenue of \$5.2 million.

Europe: Europe cost of revenue, exclusive of the currency effect, decreased by \$1.2 million to \$10.1 million, or 70.0% of net revenue, for the three months ended September 30, 2009 from \$11.3 million, or 70.9% of net revenue, for the three months ended September 30, 2008. The decrease is primarily due to a decrease in net revenue of \$1.5 million offset, in part, by slightly lower costs, as a percentage of net revenue. Inclusive of the currency effect, which accounted for a \$0.8 million decrease, cost of revenue decreased \$2.0 million to \$9.3 million for the three months ended September 30, 2009 from \$11.3 million for the three months ended September 30, 2008.

Brazil: Brazil cost of revenue, exclusive of the currency effect, increased \$1.8 million to \$3.5 million, or 74.8% of net revenue, for the three months ended September 30, 2009 from \$1.7 million, or 60.5% of net revenue, for the three months ended September 30, 2008. The increase is primarily attributable to an increase in net revenue of \$1.8 million and higher costs as a percentage of net revenue. Inclusive of the currency effect, which accounted for a \$0.4 million decrease, cost of revenue increased \$1.4 million to \$3.1 million for the three months ended September 30, 2009 from \$1.7 million for the three months ended September 30, 2008.

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*Selling, general and administrative expenses*, exclusive of the currency effect, decreased \$15.6 million to \$53.9 million, or 24.4% of net revenue, for the three months ended September 30, 2009 from \$69.5 million, or 30.1% of net revenue, for the three months ended September 30, 2008. Inclusive of the currency effect, which accounted for a \$2.8 million decrease, selling, general and administrative expenses decreased \$18.4 million to \$51.1 million for the three months ended September 30, 2009 from \$69.5 million for the three months ended September 30, 2008.

Canada: Canada selling, general and administrative expense, exclusive of the currency effect, decreased \$7.0 million to \$21.6 million, or 35.6% of net revenue, for the three months ended September 30, 2009 from \$28.6 million, or 42.8% of net revenue, for the three months ended September 30, 2008. The decrease is attributable to a decrease of \$4.1 million in salaries and benefits, a decrease of \$2.3 million in sales and marketing expenses and a decrease of \$1.5 million in general and administrative expenses offset, in part, by an increase of \$0.6 million in advertising expenses and \$0.3 of other expenses. Inclusive of the currency effect, which accounted for a \$1.1 decrease, selling, general and administrative expenses decreased \$8.1 million to \$20.5 million for the three months ended September 30, 2009 from \$28.6 million for the three months ended September 30, 2008.

Australia: Australia selling, general and administrative expense, exclusive of the currency effect, decreased \$4.0 million to \$16.7 million, or 24.6% of net revenue, for the three months ended September 30, 2009 from \$20.7 million, or 29.3% of net revenue, for the three months ended September 30, 2008. The decrease is attributable to a decrease of \$2.0 million in salaries and benefits, a decrease of \$1.2 million in sales and marketing expense, a decrease of \$0.4 million in advertising expenses and a decrease of \$0.4 million in general and administrative. Inclusive of the currency effect, which accounted for a \$1.1 million decrease, selling, general and administrative expense decreased \$5.0 million to \$15.7 million for the three months ended September 30, 2009 from \$20.7 million for the three months ended September 30, 2008.

Wholesale: Wholesale selling, general and administrative expense, exclusive of the currency effect, decreased \$0.4 million to \$1.7 million, or 3.0% of net revenue, for the three months ended September 30, 2009 from \$2.2 million, or 4.0% of net revenue, for the three months ended September 30, 2008. Inclusive of the currency effect, which accounted for a \$0.1 million decrease, selling, general and administrative expense decreased \$0.5 million to \$1.6 million for the three months ended September 30, 2009 from \$2.2 million for the three months ended September 30, 2008.

United States: United States selling, general and administrative expense decreased \$3.1 million to \$6.2 million, or 39.3% of net revenue, for the three months ended September 30, 2009 from \$9.4 million, or 44.5% of net revenue, for the three months ended September 30, 2008. The decrease is attributable to decreases of \$1.0 million in general and administrative expenses, \$0.9 million in salaries and benefits, \$0.4 million in advertising expenses, \$0.4 million in occupancy, \$0.3 million in sales and marketing expense and \$0.1 in other expenses.

Europe: Europe selling, general and administrative expense, exclusive of the currency effect, decreased \$0.9 million to \$4.5 million, or 31.2% of net revenue, for the three months ended September 30, 2009 from \$5.4 million, or 34.2% of net revenue, for the three months ended September 30, 2008. The decrease is attributable to a decrease of \$1.0 million in salaries and benefits. Inclusive of the currency effect, which accounted for a \$0.4 million decrease, selling, general and administrative expense decreased \$1.3 million to \$4.1 million for the three months ended September 30, 2009 from \$5.4 million for the three months ended September 30, 2008.

Brazil: Brazil selling, general and administrative expense, exclusive of the currency effect, increased \$0.7 million to \$0.9 million, or 19.7% of net revenue, for the three months ended September 30, 2009 from \$1.7 million, or 59.9% of net revenue, for the three months ended September 30, 2008. Inclusive of the currency effect, which accounted for a \$0.1 million decrease, selling, general and administrative expense decreased \$0.9 million to \$0.8 million for the three months ended September 30, 2009 from \$1.7 million for the three months ended September 30, 2008.

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Corporate: Corporate selling, general and administrative expense increased \$0.6 million to \$2.3 million for the three months ended September 30, 2009 from \$1.6 million for the three months ended September 30, 2008. The increase is primarily due to an increase in salaries and benefits as a result of an incentive compensation accrual release in the prior year quarter offset, in part, by lower professional fees.

*Depreciation and amortization expense* was \$20.0 million for the three months ended September 30, 2009. Depreciation and amortization expense was \$9.4 million for the three months ended September 30, 2008. This change occurred as a result of the fair valuing of fixed and intangible assets per Fresh Start accounting which was implemented effective July 1, 2009. See Note 4 Fresh Start Accounting in the notes to the Condensed Consolidated Financial Statements include in Part I, Item 1 herein.

*Interest expense and accretion on debt discount, net* decreased \$3.8 million to \$8.8 million for the three months ended September 30, 2009 from \$12.5 million for the three months ended September 30, 2008. The decrease was due to the lower debt levels primarily resulting from the cancellation of certain indebtedness through the Reorganization, effective as of July 1, 2009.

*Interest income and other income (expense)* decreased \$3.1 million to \$4.1 million expense for the three months ended September 30, 2009 from \$1.0 million expense for the three months ended September 30, 2008. The decrease was mainly due to the change of the fair market value of CVRs of \$4.2 million recognized at September 30, 2009

*Foreign currency transaction gain (loss)* increased \$36.0 million to a \$12.9 million gain for the three months ended September 30, 2009 from a \$23.0 million loss for the three months ended September 30, 2008. The gain is attributable to the impact of foreign currency exchange rate changes on intercompany debt balances and on receivables and payables denominated in a currency other than the subsidiaries functional currency.

*Reorganization items, net* is and \$0.3 million expense for the three months ended September 30, 2009 due to the incurrence of professional fees as a result of the Chapter 11 Cases.

*Income tax benefit (expense)* is a \$2.1 million benefit for the three months ended September 30, 2009 compared to a \$1.5 million expense for the three months ended September 30, 2008. The benefit includes expenses made up of foreign withholding tax on intercompany interest and royalty fees owed to a United States subsidiary by our Canadian and Australian subsidiaries and charges for uncertain tax positions under ASC No. 740, Income Taxes. The foreign tax expense was offset by a significant benefit from the release of deferred tax liabilities related the amortization of certain fresh-start adjustments to fixed assets and intangibles as discussed in Note 10.

*Results of operations for the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008*

*Net revenue*, exclusive of the currency effect, decreased \$2.4 million, or 0.4%, to \$690.2 million for the nine months ended September 30, 2009 from \$692.6 million for the nine months ended September 30, 2008. Inclusive of the currency effect, which accounted for a decrease of \$91.0 million, net revenue decreased \$93.4 million to \$599.2 million for the nine months ended September 30, 2009 from \$692.6 million for the nine months ended September 30, 2008.

Canada: Canada net revenue, exclusive of the currency effect, decreased \$14.1 million, or 6.9%, to \$190.2 million for the nine months ended September 30, 2009 from \$204.2 million for the nine months ended September 30, 2008. The revenue decrease is primarily attributable to a decrease of \$13.1 million in retail voice services, a decrease of \$1.4 million in prepaid voice services and a decrease of \$0.9 million in wireless services offset, in part, by and an increase of \$0.7 million in internet and an increase of \$0.7 million in data and hosting. Inclusive of the currency effect, which accounted for a \$24.5 million decrease, net revenue decreased \$38.6 million to \$165.7 million for the nine months ended September 30, 2009 from \$204.2 million for the nine months ended September 30, 2008.

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Australia: Australia net revenue, exclusive of the currency effect, decreased \$8.9 million, or 4.0%, to \$211.9 million for the nine months ended September 30, 2009 from \$220.8 million for the nine months ended September 30, 2008. The revenue decrease is primarily attributable to a decrease of \$11.1 million in internet services, a decrease of \$2.5 million in residential voice and a decrease of \$2.4 million in broadband services offset, in part, by increases of \$5.7 million in business services and \$1.6 million in wireless services. Inclusive of the currency effect, which accounted for a \$37.7 million decrease, net revenue decreased \$46.6 million to \$174.2 million for the nine months ended September 30, 2009 from \$220.8 million for the nine months ending September 30, 2008.

Wholesale: Wholesale net revenue, exclusive of the currency effect, increased \$33.1 million, or 22.9%, to \$177.9 million for the nine months ended September 30, 2009 from \$144.7 million for the nine months ended September 30, 2008. Inclusive of the currency effect, which accounted for a \$19.8 million decrease, net revenue increased \$13.3 million to \$158.1 million for the nine months ended September 30, 2009 from \$144.7 million for the nine months ended September 30, 2008. Due to the decision to cease our German retail operations, all German wholesale operations were transferred to the United Kingdom beginning in the third quarter 2008. This transfer was completed in the first quarter 2009 (see Note 11 Discontinued Operations to the Consolidated Condensed Financial Statements presented herein). The following table reflects net revenue for each major country (in thousands, except percentages):

### Wholesale Revenue by Country in USD

|                 | Exclusive of Currency Effect<br>Nine Months Ended |               |                    |               |                |            |             | Inclusive of<br>Currency<br>Nine Months Ended<br>September 30,<br>2009 |                    |               |
|-----------------|---------------------------------------------------|---------------|--------------------|---------------|----------------|------------|-------------|------------------------------------------------------------------------|--------------------|---------------|
|                 | September 30, 2009                                |               | September 30, 2008 |               | Year-over-Year |            |             | Currency<br>Effect                                                     | September 30, 2009 |               |
|                 | Net<br>Revenue                                    | % of<br>Total | Net<br>Revenue     | % of<br>Total | Variance       | Variance % |             |                                                                        | Net<br>Revenue     | % of<br>Total |
| United States   | \$ 64,145                                         | 36%           | \$ 61,795          | 43%           | \$ 2,350       | 4%         | \$          |                                                                        | \$ 64,145          | 41%           |
| United Kingdom  | 75,162                                            | 42%           | 41,884             | 28%           | 33,278         | 79%        | (16,036)    |                                                                        | 59,127             | 37%           |
| France          | 9,618                                             | 5%            | 4,911              | 3%            | 4,707          | 96%        | (891)       |                                                                        | 8,727              | 6%            |
| Spain           | 6,060                                             | 3%            | 5,980              | 4%            | 80             | 1%         | (518)       |                                                                        | 5,542              | 4%            |
| Italy           | 22,872                                            | 12%           | 14,626             | 10%           | 8,246          | 56%        | (2,365)     |                                                                        | 20,507             | 13%           |
| Germany         | 6                                                 | 0%            | 15,367             | 11%           | (15,361)       | -100%      | (1)         |                                                                        | 5                  | 0%            |
| Other           |                                                   | 0%            | 173                | 0%            | (173)          | -100%      |             |                                                                        |                    | 0%            |
| Total Wholesale | \$ 177,863                                        | 100%          | \$ 144,736         | 100%          | \$ 33,127      | 23%        | \$ (19,811) |                                                                        | \$ 158,053         | 100%          |

United States: United States net revenue decreased \$15.7 million, or 23.6%, to \$50.9 million for the nine months ended September 30, 2009 from \$66.6 million for the nine months ended September 30, 2008. The decrease is primarily attributable to a decrease of \$10.0 million in retail voice services (for residential and small businesses), a decrease of \$4.4 million in VOIP services and a decrease of \$1.3 million in Internet services.

Europe: Europe net revenue, exclusive of the currency effect, decreased \$2.0 million, or 4.1%, to \$46.6 million for the nine months ended September 30, 2009 from \$48.6 million for the nine months ended September 30, 2008. Inclusive of the currency effect, which accounted for a \$6.6 million decrease, net revenue decreased \$8.6 million to \$40.0 million for the nine months ended September 30, 2009 from \$48.6 million for the nine months ended September 30, 2008.

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The following table reflects net revenue for each major country in Europe (in thousands, except percentages):

Revenue by Country (Excluding Wholesale) in USD

|                | Exclusive of Currency Effect         |                |                                      |                |                |            |                    | Inclusive of Currency                |                |
|----------------|--------------------------------------|----------------|--------------------------------------|----------------|----------------|------------|--------------------|--------------------------------------|----------------|
|                | Nine Months Ended                    |                |                                      |                | Year-over-Year |            |                    | Nine Months Ended                    |                |
|                | September 30, 2009<br>Net<br>Revenue | % of<br>Europe | September 30, 2008<br>Net<br>Revenue | % of<br>Europe | Variance       | Variance % | Currency<br>Effect | September 30, 2009<br>Net<br>Revenue | % of<br>Europe |
| United Kingdom | \$ 16,492                            | 35%            | \$ 20,081                            | 41%            | (3,589)        | -18%       | (3,580)            | \$ 12,912                            | 32%            |
| France         | 17,714                               | 38%            | 14,015                               | 29%            | 3,699          | 26%        | (1,813)            | 15,900                               | 40%            |
| Belgium        | 5,768                                | 12%            | 6,211                                | 13%            | (443)          | -7%        | (603)              | 5,165                                | 13%            |
| Spain          | 2,150                                | 5%             | 3,223                                | 7%             | (1,073)        | -33%       | (222)              | 1,929                                | 5%             |
| Italy          | 1,892                                | 4%             | 1,673                                | 3%             | 219            | 13%        | (201)              | 1,691                                | 4%             |
| Other          | 2,598                                | 6%             | 3,402                                | 7%             | (804)          | -24%       | (151)              | 2,447                                | 6%             |
| Europe Total   | \$ 46,614                            | 100%           | \$ 48,605                            | 100%           | \$ (1,991)     | -4%        | \$ (6,570)         | \$ 40,044                            | 100%           |

Brazil: Brazil net revenue, exclusive of the currency effect, increased \$5.1 million, or 67.4%, to \$12.7 million for the nine months ended September 30, 2009 from \$7.6 million for the nine months ended September 30, 2008. The revenue increase is due primarily to an increase in VOIP services. Inclusive of the currency effect, which accounted for a \$2.4 million decrease, net revenue increased \$2.8 million to \$10.4 million for the nine months ended September 30, 2009 from \$7.6 million for the nine months ended September 30, 2008.

Cost of revenue, exclusive of the currency effect, increased \$17.6 million to \$451.4 million, or 65.4% of net revenue, for the nine months ended September 30, 2009 from \$433.8 million, or 62.6% of net revenue, for the nine months ended September 30, 2008. Inclusive of the currency effect, which accounted for a \$60.1 million decrease, cost of revenue decreased \$42.4 million to \$391.4 million for the nine months ended September 30, 2009 from \$433.8 million for the nine months ended September 30, 2008.

Canada: Canada cost of revenue, exclusive of the currency effect, decreased \$5.3 million to \$83.2 million, or 43.8% of net revenue, for the nine months ended September 30, 2009 from \$88.5 million, or 43.4% of net revenue, for the nine months ended September 30, 2008. The decrease is primarily attributable to a decrease in net revenue of \$14.1 million and slightly higher costs, as a percentage of net revenue. Inclusive of the currency effect, which accounted for a \$10.7 million decrease, cost of revenue decreased \$16.1 million to \$72.5 million for the nine months ended September 30, 2009 from \$88.5 million for the nine months ended September 30, 2008.

Australia: Australia cost of revenue, exclusive of the currency effect, decreased \$0.7 million to \$133.1 million, or 62.8% of net revenue, for the nine months ended September 30, 2009 from \$133.7 million, or 60.6% of net revenue, for the nine months ended September 30, 2008. The decrease is primarily attributable to a decrease in net revenues of \$8.9 million offset by a \$5.8 million reduction to cost of revenue in 2008 as the result of rulings by the Australian regulatory authority. Inclusive of the currency effect, which accounted for a \$23.8 million decrease, cost of revenue decreased \$24.5 million to \$109.3 million for the three months ended September 30, 2009 from \$133.7 million for the three months ended September 30, 2008.

Wholesale: Wholesale cost of revenue, exclusive of the currency effect, increased \$30.2 million to \$170.2 million, or 95.7% of net revenue, for the nine months ended September 30, 2009 from \$140.0 million, or 96.7% of net revenue, for the nine months ended September 30, 2008. The increase is primarily attributable to an increase in net revenue of \$33.1 million offset, in part, by lower costs, as a percentage of net revenues, in the United States. Inclusive of the currency effect, which accounted for a \$19.1 million decrease, cost of revenue increased \$11.1 million to \$151.1 million for the nine months ended September 30, 2009 from \$140.0 million for the nine months ended September 30, 2008.

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United States: United States cost of revenue decreased \$10.5 million to \$23.1 million, or 45.3% of the net revenue, for the nine months ended September 30, 2009 from \$33.6 million, or 50.4% of net revenue, for the nine months ended September 30, 2008. The decrease is primarily attributable to a decrease of \$15.7 million in net revenue and a cost recovery of \$1.5 million from a dispute settlement.

Europe: European cost of revenue, exclusive of the currency effect, decreased by \$0.7 million to \$32.6 million, or 70.0% of net revenue, for the nine months ended September 30, 2009 from \$33.3 million, or 69.0% of net revenue, for the nine months ended September 30, 2008. Inclusive of the currency effect, which accounted for a \$4.7 million decrease, cost of revenue decreased \$5.4 million to \$27.9 million for the nine months ended September 30, 2009 from \$33.3 million for the nine months ended September 30, 2008.

Brazil: Brazil cost of revenue, exclusive of the currency effect, increased \$4.6 million to \$9.3 million, or 73.0% of net revenue, for the nine months ended September 30, 2009 from \$4.7 million, or 61.6% of net revenue, for the nine months ended September 30, 2008. The increase is primarily attributable to an increase in net revenue of \$5.1 million and higher costs, as a percentage of net revenue. Inclusive of the currency effect, which accounted for a \$1.7 million decrease, cost of revenue increased \$2.9 million to \$7.6 million for the nine months ended September 30, 2009 from \$4.7 million for the nine months ended September 30, 2008.

*Selling, general and administrative expenses*, exclusive of the currency effect, decreased \$40.9 million to \$167.4 million, or 24.3% of net revenue, for the nine months ended September 30, 2009 from \$208.3 million, or 30.1% of net revenue, for the nine months ended September 30, 2008. Inclusive of the currency effect, which accounted for a \$20.4 million decrease, selling, general and administrative expenses decreased \$61.4 million to \$147.0 million for the nine months ended September 30, 2009 from \$208.3 million for the nine months ended September 30, 2008.

Canada: Canada selling, general and administrative expense, exclusive of the currency effect, decreased \$13.1 million to \$65.4 million, or 34.4% of net revenue, for the nine months ended September 30, 2009 from \$78.5 million, or 38.4% of net revenue, for the nine months ended September 30, 2008. The decrease is attributable to a decrease of \$7.9 million in salaries and benefits, a decrease of \$5.1 million in sales and marketing expenses, a decrease of 0.7 million in general and administrative expenses and a decrease of \$0.5 million in travel and entertainment offset, in part, by an increase in professional fees of \$0.8 million and an increase of \$0.5 million in occupancy. Inclusive of the currency effect, which accounted for a \$8.3 million decrease, selling, general and administrative expenses decreased \$21.4 million to \$57.1 million for the nine months ended September 30, 2009 from \$78.5 million for the nine months ended September 30, 2008.

Australia: Australia selling, general and administrative expense, exclusive of the currency effect, decreased \$15.7 million to \$51.1 million, or 24.1% of net revenue, for the nine months ended September 30, 2009 from \$66.8 million, or 30.3% of net revenue, for the nine months ended September 30, 2008. The decrease is attributable to a decrease of \$5.8 million in salaries and benefits, a decrease of \$6.5 million in sales and marketing expense, a decrease of \$2.0 million in advertising expenses, a decrease of \$1.1 million in general and administrative expenses and a decrease of \$0.6 million in professional fees offset, in part, by an increase of \$0.5 million in occupancy. Inclusive of the currency effect, which accounted for a \$9.0 million decrease, selling, general and administrative expense decreased \$24.7 million to \$42.1 million for the nine months ended September 30, 2009 from \$66.8 million for the nine months ended September 30, 2008.

Wholesale: Wholesale selling, general and administrative expense, exclusive of the currency effect, decreased \$0.9 million to \$5.6 million, or 3.1% of net revenue, for the nine months ended September 30, 2009 from \$6.5 million, or 4.5% of net revenue, for the nine months ended September 30, 2008. Inclusive of the currency effect, which accounted for a \$0.6 million decrease, selling, general and administrative expense decreased \$1.4 million to \$5.0 million for the nine months ended September 30, 2009 from \$6.5 million for the nine months ended September 30, 2008.

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United States: United States selling, general and administrative expenses decreased \$8.4 million to \$19.4 million, or 38.1% of net revenue, for the nine months ended September 30, 2009 from \$27.7 million, or 41.6% of net revenue, for the nine months ended September 30, 2008. The decrease is attributable to a decrease of \$2.8 million in salaries and benefits, a decrease of \$2.0 million in advertising expenses, a decrease of \$1.6 million in general and administrative expenses, a decrease of \$0.9 million in sales and marketing expense, a decrease of \$0.5 million in occupancy and a \$0.4 million in professional fees.

Europe: Europe selling, general and administrative expense, exclusive of the currency effect, decreased \$4.1 million to \$16.9 million, or 10.6% of net revenue, for the nine months ended September 30, 2009 from \$21.0 million, or 16.0% of net revenue, for the nine months ended September 30, 2008. The decrease is attributable to a decrease of \$2.4 million in salaries and benefits, a decrease of \$0.8 million in occupancy, a decrease of \$0.2 million in advertising expense, a decrease of \$0.4 million in professional expenses, and \$0.3 in other expenses. Inclusive of the currency effect, which accounted for a \$2.5 million decrease, selling, general and administrative expense decreased \$6.6 million to \$14.4 million for the nine months ended September 30, 2009 from \$21.0 million for the nine months ended September 30, 2008.

Brazil: Brazil selling, general and administrative expense, exclusive of the currency effect, decreased \$0.6 million to \$2.8 million, or 21.9% of net revenue, for the nine months ended September 30, 2009 from \$3.4 million, or 44.2% of net revenue, for the nine months ended September 30, 2008. Inclusive of the currency effect, which accounted for a \$0.5 million decrease, selling, general and administrative expense decreased \$1.1 million to \$2.3 million for the nine months ended September 30, 2009 from \$3.4 million for the nine months ended September 30, 2008.

Corporate: Corporate selling, general and administrative expense increased \$0.9 million to \$8.9 million for the nine months ended September 30, 2009 from \$8.0 million for the nine months ended September 30, 2008. The increase is primarily due to an increase in compensation and severance accruals offset, in part, by lower professional fees.

*Depreciation and amortization expense* was \$32.4 million for the nine months ended September 30, 2009. Depreciation and amortization expense was \$25.4 million for the nine months ended September 30, 2008. This change occurred as a result of the fair valuing of fixed and intangible assets per Fresh Start accounting which was implemented effective July 1, 2009. See Note 4 *Fresh Start Accounting* in the notes to the Condensed Consolidated Financial Statements include in Part I, Item 1 herein.

*Gain/loss on sale or disposal of assets* In the nine months ended September 30, 2008, we recognized a gain of \$0.8 million associated with the sale of certain surplus fiber assets in the US and a gain of \$1.8 million associated with a sale of a minority equity investment in a Japanese entity, and a gain of \$4.6 million associated with the sale of primarily WIMAX spectrum assets.

*Interest expense and accretion on debt discount, net* decreased \$18.4 million to \$22.7 million for the nine months ended September 30, 2009 from \$41.1 million for the nine months ended September 30, 2008. The decrease was due to the lower debt levels primarily resulting from the cancellation of certain indebtedness through the Reorganization, effective as of July 1, 2009.

*Interest income and other income (expense)* decreased \$5.9 million to \$3.7 million expense for the nine months ended September 30, 2009 from \$2.2 million income for the nine months ended September 30, 2008. The decrease was mainly due to the change of the fair market value of CVRs of \$4.2 million recognized at September 30, 2009

*Gain on early extinguishment or restructuring of debt* was \$34.6 million from the nine months ended September 30, 2008. In the second quarter 2008, we realized a gain on restructuring of debt of \$32.2 million including the expensing of related financing costs. In the first quarter 2008, we made open market debt purchases resulting in a \$2.2 million gain on early extinguishment of debt including the write-off of related deferred financing costs, discount and effective interest.

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*Foreign currency transaction gain (loss)* increased \$47.2 million to a \$34.0 million gain for the nine months ended September 30, 2009 from a \$13.2 million loss for the nine months ended September 30, 2008. This gain is attributable to the impact of foreign currency exchange rate changes on intercompany debt balances and on receivables and payables denominated in a currency other than the subsidiaries' functional currency.

*Reorganization items, net* was a \$440.0 million gain for the nine months ended September 30, 2009. In accordance with ASC No. 852, the Company ceased amortization of debt premiums, discounts and deferred financing costs related to the liabilities subject to compromise on the Petition Date. The \$3.5 million of unamortized debt premiums and discounts has been written off and recorded as a gain, offset by the expensing of \$3.6 million of unamortized deferred financing costs, as an adjustment to the net carrying value of the pre-petition debt, and the incurrence of professional fees regarding the bankruptcy filing. 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. Professional fees and other expenses related to the reorganization were \$12.1 million for the nine months ended September 30, 2009.

*Income tax expense* decreased to an expense of \$1.8 million for the nine months ended September 30, 2009. The expense consists of foreign withholding tax on intercompany interest and royalty fees owed to a United States subsidiary by our Canadian and Australian subsidiaries, charges for uncertain tax positions under ASC No. 740, Income Taxes, taxable results for the operations of our Canadian subsidiaries and a tax benefit for the release of deferred tax liabilities set up in fresh-start relating to the current period amortization of the underlying asset for which the deferred tax liability was set up. The decrease in tax expense year-to-date as compared to the income tax expense as of June 30, 2009 was primarily due to the release of accrued tax liabilities related to the amortization of fresh start items.

## **Liquidity and Capital Resources**

### ***Changes in Cash Flows***

Our principal liquidity requirements arise from cash used in operating activities, purchases of network equipment including switches, related transmission equipment and capacity, development of back-office systems, expansion of data center facilities, interest and principal payments on outstanding debt and other obligations, taxes and acquisitions. We have financed our growth and operations to date through public offerings and private placements of debt and equity securities, vendor financing, capital lease financing and other financing arrangements.

Net cash provided by operating activities was \$6.9 million for the three months ended September 30, 2009. For the three months ended September 30, 2009, net income, net of non-cash operating activity, provided \$11.7 million of cash. In addition, cash was increased by a reduction in accounts receivable of \$2.6 million, a reduction in prepaid expenses and other current assets of \$2.1 million, an increase in accrued interconnection costs of \$3.7 million, an increase in accrued expenses, deferred revenue, other current liabilities and other liabilities, net of \$5.4 million and an increase in accrued interest of \$4.4 million. For the three months ended September 30, 2009, we used \$3.3 million to increase other assets, \$9.9 million to reduce our accounts payable, and \$3.7 million to reduce our accrued income taxes. Cash effect of reorganization items was \$6.1 million.

Net cash used in investing activities was \$4.0 million for the three months ended September 30, 2009, which included \$3.9 million of capital expenditures.

Net cash used in financing activities was \$4.6 million for the three months ended September 30, 2009. During the three months ended September 30, 2009, \$1.5 million was used to reduce our Canadian Credit Facility, \$0.9 million was used to reduce the principal amount of the Term Loan, \$1.5 million was used to payoff a financing arrangement for network equipment in Australia, and \$0.7 million was used to reduce the principal amounts outstanding on capital leases, leased fiber capacity, financing facilities and other long-term obligations.

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### ***Short- and Long-Term Liquidity Considerations and Risks***

The Chapter 11 Cases were preceded by severe downturns in global economic conditions and contraction of capital markets beginning in mid-year 2008, as well as the significant exchange rate appreciation of the United States dollar during the second half of 2008, which impaired our ability to strengthen the balance sheet opportunistically and improve cash flows through potential refinancing and equity capital infusions. Further, such conditions made the sale of non-strategic assets and businesses to generate enhanced liquidity difficult to complete on acceptable terms or at all. Additionally, given that the preponderance of our holding company obligations are in United States dollars, the sharp strengthening of the United States dollar as compared to other foreign currencies during the second half of 2008 added further strain on our liquidity position with payments from our foreign operating subsidiaries yielding less United States dollars.

Notwithstanding consummation 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 \$94.8 million principal amount of the Senior Secured Term Loan Facility, the \$28.0 million principal amount of the Canadian Credit Facility and the \$123.5 million principal amount of the Senior Subordinated Secured Notes due February 2011, May 2011 and May 2013, respectively; therefore, we expect to seek external financing prior to these maturity dates. 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. We may be subject to additional covenants and limitations in levels of debt and debt transactions. If we are successful in raising additional financing or issuing our securities in exchange for or extension of debt, securities comprising a significant percentage of our diluted equity capital may be issued in connection with the completion of such transactions. Additionally, if our plans or assumptions change or prove inaccurate, including those with respect to our debt levels, currency exchange rates, competitive developments, developments affecting our network or product initiatives, services, operations or cash from operating activities, if we consummate additional investments or acquisitions, if we experience unexpected costs or competitive pressures or if existing cash and any other borrowings prove to be insufficient, we may need to obtain such financing and/or relief sooner than expected. In such circumstances, there can be no assurance we will be successful in these efforts to obtain new capital or debt financing at acceptable terms or to exchange or to extend debt. Also there can be no assurance that changes in assumptions or conditions, including those referenced herein and under Part II. Item 1A. Risk Factors, and Special Note Regarding Forward-Looking Statements will not adversely affect our financial condition or short-term or long-term liquidity.

As of September 30, 2009, we have \$31.9 million in future minimum purchase obligations, \$51.9 million in future operating lease payments and \$252.6 million of indebtedness. At September 30, 2009, approximately \$90.0 million of unrecognized tax benefits have been recorded as liabilities in accordance with ASC No. 740; however, we are uncertain as to if or when such amounts may be settled, so we have not included these amounts in the table below. Included in the unrecognized tax benefits not included in the table below, we have recorded a liability for potential penalties and interest of \$0.1 million for the quarter ended September 30, 2009.

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The obligations reflected in the table below reflect the contractual payments of principal and interest that existed as of September 30, 2009:

| Year Ending December 31,                    | Vendor<br>Financing<br>and Other | Senior Secured<br>Term Loan<br>Facility (1) | Senior<br>Subordinated<br>Secured<br>Notes<br>(amounts in thousands) | Canadian<br>Credit<br>Facility (2) | Purchase<br>Obligations | Operating<br>Leases | Total      |
|---------------------------------------------|----------------------------------|---------------------------------------------|----------------------------------------------------------------------|------------------------------------|-------------------------|---------------------|------------|
| 2009 (as of September 30, 2009)             | \$ 727                           | \$ 3,833                                    | \$ 7,331                                                             | \$ 1,992                           | \$ 7,093                | \$ 4,330            | \$ 25,306  |
| 2010                                        | 4,497                            | 16,767                                      | 17,595                                                               | 7,685                              | 17,719                  | 13,724              | 77,987     |
| 2011                                        | 1,223                            | 89,713                                      | 17,595                                                               | 21,036                             | 4,305                   | 10,186              | 144,058    |
| 2012                                        | 349                              |                                             | 17,595                                                               |                                    | 2,761                   | 8,559               | 29,264     |
| 2013                                        | 161                              |                                             | 132,269                                                              |                                    |                         | 6,038               | 138,468    |
| Thereafter                                  | 33                               |                                             |                                                                      |                                    |                         | 9,075               | 9,108      |
| Total Minimum Principal & Interest Payments | 6,990                            | 110,313                                     | 192,385                                                              | 30,713                             | 31,878                  | 51,912              | 424,191    |
| Less: Amount<br>Representing Interest       | (726)                            | (15,488)                                    | (68,913)                                                             | (2,713)                            |                         |                     | (87,840)   |
| Total Long-Term Obligations                 | \$ 6,264                         | \$ 94,825                                   | \$ 123,472                                                           | \$ 28,000                          | \$ 31,878               | \$ 51,912           | \$ 336,351 |

(1) For preparation of this table, we have assumed the interest rate of the Senior Secured Term Loan Facility to be 12.0%.

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

We have contractual obligations to utilize network facilities from certain carriers with terms greater than one year. We generally do not purchase or commit to purchase quantities in excess of normal usage or amounts that cannot be used within the contract term. We have minimum annual purchase obligations of \$7.1 million, \$17.7 million, \$4.3 million, and \$2.8 million remaining in 2009, 2010, 2011 and 2012, respectively.

## Newly Adopted Accounting Principles

Effective July 1, 2009, we adopted ASC No. 105, Generally Accepted Accounting Principles. ASC No. 105 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 adoption did not have a material impact on our results of operations, financial position and cash flows.

Effective April 1, 2009, we adopted ASC No. 855, Subsequent Events. ASC No. 855 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. ASC No. 855 also requires disclosure of the date through which subsequent events are evaluated by management. The adoption did not have a material effect on our results of operations, financial position or cash flows.

Effective January 1, 2009, we adopted ASC No. 470-20, Debt with Conversion and Other Options. ASC No. 470-20 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. ASC No. 470-20 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 our results of operations, financial position or cash flows.

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Effective January 1, 2009, we 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 our results of operations, financial position or cash flows.

Effective January 1, 2009, we adopted ASC No. 805, Business Combinations. ASC No. 805 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 our results of operations, financial position or cash flows.

In February 2008, the FASB issued ASC No. 820, Fair Value Measurements. The provisions of ASC No. 820 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 our financial statements. ASC No. 820 collectively delayed the effective date 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 ASC No. 820. On January 1, 2009, we adopted the provisions of ASC No. 820 for nonrecurring fair value measurements of nonfinancial assets and liabilities. The provisions adopted in the first quarter 2009 did not have an impact on our financial statements as we did not have any fair value measurements of nonfinancial assets and liabilities as of September 30, 2009.

In March 2008, the FASB issued ASC No. 815, Derivative and Hedging. ASC No. 815 amends and expands the disclosure requirements 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. ASC No. 815 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. 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. We are currently evaluating the impact the provisions of SFAS No. 167 on our financial statements.

## **Special Note Regarding Forward Looking Statements**

Certain statements in this Quarterly Report on Form 10-Q/A and elsewhere concerning future liquidity, cost savings initiatives and related matters constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based on current expectations, and are not strictly historical statements. In some cases, you can identify forward-looking statements by terminology such as if, may, should, believe, anticipate, future, forward, potential, estimate, opportunity, goal, objective, exchange, growth, outcome, could, expect, intend, plan, strategy, provide, commitment, ongoing, include or in the negative of such terms or comparable terminology. These

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forward-looking statements inherently involve certain risks and uncertainties, although they are based on our current plans or assessments which are believed to be reasonable as of the date of this filing. Forward-looking statements include, without limitation, statements set forth in this document and elsewhere regarding, among other things:

post-restructuring financial condition, financing requirements, prospects and cash flow;

expectations of future growth, creation of shareholder value, revenue, foreign revenue contributions and net income, as well as income from operations, margins, earnings per share, cash flow and cash sufficiency levels, working capital, network development, customer migration and related costs, spending on and success with growth products, including broadband Internet, VOIP, wireless, local, data and hosting services, traffic development, capital expenditures, selling, general and administrative expenses, income tax and withholding tax expense, fixed asset and goodwill impairment charges, service introductions, cash requirements and potential asset sales;

increased competitive pressures, declining usage patterns, and our growth products, bundled service offerings, the pace and cost of customer migration onto our networks, the effectiveness and profitability of the growth products;

financing, refinancing, debt extension, de-leveraging, restructuring, exchange or tender plans or initiatives, and potential dilution of existing equity holders from such initiatives;

liquidity and debt service forecast;

assumptions regarding currency exchange rates;

timing, extent and effectiveness of cost reduction initiatives and management's ability to moderate or control discretionary spending;

management's plans, goals, expectations, guidance, objectives, strategies, and timing for future operations, acquisitions, asset dispositions, product plans, performance and results;

management's assessment of market factors and competitive developments, including pricing actions and regulatory rulings; and

ability to generate net cash proceeds from the disposition of selective assets without material impairment to profitability.

Factors and risks that could cause actual results or circumstances to differ materially from those set forth or contemplated in forward looking statements include those set forth in "Risk Factors" as well as, without limitation:

the occurrence of a default or event of default under the Term Loan or other financing agreement;

customer, vendor, carrier and third-party responses to Plan confirmation;

changes in business conditions causing changes in the business direction and strategy by management;

heightened competitive pricing and bundling pressures in the markets in which we operate;

the ability to service substantial indebtedness;

accelerated decrease in minutes of use on wireline phones;

fluctuations in the exchange rates of currencies, particularly of the USD relative to foreign currencies of the countries where we conduct our foreign operations;

adverse interest rate developments affecting our variable interest rate debt;

difficulty in maintaining or increasing customer revenues and margins through our product initiatives and bundled service offerings, and difficulties in migrating and provisioning broadband and local customers to digital subscriber line (DSL) networks;

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inadequate financial resources to promote and to market product initiatives;

fluctuations in prevailing trade credit terms or revenues due to the adverse impact of, among other things, further telecommunications carrier bankruptcies or adverse bankruptcy related developments affecting our large carrier customers;

the possible inability to raise additional capital when needed, on attractive terms, or at all;

possible claims under our existing debt instruments which could impose constraints and limit our flexibility;

the inability to service substantial indebtedness and to reduce, refinance, extend, exchange, tender for or restructure debt significantly, or in amounts sufficient to conduct regular ongoing operations;

the impact of the delisting of our common stock from the Nasdaq Capital Market which may impair our ability to raise capital;

further changes in the telecommunications or Internet industry, including rapid technological changes, regulatory and pricing changes in our principal markets and the nature and degree of competitive pressure that we may face;

adverse tax or regulatory rulings from applicable authorities;

enhanced broadband, DSL, Internet, wireless, VOIP, data and hosting and local and long distance voice telecommunications competition;

changes in financial, capital market and economic conditions;

changes in service offerings or business strategies, including the need to modify business models if performance is below expectations;

difficulty in retaining existing long distance wireline and dial-up ISP customers;

difficulty in migrating or retaining customers associated with acquisitions of customer bases, or integrating other assets;

difficulty in selling new services in the marketplace;

difficulty in providing broadband, DSL, local, VOIP, data and hosting or wireless services;

changes in the regulatory schemes or requirements and regulatory enforcement in the markets in which we operate;

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restrictions on our ability to execute certain strategies or complete certain transactions as a result of our inexperience with new products, or limitations imposed by available cash resources, our capital structure or debt covenants;

risks associated with our limited DSL, Internet, VOIP, data and hosting and wireless experience and expertise, including effectively utilizing new marketing channels such as interactive marketing employing the Internet;

entry into developing markets;

aggregate margin contribution from the new products is not sufficient in amount or timing to offset the margin decline in our legacy long distance voice and dial-up ISP businesses;

the possible inability to hire and/or retain qualified executive management, sales, technical and other personnel;

risks and costs associated with our effort to locate certain activities and functions off-shore;

risks associated with international operations;

dependence on effective information and billing systems;

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possible claims for patent infringement on products or processes employed in providing our services;

dependence on third parties for access to their networks to enable us to expand and manage our global network and operations and to offer broadband, DSL, local, VOIP and wireless services, including dependence upon the cooperation of incumbent carriers relating to the migration of customers;

dependence on the performance of our global standard asynchronous transfer mode and Internet-based protocol (ATM+IP) communications network; risks associated with maintaining and upgrading networks; and

adverse regulatory rulings or actions affecting our operations, including the imposition of taxes and fees, the imposition of obligations upon VOIP providers to provide enhanced 911 (E911) services and restricting access to broadband networks owned and operated by others, including the development of a national broadband network in Australia.

As such, actual results or circumstances may vary materially from such forward looking statements or expectations. Readers are also cautioned not to place undue reliance on these forward looking statements which speak only as of the date these statements were made. We are not obligated to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our primary market risk exposures relate to changes in foreign currency exchange rates, valuations of derivatives and to changes in interest rates.

Foreign currency can have a major impact on our financial results. Currently about 80% of our net revenue is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the USD. The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive the majority of our net revenue and incur a significant portion of our operating costs from outside the United States, and therefore changes in exchange rates have had and may continue to have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the following exchange rates: USD/CAD, USD/AUD, USD/GBP, and USD/EUR. Due to the large percentage of our revenue derived outside of the United States, changes in the USD relative to one or more of the foregoing currencies could have an adverse impact on our future results of operations. We have agreements with certain subsidiaries for repayment of a portion of the investments and advances made to these subsidiaries. As we anticipate repayment in the foreseeable future, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations. We historically have not engaged in hedging transactions. However, during the fourth quarter 2007, we completed a forward currency contract required by the Canadian Credit Facility and an interest rate swap. Despite the counterparty to the interest rate swap agreement entering bankruptcy in October 2008, management did not believe that breach or event of default had occurred in relation to the Canadian Credit Facility. As of March 10, 2009, under the Waiver and Amendment Agreement described in Item 1 under caption Canadian Credit Facility, the Lenders under the Canadian Credit Facility waived any such possible breach or event of default. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies.

We are exposed to financial statement gains and losses as a result of translating the operating results and financial position of our international subsidiaries. We translate the local currency statements of operations of our foreign subsidiaries into USD using the average exchange rate during the reporting period. Changes in foreign exchange rates affect the reported profits and losses and cash flows and may distort comparisons from year to year. By way of example, when the USD strengthens compared to the EUR, there could be a negative or positive effect on the reported results for Europe, depending upon whether Europe is operating profitably or at a loss. It

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takes more profits in EUR to generate the same amount of profits in USD and a greater loss in EUR to generate the same amount of loss in USD. The opposite is also true. For instance, when the USD weakens there is a positive effect on reported profits and a negative effect on reported losses for Europe.

In the three months and nine months ended September 30, 2009, as compared to the three months and nine months ended September 30, 2008, the USD was stronger on average as compared to the AUD, CAD, GBP and EUR. As a result, our revenue of the subsidiaries whose local currency is AUD, CAD, GBP and EUR increased (decreased) (4)%, (9)%, 19% and (4)% in local currency compared to the three months ended September 30, 2008, but increased (decreased) (10)%, (14)%, 2% and (9)% in USD, respectively. Our revenue of the subsidiaries whose local currency is AUD, CAD, GBP and EUR increased (decreased) (4)%, (7)%, 48% and 0% in local currency compared to the nine months ended September 30, 2008, but increased (decreased) (21)%, (19)%, 16% and (10)% in USD, respectively

**Interest rates** The Senior Subordinated Secured Notes are at a fixed interest rate of 14.25%. However, the Term Loan is at a variable rate of LIBOR plus 9.00% with a LIBOR floor of 3.00%, and the Canadian Credit Facility is at a variable rate LIBOR plus 4.50% with a LIBOR floor of 2.50%. We are exposed to interest rate risk as debt refinancing may be required. Our primary exposure to market risk stems from fluctuations in interest rates.

The interest rate sensitivity table below summarizes our market risks associated with fluctuations in interest rates for the nine months ended September 30, 2009 in USD, which is our reporting currency. The table presents principal cash flows and related weighted average interest rates by year of expected maturity for our senior secured term loan, Senior Subordinated Secured Notes, Canadian Credit Facility, leased fiber capacity, and other long-term obligations in effect at September 30, 2009.

|                       | 2009                               | 2010      | Year of Maturity |        | 2013       | Thereafter | Total      | Fair Value |
|-----------------------|------------------------------------|-----------|------------------|--------|------------|------------|------------|------------|
|                       |                                    |           | 2011             | 2012   |            |            |            |            |
|                       | (in thousands, except percentages) |           |                  |        |            |            |            |            |
| Fixed Rate            | \$ 548                             | \$ 4,079  | \$ 1,126         | \$ 326 | \$ 123,625 | \$ 32      | \$ 129,736 | \$ 119,242 |
| Average Interest Rate | 8.7%                               | 12.5%     | 10.8%            | 8.9%   | 14.2%      | 4.0%       | 14.1%      |            |
| Variable Rate         | \$ 2,425                           | \$ 11,600 | \$ 108,800       | \$     | \$         | \$         | \$ 122,825 | \$ 109,866 |
| Average Interest Rate | 8.9%                               | 9.4%      | 11.1%            | 0.0%   | 0.0%       | 0.0%       | 10.9%      |            |

**ITEM 4. CONTROLS AND PROCEDURES****Evaluation of Disclosure Controls and Procedures.**

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, as a result of the material weaknesses described below, our Principal Executive Officer and our Principal Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective. Disclosure controls and procedures mean our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

As part of our compliance efforts relative to Section 404 of Sarbanes-Oxley Act of 2002, management assessed the effectiveness of internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the

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Treadway Commission ( COSO ) in Internal Control-Integrated Framework. Based on the assessment, management identified a material weakness in our internal control over accounting for income taxes. The material weakness in internal control related to a lack of documentation and insufficient historical analysis, primarily caused by turnover in the role of Corporate Tax Director. This material weakness was first identified as of December 31, 2006. The turnover of the Corporate Tax Director position led to a knowledge gap with respect to historical issues and conclusions and severely hampered our remediation efforts. These deficiencies represent a material weakness in internal control over financial reporting on the basis that there is more than a remote likelihood that a material misstatement in our interim or annual financial statements due to errors in accounting for income taxes could occur and would not be prevented or detected by our internal control over financial reporting.

In March, 2010, the Company determined that an error existed relating to accounting for foreign currency transaction gain (loss) on certain intercompany balances. Specifically, this error related to the translation of intercompany balances and resulted in the overstatement of foreign currency transaction losses for the quarter ended September 30, 2009. See Note 15 of the Notes to Consolidated Condensed Financial Statements for further information. As a result of the error described above, the Company has determined that as of September 30, 2009, a material weakness existed with respect to its determination of the completeness and accuracy and monitoring of foreign currency transaction gain (loss) related to certain intercompany balances. A material weakness is a control deficiency or combination of control deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Additionally, this material weakness could result in a misstatement of net income (loss) that could result in a material misstatement of the interim or annual consolidated financial statements that would not be prevented or detected if not remediated.

### **Changes in Internal Control.**

Our Principal Executive Officer and our Principal Financial Officer have concluded that there have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2009, that have materially affected or is reasonably likely to affect materially, our internal control over financial reporting, except for the items noted below.

Our income tax accounting has significant complexity due to the nature of our business, our varied types of refinancing and debt transactions, the significant number of foreign subsidiary legal entities and various tax planning strategies. To address this complexity, on May 27, 2009, we re-hired our former Corporate Tax Director to provide oversight of the domestic, foreign and consolidated income tax responsibilities and on July 6, 2009 a new Manager of Taxation in our Canadian operating unit. Our Corporate Tax Director originally held this position from October 1, 2007 – September 5, 2008. In addition, we utilized third party tax advisors both to assist in the administrative and consolidation duties of preparing the income tax provision and disclosures and also to advise on matters beyond our in-house expertise. We believe that the personnel hired have the appropriate knowledge, experience and skills to implement and maintain the proper controls over accounting for income taxes.

### ***Subsequent Remediation Efforts***

As a result of the Company's determination that the controls in place over the process of translating certain intercompany balances did not operate effectively as of September 30, 2009, the Company has designed procedures and is implementing new controls to address the control failure that occurred, including: a) performing additional recalculations and analysis of the foreign currency transaction gain (loss) recorded on intercompany balances; b) implementing an improved process for assessing the reasonableness of foreign currency transaction gain (loss) recorded on intercompany balances; and c) confirming settlements related to intercompany balances at a transactional level. Management believes that these corrective actions, taken as a whole, will successfully mitigate the material weakness described above, and the Company will continue to perform the enhanced procedures as part of the normal accounting process.

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### **PART II. OTHER INFORMATION**

#### **ITEM 1. LEGAL PROCEEDINGS**

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

#### **ITEM 1A. RISK FACTORS**

A wide range of factors could materially affect our performance. In addition to factors affecting specific business operations and the financial results of those operations identified elsewhere in this report, the following factors, among others, could adversely affect our operations:

##### **Risks Related to Our Business**

*Continuing global economic conditions could adversely affect our business.*

Recently, the global economy and capital and credit markets have been experiencing exceptional turmoil and upheaval. Many major economies entered significant recessions in 2008 which continue in 2009. Ongoing concerns about the systemic impact of potential long-term and wide-spread recession, volatile energy costs, geopolitical issues, the availability, cost and terms of credit, declining consumer and business confidence, substantially increased unemployment and the crisis in the global housing and mortgage markets have contributed to increased market volatility and diminished expectations for both established and emerging economies, including those in which we operate. In the second half of 2008, added concerns fueled by government interventions in financial systems led to increased market uncertainty and instability in both U.S. and international capital and credit markets. These conditions have contributed to substantial economic uncertainty. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in many cases cease to provide, credit to businesses and consumers. These factors have led to a substantial and continuing decrease in spending by businesses and consumers, and a corresponding decrease in global infrastructure spending. The availability, cost and terms of credit have been, and may continue to be, adversely affected by the foregoing factors and these circumstances have produced, and may in the future result in, illiquid markets and wider credit spreads. Continued turbulence in the U.S. and international markets and economies and prolonged declines in business and consumer spending may adversely affect our results, liquidity and financial condition, and the results, liquidity and financial condition of our customers. These conditions could adversely impact our ability to refinance maturing debt instruments and to access the capital markets and obtain capital lease financing to meet liquidity needs. This financial crisis also may have an impact on our business and financial condition in the following detailed ways, as well as in other ways that we currently cannot predict.

*Potential risk in refinancing outstanding debts:* Although none of our major debt instruments matures until 2011, if the current negative state of global capital and credit markets were to continue, our ability to refinance our existing indebtedness when due could be severely constrained. Any such refinancing could require significantly more expensive interest rates and burdensome covenants that could restrict our operations to a significantly greater extent.

*Negative impacts from increased financial pressures on customers:* Uncertainty about current and future global economic conditions and credit markets may cause consumers, businesses and governments to defer purchases of goods or services in response to tighter credit, decreased availability of cash and credit and declining business and consumer confidence, and this could adversely affect our customers. Accordingly, future demand for our products and services could decline or differ substantially from our current expectations. Similarly, our customers may experience liquidity issues of

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their own that adversely affect our ability to collect amounts due from them in a timely fashion, or at all. In addition, if the global economy and credit markets continue to deteriorate and our future sales decline, our financial condition, liquidity and results of operations would be adversely impacted.

*Negative impacts from increased financial pressures on our ability to maintain and further enhance our network:* We plan to arrange financing with vendors and third parties for a significant portion of the capital expenditures that we plan for the maintenance and upgrade of capacity and services of our telecommunication systems. The lack of credit in the global capital markets may constrain our ability to obtain such financing on commercially reasonable terms or at all. To the extent we are not able to obtain appropriate financing, we may not be able to implement certain of our growth investments, which could have an adverse effect on future results.

***Strengthening of the United States dollar against certain foreign currencies reduces the amount of United States dollars generated from foreign currency payments from our foreign operating subsidiaries and may adversely affect our results of operations and our ability to service our debt.***

A significant portion of our net revenue (about 80% for the nine months ended September 30, 2009) is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the United States dollar ( USD ). Our foreign operating subsidiaries, including our largest operating subsidiaries in Canada and Australia, generate cash in their respective local currencies, and this cash is an important source of payment to United States parent entities which are obligated to service most of our debt, denominated in United States dollars. However, payments to United States parent entities from these foreign operating subsidiaries are reduced by any material strengthening of the United States dollar, as the yield in United States dollars is reduced. For instance, from June 30, 2008 through December 31, 2008, the Canadian and Australian dollars declined by 17% and 28%, respectively, relative to the United States dollar, and this made subsidiary purchases of U.S. dollars more expensive. This, in turn, had a material adverse impact on amounts of United States dollars that could be transferred from foreign subsidiaries to United States parent entities. Future strengthening of the U.S. dollar, therefore, could have a material adverse effect on foreign subsidiaries' upstream transfer of funds and on our parent entities' ability to service timely our consolidated indebtedness and obligations.

In the future, we expect to continue to derive a significant portion of our net revenue and incur a significant portion of our operating costs outside the United States, and changes in exchange rates have had and may have a significant, and potentially adverse, effect on our results of operations. We historically have not engaged in hedging transactions. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies. In addition, the operations of affiliates and subsidiaries in foreign countries have been funded with investments and other advances denominated in foreign currencies. Historically, such investments and advances have been long-term in nature, and we accounted for any adjustments resulting from currency translation as a charge or credit to accumulate other comprehensive loss within the stockholders' deficit section of our consolidated balance sheets. In 2002, agreements with certain subsidiaries were put in place for repayment of a portion of the investments and advances made to those subsidiaries. As we anticipate repayment in the foreseeable future of these amounts, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations, and depending upon changes in future currency rates, such gains or losses could have a significant, and potentially adverse, effect on our results of operations.

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### ***Our high level of debt and liquidity needs may adversely affect our financial and operating flexibility.***

We currently have substantial indebtedness and anticipate that we may incur additional indebtedness in the future in connection with refinancings or the operation or expansion of our business. The recent tightening of global credit markets could also adversely affect our ability to raise needed capital or effect refinancings on acceptable terms or at all. The level and/or terms of our indebtedness:

could make it difficult for us to make required payments of principal and interest on our outstanding debt as they become due;

could limit our ability to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements or other purposes;

require that a substantial portion of our cash flow, if any, be dedicated to the payment of principal and interest on outstanding indebtedness and other obligations and, accordingly, such cash flow will not be available for use in our business;

could limit our flexibility in planning for, or reacting to, changes in our business, including demands by some suppliers for more stringent payment terms;

result in our being more highly leveraged than many of our competitors, which places us at a competitive disadvantage;

will make us more vulnerable in the event of a downturn in our business; and

could limit our ability to fund our operations due to covenant restrictions.

***Our disclosure controls and procedures and internal control over financial reporting were determined not to be effective as of December 31, 2006, 2007 and 2008, due to the material weakness that existed in our internal control over accounting for income taxes. Our disclosure controls and procedures and internal control over financial reporting may not be effective in future periods as a result of existing or newly identified material weaknesses in internal control over financial reporting.***

In performing an internal control assessment at the end of 2006, our management identified a material weakness in our internal control over financial reporting, which condition still existed in 2007 and 2008. An additional material weakness was identified in connection with the Restatement. See Part I, Item 4 Controls and Procedures. A material weakness is a deficiency, or a combination of deficiencies, that adversely affects a company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles ( GAAP ) such that there is a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. To address the material weakness, we performed additional analysis and other post-closing procedures in order to prepare our consolidated financial statements in accordance with GAAP. These additional procedures were costly, time consuming and required us to dedicate a significant amount of resources, including the time and attention of our senior management, toward the correction of these problems. Performing these additional procedures in the future could cause delays in the filing of our periodic and current reports to the Securities and Exchange Commission (the SEC ). Any potential delay in the filing of our periodic and annual reports could have other adverse effects on our business, including, but not limited to:

civil litigation or an investigation by the SEC or other regulatory authorities, which could require us to incur significant legal expenses and other costs or to pay damages, fines or other penalties;

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covenant defaults, and potential events of default, under our senior secured credit facilities and the indentures governing our outstanding debt securities, resulting from our failure to timely file our financial statements;

negative publicity; and

the loss or impairment of investor confidence in our Company.

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***We are substantially smaller than our major competitors, whose marketing and pricing decisions, and relative size advantage, could adversely affect our ability to attract and to retain customers and are likely to continue to cause significant pricing pressures that could adversely affect our net revenues, results of operations and financial condition.***

The local, long distance, Internet, broadband, DSL, data and hosting and wireless telecommunications industry is significantly influenced by the marketing and pricing decisions of the larger local long distance, Internet access, broadband, DSL, data and hosting and wireless business participants. Prices in the long distance industry have continued to decline in recent years, and as competition continues to increase within each of our service segments and each of our product lines, we believe that prices are likely to continue to decrease. Competitors in our primary markets include among others:

United States: AT&T Corp., Verizon Communications Inc., and the other regional bell operating companies ( RBOCs ), cable companies, independent VOIP providers, Vonage and the major wireless carriers in the United States;

Australia: Telstra Corporation Limited, SingTel Optus Pty Limited and AAPT Limited; and

Canada: Telus Corporation, BCE Elix., MTS Allstream Inc. (formerly AT&T Canada Corp.) and the major wireless and cable companies in Canada.

Customers frequently change local long distance, wireless, broadband providers, and ISPs in response to the offering of lower rates or promotional incentives, increasingly as a result of bundling of various services by competitors. Moreover, competitors' VOIP and broadband product rollouts have added further customer choice and pricing pressure. As a result, generally, customers can switch carriers and service offerings at any time. Competition in all of our markets is likely to remain intense, or even increase in intensity and, as deregulatory influences are experienced in markets outside the United States, competition in non-United States markets is becoming similar to the intense competition in the United States.

Many of our competitors are significantly larger than us and have substantially greater financial, technical and marketing resources, larger networks, a broader portfolio of service offerings, greater control over network and transmission lines, stronger name recognition and customer loyalty, long-standing relationships with our target customers, and lower debt leverage ratios. As a result, our ability to attract and retain customers may be adversely affected. Many of our competitors enjoy economies of scale that result in low cost structures for transmission and related costs that could cause significant pricing pressures within the industry.

Several long distance carriers in the United States, Canada and Australia and the major wireless carriers and cable companies have introduced pricing and product bundling strategies that provide for fixed, low rates for calls. This strategy of our competitors could have a material adverse effect on our net revenue per minute, results of operations and financial condition if our pricing, set to remain competitive, is not offset by similar declines in our costs. We compete on the basis of price, particularly with respect to our sales to other carriers, and also on the basis of customer service and our ability to provide a variety of telecommunications products and services. If such price pressures and bundling strategies intensify, we may not be able to compete successfully in the future, may face quarterly revenue and operating results variability, and may have heightened difficulty in estimating future revenues or results.

***In light of existing intense competition in individual and bundled local, wireless, broadband, DSL, Internet, data and hosting and VOIP markets, we may not be able to operate successfully or expand our operations in these markets.***

We have accelerated initiatives to become an integrated wireline, wireless and broadband service provider in order to counter competitive pricing pressures initiated by large incumbent providers in certain of the principal markets where we operate and to stem the loss of certain of our wireline voice and dial-up Internet service provider ( ISP ) customers to our competitors' bundled wireline, wireless and broadband service offerings. Our primary competitors include incumbent telecommunications providers, cable companies and other ISPs that have

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a significant national or international presence. Many of these operators have substantially greater resources, capital and operational experience than we do. We are experiencing increased competition from traditional telecommunications carriers, cable companies and other new entrants that have expanded into the market for broadband, VOIP, Internet services, data and hosting and traditional voice services. In addition, regulatory developments may impair our ability to compete. Therefore, future operations involving these individual or bundled services may not succeed in the competitive environment, and we (1) may not be able to expand successfully; (2) may experience margin pressure; (3) may face quarterly revenue and operating results variability; (4) may have limited resources to develop and to market the new services; and (5) have heightened difficulty in establishing future revenues or results. As a result, there can be no assurance that we will reverse revenue declines in our traditional long distance voice and dial-up ISP services or maintain or increase revenues for other services or be able to generate sufficient income from operations or net income in the future or on any predictable or timely basis.

***Our repositioning in the marketplace and the intense domestic and international competition in these markets place a significant strain on our resources and, if not managed effectively, could result in operational inefficiencies and other difficulties.***

Our repositioning in the marketplace to focus on broadband, IP-based voice, local, wireless, data and data center solutions may place a significant strain on our management, operational and financial resources and increase demand on our systems and controls. Moreover, the local and long distance telecommunications, data, broadband, Internet, VOIP, data and hosting and wireless industries are intensely competitive, present relatively limited barriers to entry in the more deregulated countries in which we operate and involve numerous entities competing for the same customers. Recent and pending deregulation in various countries may encourage new entrants to compete, including ISPs, wireless companies, and cable television companies, who could offer voice, broadband, Internet access and television services, and electric power utilities, who could offer voice and broadband Internet access. In addition, the United States and many other countries have committed to open their telecommunications markets to competition pursuant to an agreement under the World Trade Organization which began on January 1, 1998. Further, in the United States, the major landline incumbent carriers (including AT&T and Verizon) have for many years also provided long distance services, and previously independent long distance providers (including MCI) have been acquired by the landline incumbents. In addition, many entities, including large cable television companies (including Comcast, Time Warner, Cablevision, and Charter) and utilities, have been allowed to enter both the local service and long distance telecommunications markets.

To manage our repositioning effectively, we must continue to implement and improve our operational and financial systems and controls, invest in critical network infrastructure to maintain or improve our service quality levels, purchase and utilize other transmission facilities, and train and manage our employee base. If we inaccurately forecast the movement of traffic onto our network, we could have insufficient or excessive transmission facilities and disproportionate fixed expenses. As we proceed with our development, operational difficulties could arise from additional demand placed on customer provisioning and support, billing and management information systems, product delivery and fulfillment, support, sales and marketing, administrative resources, network infrastructure, maintenance and upgrading. For instance, we may encounter delays or cost-overruns or suffer other adverse consequences in implementing new systems when required, such as our need to off-shore certain functions.

***We have experienced significant historical, and may experience significant future, operating losses and net losses which may hinder our ability to meet our debt service or working capital requirements.***

For the Successor Period, we had accumulated earnings of \$2.2 million. We incurred net losses of \$149.2 million in 2005, \$238.0 million in 2006 and \$25.0 million in 2008. During the year ended December 31, 2007, we recognized net income of \$15.7 million, of which \$32.7 million was related to the positive impact of foreign currency transaction gains. During the six months ended July 1, 2009, we recognized net income of \$471.1 million, of which \$21.1 million was related to the positive impact of foreign currency transaction gains

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and \$440.0 million was related to the positive impact of reorganization items, net. Even with the reduction in indebtedness through our recent reorganization, future losses may continue. We cannot assure you that we will recognize net income in future periods. If we cannot generate net income or sufficient operating profitability, we may not be able to meet our debt service or working capital requirements.

*A deterioration in our relationships with facilities-based carriers could have a material adverse effect upon our business.*

We primarily connect our customers' telephone calls and data/Internet needs through transmission lines that we lease under a variety of arrangements with other facilities-based long distance carriers. Many of these carriers are, or may become, our competitors. Our ability to maintain and expand our business depends on our ability to maintain favorable relationships with the facilities-based carriers from which we lease transmission lines. If our relationship with one or more of these carriers were to deteriorate or terminate, for any of a variety of reasons, it could have a material adverse effect upon our cost structure, service quality, network diversity, results of operations, financial condition, and cash flows.

*Uncertainties and risks associated with international markets and regulatory requirements could adversely impact our international operations.*

We have significant international operations and, for the nine months ended September 30, 2009, derived about 80% of our net revenues by providing services outside of the United States. In international markets, we are smaller than the principal or incumbent telecommunications carrier that operates in each of the foreign jurisdictions where we operate. In these markets, incumbent carriers (1) are likely to control access to, and pricing of, the local networks; (2) enjoy better brand recognition and brand and customer loyalty; (3) generally offer a wider range of product and services; and (4) have significant operational economies of scale, including a larger backbone network and more correspondent agreements. Moreover, the incumbent carrier may take many months to allow competitors, including us, to interconnect to our switches within our territory, and we are dependent upon their cooperation in migrating customers onto our network. There can be no assurance that we will be able to (1) obtain the permits and operating licenses required for us to operate; (2) obtain access to local transmission facilities on economically acceptable terms; or (3) market services in international markets.

In addition, operating in international markets generally involves additional risks, including unexpected changes or uncertainties in regulatory requirements, taxes, tariffs, customs and duties. Given the nature of our operations and uncertainties in, or the absence of definitive regulations or interpretations concerning, the taxation of (including value added tax of) certain aspects of our business in certain international jurisdictions in which we conduct (or may be construed by such authorities as conducting or deriving taxable) operations or revenue, we may become subject to assessments for taxes (which may include penalties and interest) which are either unexpected and/or have not been accrued for in our historical results of operations. This circumstance occurred during March 2008, when we concluded it was probable that assessments would be forthcoming concerning past European prepaid calling services operations, and it is possible that tax uncertainties concerning our international operations could arise in the future. Such developments, in addition to the other uncertainties and risks described above, could have adverse consequences that might result in restatement of prior period results of operations and unanticipated liquidity demands. Additional operating risks and uncertainties in operating in international markets include trade barriers, difficulties in staffing and managing foreign operations, problems in collecting accounts receivable, political risks, fluctuations in currency exchange rates, restrictions associated with the repatriation of funds, technology export and import restrictions, and seasonal reductions in business activity. Our ability to operate and grow our international operations successfully could be adversely impacted by these risks and uncertainties particularly in light of the fact that we derive such a large percentage of our revenues from outside of the United States.

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***The telecommunications industry is rapidly changing, and if we are not able to adjust our strategy and resources effectively in the future to meet changing market conditions, we may not be able to compete effectively.***

The telecommunications industry is changing rapidly due to deregulation, privatization, consolidation, technological improvements, availability of alternative services such as wireless, broadband, DSL, Internet, VOIP, data and hosting and wireless DSL through use of the fixed wireless spectrum, and the globalization of the world's economies. In addition, alternative services to traditional fixed wireline services, such as wireless, broadband, Internet and VOIP services, are a substantial competitive threat. If we do not adjust to meet changing market conditions or do not have adequate resources, we may not be able to compete effectively. The telecommunications industry is marked by the introduction of new product and service offerings and technological improvements. Achieving successful financial results will depend on our ability to anticipate, assess and adapt to rapid technological changes, and offer, on a timely and cost-effective basis, services, including the bundling of multiple services that meet evolving industry standards. If we do not anticipate, assess or adapt to such technological changes at a competitive price, maintain competitive services or obtain new technologies on a timely basis or on satisfactory terms, our financial results may be materially and adversely affected.

The rapid enhancement of VOIP technology may result in increasing levels of traditional domestic and international voice long distance traffic being transmitted over the Internet, as opposed to traditional telecommunication networks. Currently, there are significant capital investment savings and cost savings associated with carrying voice traffic employing VOIP technology, as compared to carrying calls over traditional networks. Thus, there exists the possibility that the price of traditional long distance voice services will decrease in order to be competitive with VOIP. Additionally, competition is expected to be intense to switch customers to VOIP product offerings, as is evidenced by numerous recent market announcements in the United States and internationally from industry leaders and competitive carriers concerning significant VOIP initiatives. Our ability effectively to retain our existing customer base and generate new customers, either through our traditional network or our own VOIP offerings, may be adversely affected by accelerated competition arising as a result of VOIP initiatives, as well as regulatory developments that may impede our ability to compete, such as restrictions on access to broadband networks owned and operated by others and the requirements to provide E911 services. As competition intensifies as a result of deregulatory, market or technological developments, our results of operations and financial condition could be adversely affected.

***If we are not able to operate a cost-effective network, we may not be able to grow our business successfully.***

Our long-term success depends on our ability to design, implement, operate, manage, maintain and upgrade a reliable and cost-effective network. In addition, we rely on third parties to enable us to expand and manage our global network and to provide local, broadband Internet, data and hosting and wireless services. If we fail to generate additional traffic on our network, if we experience technical or logistical impediments to our ability to develop necessary aspects of our network or to migrate traffic and customers onto our network, or if we experience difficulties with our third-party providers, we may not achieve desired economies of scale or otherwise be successful in growing our business.

***If we are not able to use and protect intellectual property domestically and internationally, it could have a material adverse effect on our business.***

Our ability to compete depends, in part, on our ability to use intellectual property in the United States and internationally. We rely on a combination of trade secrets, trademarks and licenses to protect our intellectual property. We are also subject to the risks of claims and litigation alleging infringement of the intellectual property rights of others. The telecommunications industry is subject to frequent litigation regarding patent and other intellectual property rights. We rely upon certain technology, including hardware and software, licensed from third parties. There can be no assurance that the technology licensed by us will continue to provide

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competitive features and functionality or that licenses for technology currently used by us or other technology that we may seek to license in the future will be available to us on commercially reasonable terms or at all. Although our existing intellectual property are on standard commercial terms made generally available by the companies providing the licenses and, individually, their costs and terms are not material to our business, the loss of, or our inability to maintain existing licenses, could result in shipment delays or reductions until equivalent technology or suitable alternative products could be developed, identified, licensed and integrated and could cause service disruption to our customers. Such delays or reductions in the aggregate could harm our business. We also generally rely on indemnification provisions in licensing contracts to protect against claims of infringement regarding the licensed technology, which indemnification could be affected by, among other things, the financial strength of the licensor.

### ***The loss of key personnel could have a material adverse effect on our business.***

The loss of the services of K. Paul Singh, our Chairman and Chief Executive Officer, or the services of our other key personnel, or our inability to attract and retain additional key management, technical and sales personnel, could have a material adverse effect upon us.

### ***Proposed future U.S. federal income tax legislation could impact our effective tax rate.***

In May 2009, President Obama's administration announced proposed future tax legislation that could substantially modify the rules governing the U.S. taxation of certain non-U.S. subsidiaries. These potential changes include, but are not limited to: (1) limitations on the deferral of U.S. taxation of foreign earnings; (2) limitations on the ability to claim and utilize foreign tax credits; and (3) deferral of various tax deductions until non-U.S. earnings are repatriated to the United States. Each of these proposals would be effective for taxable years beginning after December 31, 2010. Many details of the proposal remain unknown, although if any of these proposals are enacted into law they could materially impact our effective tax rate.

### ***The applicability of taxes to our services could subject us to liabilities for past taxes, surcharges, fees, penalties and interest.***

Unlike those of our competitors who offer traditional landline or wireless services, with respect to our VOIP services, we currently do not collect or remit state or municipal taxes, fees or surcharges on the retail charges we collect from our customers, except where we have determined we are required to do so based on tax law. In some jurisdictions we also did not collect and remit 911 surcharges. In some instances, we have received inquiries or demands from state and municipalities for taxes, fees or surcharges, including, in some instances, 911 fees. Depending on the state, statute or municipal code, we have maintained that certain of these taxes, fees, or surcharges, including 911 fees, do not apply to us. However, recent changes in the law, at the federal, state and local level, may change our legal obligations. Accordingly, some taxes, fees or surcharges, including 911 fees, could apply to us, including retroactively, and we could be subject to penalties and interest.

## **Additional Risks Related to Regulation**

### ***We are subject to constantly changing regulation, including the imposition of fees and taxes, the potential adverse effects which may have a material adverse impact on our competitive position, growth and financial performance.***

Our operations are subject to constantly changing regulation. There can be no assurance that future regulatory changes will not have a material adverse effect on us, or that domestic, foreign or international regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations, any of which could have a material adverse effect upon our competitive position, growth and financial performance. As a multinational telecommunications company, we are subject to varying degrees of regulation in each of the jurisdictions in which we provide our services. Local laws and regulations, and the interpretation of such laws and regulations, differ significantly among the jurisdictions in which we operate.

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Enforcement and interpretations of these laws and regulations can be unpredictable and are often subject to the informal views of government officials. Potential future regulatory, judicial, legislative, and government policy changes in jurisdictions where we operate could have a material adverse effect on us. Many regulatory actions are underway or are being contemplated by governmental agencies.

The Communications Act of 1934, as amended, and associated FCC regulations, require that every provider of interstate telecommunications contribute, on an equitable and non-discriminatory basis, to federal universal service mechanisms established by the FCC, which affects our cost of providing services. At present, these contributions are calculated based on contributors' interstate and international revenue derived from U.S. end users for telecommunications or telecommunications services, as those terms are defined under FCC regulations. AT&T Corp. filed a Petition for Immediate Commission Action on July 10, 2009, requesting that the FCC adopt a new mechanism for calculating federal universal service fund contribution that would be applicable to all contributors, including us. The specific proposal, which has been pending at the FCC for some time, is to determine contributions to the USF based on assessable telephone numbers rather than interstate and international revenues. We cannot predict whether the FCC will adopt this or some other contribution methodology, nor can we predict the potential impact on our business at this time. But a revised contribution methodology could increase our contribution obligation, including increasing our contribution disproportionately compared to some of our competitors. In such event, we may need to either raise the total amount of our consumer's bills, potentially making us less competitive with other providers of communications services, or reduce our profit margins.

Increasingly, laws, regulations or rulings that apply to traditional telephone services are being extended to commerce and communications services that utilize internet protocol, including VOIP. We are unable to predict the impact, if any, that future legislation, judicial decisions or regulations concerning internet protocol products and services may have on our business, financial condition, and results of operations. Regulation may be targeted towards, among other things, fees, charges, surcharges, and taxation of VOIP services, liability for information retrieved from or transmitted over the Internet, online content regulation, user privacy, data protection, pricing, content, copyrights, distribution, electronic contracts and other communications, filing requirements, consumer protection, public safety issues like enhanced 911 emergency service ( E911 ), the Communications Assistance for Law Enforcement Act ( CALEA ), the provision of online payment services, broadband residential Internet access, and the characteristics and quality of products and services, any of which could restrict our business or increase our cost of doing business. The rules that the FCC has already extended to interconnected VOIP providers include:

the customer proprietary network information rules ( CPNI ) requiring VOIP providers to adhere to a particular customer approval processes when using CPNI outside of per-defined limits and when using CPNI for marketing purposes;

disability access requirements of Sections 225 of the Communications Act of 1934, as amended (the Communications Act ) requiring VOIP providers to contribute to the telecommunications relay services fund and offering 711 abbreviated dialing access to relay services;

the obligation to configure VOIP networks in a manner that facilitates lawful surveillance under CALEA;

the obligation to permit customers to retain their assigned telephone numbers when changing carriers;

the obligation to provide access to E911 emergency services on terms generally similar to those provided by traditional landline carriers; and

a fees order by the FCC mandating VOIP service providers pay regulatory fees based on reported interstate and international revenues.

The increasing growth of the VOIP market and popularity of VOIP products and services heighten the risk that governmental agencies will continue to increase the level of regulation applied to VOIP and the Internet.

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***Other international governmental regulation could limit our ability to provide our services, make them more expensive and may have a material adverse impact on our competitive position, growth and financial performance.***

Our international operations are also subject to regulatory risks, including the risk that regulations in some jurisdictions will prohibit us from providing our services cost-effectively or at all. We cannot assure you that these conditions will not have a material effect on our revenues and operations in the future. International regulatory considerations that affect or limit our business include:

ongoing regulatory proceedings regarding efforts by Telstra in Australia to increase prices and charges and to deny access to essential facilities;

the ultimate outcome of the process launched by the Australian government to help fund the construction of a new national broadband network, including whether and the terms upon which (a) we will have access to such network, and (b) the duration upon which the copper wire based last mile infrastructure we use to furnish broadband services using our digital subscriber line access multiplexers ( DSLAM ) network infrastructure will be continued;

general changes in access charges and contribution payments could adversely affect our cost of providing long distance, wireless, broadband, VOIP, local and other services; and

regulatory proceedings in Canada determining whether and the extent to which regulation should mandate access to networks and interconnection including intra-exchange transport services which we use to interconnect our DSLAM collocation sites and high speed access to business services.

Any adverse developments implicating the foregoing could materially adversely affect our business, financial condition, result of operations and prospects.

***We may be exposed to significant liability resulting from our noncompliance with Federal Communications Commission ( FCC ) orders regarding enhanced 911 ( E911 ) services.***

FCC rules require VOIP providers interconnected to the public switched telephone network to provide E911 service in a manner similar to traditional wireline carriers. This requirement took effect as of November 2005. Like many interconnected VOIP providers, Lingo, Inc. ( Lingo ), a subsidiary of ours which sells such services, was able to meet this deadline for some but not all of its customers. We sought a waiver from the FCC asking for additional time to complete deploying our E911 service. The FCC has not yet addressed our waiver petition. As of September 30, 2009, approximately 99% of our Lingo customers were equipped with E911 service as required by the FCC's rules. If and to the extent that we are determined to be out of compliance with the FCC order regarding E911 services we may be subject to fines, penalties, and/or cease and desist orders prohibiting Lingo from providing service on the federal and state levels.

The FCC rules also require interconnected VOIP providers to distribute stickers and labels informing customers of the limitations on their emergency services as compared with traditional landline E911 service, as well as to notify and obtain affirmative acknowledgement from customers that they are aware of those limitations. The FCC's Enforcement Bureau released an order providing that the Enforcement Bureau will not pursue enforcement against interconnected VOIP providers that have received affirmative acknowledgement from at least 90% of their subscribers. We have received affirmative acknowledgement from substantially all of our customers, and, therefore, believe that we have effectively satisfied this requirement.

Lingo's current E911 services are more limited than the 911 services offered by traditional wireline telephone companies. These limitations may cause significant delays, or even failures, in callers' receipt of emergency assistance. Despite the fact that we have notified our customers and received affirmative acknowledgement from substantially all of our customers that they understand the differences between the access Lingo provides to emergency services as compared to those available through traditional wireline telephony

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providers, affected parties may attempt to hold us responsible for any loss, damage, personal injury or death suffered as a result of certain failures to comply with the FCC mandated E911 service for interconnected VOIP providers. Our resulting liability could be significant.

On June 1, 2007, the FCC released a notice of proposed rulemaking proceeding considering the imposition of additional E911 obligations on interconnected VOIP providers. Specifically, the FCC is considering requiring interconnected VOIP providers to determine automatically the physical location of their customer rather than allowing customers to manually register their location. Moreover, the notice includes a tentative conclusion that all interconnected VOIP service providers that allow customers to use their service in more than one location (nomadic VOIP service providers such as us) must utilize automatic location technology that meets the same accuracy standards applicable to providers of mobile phone service providers. At this time, we are unable to predict the outcome of this proceeding or its impact on us.

In 2008 the New and Emerging Technologies 911 Improvement Act of 2008 was signed into law. Previously, interconnected VOIP providers, like us, did not have the same protection from potential liability as applied wireline or wireless 911 emergency calling services. This law provides public safety entities, interconnected VOIP providers and others involved in handling 911 calls the same liability protections when handling 911 calls from interconnected VOIP users as from mobile or wired telephone service users. The applicability of the liability protection to 911 calling services that do not conform to the FCC's rules is unclear. Additionally, any liability associated with 911 call placement and handling prior to the enactment of this new law would not be covered.

***The rates we pay to underlying telecommunications carriers may increase, which may reduce our profitability or increase the retail price of our service.***

The FCC is considering reform of the methodology that regulated telecommunications carriers use to determine the appropriate payments for the exchange of traffic that is necessary to complete telephone calls to the traditional telephone network. The result of the FCC's proceeding may be an increase in the rates we pay to such carriers to send traffic to or receive traffic from the traditional telephone network, which would increase our costs. Such a cost increase may result in us increasing the retail price of our service, which may make us less competitive in the communications marketplace, or may reduce our profitability. We cannot predict the outcome of this proceeding.

In 2008 the FCC clarified that interconnected VOIP providers, such as us, are subject to its rules regarding transferring the telephone numbers of customers that choose to obtain service from other providers, including both interconnected VOIP providers and traditional carriers. In 2009, the FCC released an order that reduces the amount of time within which voice service providers must transfer a telephone number to a new provider. This rule will not become effective as to us until no earlier than March 2010. To comply with these new rules, we will likely have to implement new procedures and may have to increase staffing levels. Should this occur, we may need to increase the price of our retail service offering, which may make us less competitive with other providers of communications services or reduce our profitability. Should we not be able to comply with the order, we may be subject to fines, penalties, or cease orders. At this time, we cannot accurately predict the full impact of this order on our business, as the industry is still developing the technical standards that will govern the new expedited number transfer procedures.

***The FCC or federal courts may allow states to subject our service to state universal service fund obligations.***

Currently, three states attempt to require nomadic interconnected VOIP providers to contribute to state universal service funds. One state, Nebraska, engaged in litigation with a provider of interconnected VOIP services similar to ours. The U.S. District Court for Nebraska issued a preliminary injunction on March 3, 2008, finding that the Nebraska Public Service Commission did not have jurisdiction to require universal service fund contributions from nomadic interconnected VOIP providers. A panel of the U.S. Circuit Court of Appeals for the

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Eighth Circuit affirmed the U.S. District court ruling on May 1, 2009. Subsequently, the Nebraska Public Service Commission requested a rehearing that the Court denied on June 5, 2009. On the basis of this litigation, we do not believe that existing law allows states to subject us to state universal service fund contribution obligations.

On July 16, 2009, Kansas and Nebraska filed petition with the FCC requesting a declaratory ruling that states are not preempted from requiring nomadic interconnected VOIP providers to contribute to state universal service funds. The petition also seeks a retroactive ruling finding that states have been able to collect such contributions for a time period that is not clearly defined in the petition. At this time, we cannot predict the outcome of this proceeding nor its impact on our business. If we were required to pay retroactively into state-level universal service funds, that could have a material negative impact on our earnings.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

In connection with consummation of the Plan, we issued equity securities that were described under Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations; Emergence from Voluntary Reorganization Under Chapter 11 and under Part II, Item 2 of our Quarterly Report on Form 10-Q/A for the period ended June 30, 2009, and such descriptions are incorporated herein by reference. Such securities were issued without registration under the Securities Act of 1933 pursuant to an exemption from registration contained in Section 1145 of the Bankruptcy Code, on the basis that such securities were issued principally in exchange for claims in the Chapter 11 Cases.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

### **ITEM 5. OTHER INFORMATION**

None.

### **ITEM 6. EXHIBITS**

(a) Exhibits (see index)

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

Date: April 5, 2010

By: /s/ THOMAS R. KLOSTER  
**Thomas R. Kloster**  
**Chief Financial Officer (Principal Financial Officer)**

Date: April 5, 2010

By: /s/ JAMES C. KEELEY  
**James C. Keeley**  
**Vice President Corporate Controller (Principal Accounting Officer)**

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**EXHIBIT INDEX**

**Exhibit**

| <b>Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1*          | Joint Plan of Reorganization of Primus Telecommunications Group, Incorporated and its Affiliate Debtors, as filed by the Debtors with the Bankruptcy Court on June 12, 2009.                                                                                                                                                                                                                                                                                                      |
| 3.1**         | Second Amended and Restated Certificate of Incorporation of Primus Telecommunications Group, Incorporated                                                                                                                                                                                                                                                                                                                                                                         |
| 3.2**         | Amended and Restated By-Laws of Primus Telecommunications Group, Incorporated                                                                                                                                                                                                                                                                                                                                                                                                     |
| 4.1***        | Class A Warrant Agreement, dated as of July 1, 2009, by and between Primus Telecommunications Group, Incorporated and StockTrans, Inc., as Warrant Agent                                                                                                                                                                                                                                                                                                                          |
| 4.2***        | Class B Warrant Agreement, dated as of July 1, 2009, by and between Primus Telecommunications Group, Incorporated and StockTrans, Inc., as Warrant Agent                                                                                                                                                                                                                                                                                                                          |
| 4.3***        | Contingent Value Rights Distribution Agreement of Primus Telecommunications Group, Incorporated                                                                                                                                                                                                                                                                                                                                                                                   |
| 10.1***       | Supplemental Indenture, dated as of July 1, 2009, by and among Primus Telecommunications IHC, Inc., the Guarantors thereto and U.S. Bank National Association, as Trustee                                                                                                                                                                                                                                                                                                         |
| 10.2***       | First Amendment, dated as of July 1, 2009, to Intercreditor Agreement, dated as of February 26, 2007, by and among Primus Telecommunications IHC, Inc., Primus Telecommunications Group, Incorporated, Primus Telecommunications Holding, Inc., U.S. Bank National Association and The Bank of New York Mellon                                                                                                                                                                    |
| 10.3***       | First Amendment, dated as of July 1, 2009, to Collateral Agreement, dated as of February 26, 2007, by and among Primus Telecommunications IHC, Inc., U.S. Bank National Association and the Grantors party thereto                                                                                                                                                                                                                                                                |
| 10.4***       | Assumption Agreement, dated as of July 1, 2009, by Primus Telecommunications Group, Incorporated and Primus Telecommunications Holding, Inc., in favor of U.S. Bank National Association, as collateral agent under the Collateral Agreement, dated as of February 26, 2007, by and among Primus Telecommunications IHC, Inc., U.S. Bank National Association and the other Grantors party thereto                                                                                |
| 10.5***       | Third Amendment, dated as of July 1, 2009, to the Term Loan Agreement, dated as of February 18, 2005, among Primus Telecommunications Group Incorporated, Primus Telecommunications Holding, Inc., the several banks and other financial institutions or entities from time to time parties thereto, Lehman Commercial Paper, Inc., acting through one or more of its branches as the Administrative Agent and The Bank of New York Mellon, as the successor Administrative Agent |
| 10.6***       | Separation Agreement by and between John F. DePodesta and Primus Telecommunications Group, Incorporated, dated as of July 1, 2009                                                                                                                                                                                                                                                                                                                                                 |
| 10.7***       | Separation Agreement by and between Thomas R. Kloster and Primus Telecommunications, Inc., dated as of July 1, 2009                                                                                                                                                                                                                                                                                                                                                               |
| 10.8***       | Primus Telecommunications Group, Incorporated Management Compensation Plan                                                                                                                                                                                                                                                                                                                                                                                                        |
| 10.9***       | Form of Restricted Stock Unit Agreement between Grantee and Primus Telecommunications Group, Incorporated, dated as of July 1, 2009                                                                                                                                                                                                                                                                                                                                               |
| 10.10***      | Form of Nonqualified Stock Option Agreement between Grantee and Primus Telecommunications Group, Incorporated, dated as of July 1, 2009                                                                                                                                                                                                                                                                                                                                           |
| 10.11***      | Form of Performance Nonqualified Stock Option Agreement between Grantee and Primus Telecommunications Group, Incorporated, dated as of July 1, 2009                                                                                                                                                                                                                                                                                                                               |

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### **Exhibit**

| <b>Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                        |
|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.12****     | Waiver and Amendment Agreement, dated March 10, 2009, to Senior Secured Credit Agreement dated as of March 27, 2007, as amended among Primus Telecommunications Canada, Inc. as Borrower, 3082833 Nova Scotia Company, as an Obligor, Guggenheim Corporate Funding, LLC, as administrative agent and collateral agent, and the Lenders from time to time parties thereto. |
| 31            | Certifications.                                                                                                                                                                                                                                                                                                                                                           |
| 32*****       | Certifications.                                                                                                                                                                                                                                                                                                                                                           |

\* Incorporated by reference to the Registrant's Form 8-K, filed with the Commission on June 15, 2009.

\*\* Incorporated by reference to the Registrant's Registration Statement on Form 8-A, filed with the Commission on July 1, 2009.

\*\*\* Incorporated by reference to the Registrant's Form 8-K, filed with the Commission on July 1, 2009.

\*\*\*\* Incorporated by reference to the Registrant's Form 8-K, filed with the Commission on March 16, 2009.

\*\*\*\*\* This certification is being furnished and will not be deemed filed for purposes of Section 18 of the Securities Exchange Act (15 U.S.C. 78r) and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the registrant specifically incorporates it by reference.