

PRIMUS TELECOMMUNICATIONS GROUP INC  
Form 10-Q  
May 17, 2010  
Table of Contents

## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

### FORM 10-Q

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

For the quarterly period ended March 31, 2010

OR

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

Commission File No. 0-29092

## PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of

incorporation or organization)

**7901 Jones Branch Drive, Suite 900,**

**McLean, VA**  
(Address of principal executive offices)

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

**22102**  
(Zip Code)

**(703) 902-2800**

(Registrant's telephone number, including area code)

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

Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

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

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

Class	Outstanding as of April 30, 2010
Common Stock \$0.001 par value	9,743,157

**Table of Contents**

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**INDEX TO FORM 10-Q**

	<b>Page No.</b>
Part I.	
FINANCIAL INFORMATION	
Item 1.	
FINANCIAL STATEMENTS (UNAUDITED)	
<u>Consolidated Condensed Statements of Operations</u>	1
<u>Consolidated Condensed Balance Sheets</u>	2
<u>Consolidated Condensed Statements of Cash Flows</u>	3
<u>Consolidated Condensed Statements of Comprehensive Income (Loss)</u>	4
<u>Notes to Consolidated Condensed Financial Statements</u>	5
Item 2.	
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	32
Item 3.	
<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	44
Item 4.	
<u>CONTROLS AND PROCEDURES</u>	45
Part II.	
OTHER INFORMATION	
Item 1.	
<u>LEGAL PROCEEDINGS</u>	47
Item 1A.	
<u>RISK FACTORS</u>	47
Item 2.	
<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	62
Item 3.	
<u>DEFAULTS UPON SENIOR SECURITIES</u>	62
Item 4.	
<u>(REMOVED AND RESERVED)</u>	63
Item 5.	
<u>OTHER INFORMATION</u>	63
Item 6.	
<u>EXHIBITS</u>	63
<u>SIGNATURES</u>	64
<u>EXHIBIT INDEX</u>	65

**Table of Contents**

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

(in thousands, except per share amounts)

(unaudited)

	Successor Three Months Ended March 31, 2010	Predecessor Three Months Ended March 31, 2009
NET REVENUE	\$ 204,393	\$ 193,281
OPERATING EXPENSES		
Cost of revenue (exclusive of depreciation included below)	130,009	128,655
Selling, general and administrative	52,892	44,930
Depreciation and amortization	18,984	6,076
(Gain) loss on sale or disposal of assets	10	(59)
Total operating expenses	201,895	179,602
INCOME (LOSS) FROM OPERATIONS	2,498	13,679
INTEREST EXPENSE	(9,337)	(10,775)
ACCRETION (AMORTIZATION) ON DEBT PREMIUM/DISCOUNT, net	(44)	189
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(2,043)	
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	228	227
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	6,002	(3,050)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	(2,696)	270
REORGANIZATION ITEMS, net	1	16,568
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(2,695)	16,838
INCOME TAX BENEFIT (EXPENSE)	1,999	(2,796)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(696)	14,042
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(167)	(438)
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax		251
NET INCOME (LOSS)	(863)	13,855
Less: Net (income) loss attributable to the noncontrolling interest	(136)	136
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	\$ (999)	\$ 13,991
BASIC INCOME (LOSS) PER COMMON SHARE:		
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	\$ (0.08)	\$ 0.10
Income (loss) from discontinued operations	(0.02)	
Gain (loss) from sale of discontinued operations		
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	\$ (0.10)	\$ 0.10
DILUTED LOSS PER COMMON SHARE:		

## Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	\$ (0.08)	\$ 0.08
Income (loss) from discontinued operations	(0.02)	
Gain (loss) from sale of discontinued operations		
<b>Net income (loss) attributable to Primus Telecommunications Group, Incorporated</b>	<b>\$ (0.10)</b>	<b>\$ 0.08</b>
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>		
Basic	9,645	142,695
Diluted	9,645	169,449
<b>AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED</b>		
Income (loss) from continuing operations, net of tax	\$ (832)	\$ 14,178
Income (loss) from discontinued operations	(167)	(438)
Gain (loss) from sale of discontinued operations		251
<b>Net income (loss)</b>	<b>\$ (999)</b>	<b>\$ 13,991</b>

See notes to consolidated financial statements.

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****CONSOLIDATED CONDENSED BALANCE SHEETS****(in thousands, except share amounts)****(unaudited)**

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 52,079	\$ 42,538
Accounts receivable (net of allowance for doubtful accounts receivable of \$5,811 and \$8,163)	83,842	89,342
Prepaid expenses and other current assets	15,980	15,147
Total current assets	151,901	147,027
RESTRICTED CASH	10,756	10,438
PROPERTY AND EQUIPMENT Net	142,694	147,606
GOODWILL	65,042	64,220
OTHER INTANGIBLE ASSETS Net	174,603	178,807
OTHER ASSETS	10,491	10,816
TOTAL ASSETS	\$ 555,487	\$ 558,914
<b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 42,893	\$ 45,819
Accrued interconnection costs	38,205	37,561
Deferred revenue	12,624	13,882
Accrued expenses and other current liabilities	45,548	49,704
Accrued income taxes	10,866	10,629
Accrued interest	10,653	1,985
Current portion of long-term obligations	1,274	4,274
Total current liabilities	162,063	163,854
LONG-TERM OBLIGATIONS	253,048	253,242
DEFERRED TAX LIABILITY	33,876	36,052
OTHER LIABILITIES	7,909	5,857
Total liabilities	456,896	459,005
<b>COMMITMENTS AND CONTINGENCIES (See Note 6.)</b>		
<b>STOCKHOLDERS EQUITY:</b>		
Preferred stock, \$0.001 par value 20,000,000 shares authorized; none issued or outstanding		
Common stock, \$0.001 par value 80,000,000 shares authorized; 9,743,157 and 9,600,000 shares issued and outstanding	10	10
Additional paid-in capital	85,276	85,533
Accumulated earnings	5,733	6,732
Accumulated other comprehensive income (loss)	3,756	4,064
Total stockholders equity before noncontrolling interest	94,775	96,339

Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

Noncontrolling interest	3,816	3,570
Total stockholders' equity	98,591	99,909
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 555,487</b>	<b>\$ 558,914</b>

See notes to consolidated financial statements.

**Table of Contents**

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

(in thousands)

(unaudited)

	Successor Three Months Ended March 31, 2010	Predecessor Three Months Ended March 31, 2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (863)	\$ 13,855
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Reorganization items, net	(1)	(16,568)
Provision for doubtful accounts receivable	1,834	2,230
Stock compensation expense	87	16
Depreciation and amortization	19,048	6,096
(Gain) loss on sale or disposal of assets	10	(310)
Accretion (amortization) of debt premium/discount, net	44	(189)
Change in fair value of Contingent Value Rights	2,043	
Deferred income taxes	(2,303)	
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	(5,854)	3,143
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	2,689	5,101
(Increase) decrease in prepaid expenses and other current assets	(689)	(1,421)
(Increase) decrease in other assets	148	2,270
Increase (decrease) in accounts payable	(2,881)	(7,375)
Increase (decrease) in accrued interconnection costs	865	(1,838)
Increase (decrease) in accrued expenses, deferred revenue, other current liabilities and other liabilities, net	(4,993)	37
Increase (decrease) in accrued income taxes	(83)	390
Increase (decrease) in accrued interest	8,633	(794)
Net cash provided by operating activities before cash reorganization items	17,734	4,643
Cash effect of reorganization items	(137)	(3,794)
Net cash provided by operating activities	17,597	849
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(4,913)	(2,786)
Sale of property and equipment and intangible assets	26	59
Cash from disposition of business, net of cash disposed		232
Cash used in business acquisitions, net of cash acquired		(199)
(Increase) decrease in restricted cash	(51)	(215)
Net cash used in investing activities	(4,938)	(2,909)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on long-term obligations	(3,389)	(3,008)
Net cash used in financing activities	(3,389)	(3,008)



Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	271	104
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,541	(4,964)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	42,538	37,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 52,079	\$ 32,036
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	\$ 723	\$ 11,099
Cash paid for taxes	\$ 236	\$ 469
Non-cash investing and financing activities:		
Capital lease additions	\$ 19	\$ 537
Accrued deferred financing costs	\$ 513	\$
	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 Three Months Ended March 31, 2010</b>	<b>Predecessor Three Months Ended March 31, 2009</b>
NET INCOME (LOSS)	\$ (863)	\$ 13,855
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation adjustment	(198)	1,473
COMPREHENSIVE INCOME (LOSS)	(1,061)	15,328
Less: Comprehensive (income) loss attributable to the noncontrolling interest	(246)	201
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	\$ (1,307)	\$ 15,529

See notes to consolidated financial statements.

**Table of Contents**

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**1. BASIS OF PRESENTATION**

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

As of July 1, 2009, the Company adopted fresh-start accounting in accordance with ASC No. 852. The adoption of fresh-start accounting resulted in the Company becoming a new entity for financial reporting purposes. Accordingly, the financial statements on or prior to July 1, 2009 are not comparable with the financial statements for periods after July 1, 2009. The consolidated condensed statements of operations, cash flows, comprehensive income (loss) and any references to Successor or Successor Company for the three months ended March 31, 2010, show the operations of the reorganized Company. References to Predecessor or Predecessor Company refer to the operations of the Company prior to July 1, 2009. See Note 3 Fresh Start Accounting.

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Table of Contents**

Effective January 1, 2009, the Company adopted ASC No. 810, Consolidation. This statement changed the presentation of outstanding noncontrolling interests in one or more subsidiaries or the deconsolidation of those subsidiaries. Reconciliations at the beginning and the end of the period of the total equity, equity attributable to the Company and equity attributable to the noncontrolling interest for Successor's three months ended March 31, 2010 and Predecessor's three months ended March 31, 2009 are as follows (in thousands):

<b>Successor</b> <b>As of March 31, 2010</b> <b>Primus Telecommunications Group, Incorporated</b> <b>Shareholders</b>								
<b>Common Stock</b>								
	Total	Comprehensive Income	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interest
Balance as of December 31, 2009	\$ 99,909		9,600	\$ 10	\$ 85,533	\$ 6,732	\$ 4,064	\$ 3,570
Stock Option Compensation Expense	87				87			
Common shares issued for restricted stock units	(344)		143		(344)			
Comprehensive Income								
Net income (loss)	(863)	\$ (863)				(999)		136
Other comprehensive income (loss)	(198)	(198)					(308)	110
Comprehensive Income	(1,061)	\$ (1,061)						
Balance as of March 31, 2010	\$ 98,591		9,743	\$ 10	\$ 85,276	\$ 5,733	\$ 3,756	\$ 3,816

<b>As of March 31, 2009</b> <b>Primus Telecommunications Group, Incorporated</b> <b>Shareholders</b>								
<b>Common Stock</b>								
	Total	Comprehensive Income	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interest
Balance as of January 1, 2009	\$ (458,725)		142,695	\$ 1,427	\$ 718,956	\$ (1,099,809)	\$ (82,113)	\$ 2,814
Stock Option Compensation Expense	16				16			
Comprehensive Income								
Net income (loss)	13,855	13,855				13,991		(136)
Other comprehensive income (loss)	1,473	1,473					1,538	(65)
Comprehensive Income	15,328	\$ 15,328						
Balance as of March 31, 2009	\$ (443,381)		142,695	\$ 1,427	\$ 718,972	\$ (1,085,818)	\$ (80,575)	\$ 2,613

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

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

---

**Table of Contents**

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

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

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

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

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

Upon 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 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 developed with the assistance of 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.

**Table of Contents**

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

*New Accounting Pronouncements*

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

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

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

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

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

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

We adopted ASU No. 2010-09 in the first quarter of 2010. ASU No. 2010-09 amended Subtopic 855-10, Subsequent Events Overall by removing the requirement for a United States Securities and Exchange

---

## **Table of Contents**

Commission ( SEC ) registrant to disclose a date, in both issued and revised financial statements, through which that filer had evaluated subsequent events. Accordingly, we removed the related disclosure from Footnote No. 1, Basis of Presentation. The adoption did not have a material impact on our financial statements.

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

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

### **3. FRESH START ACCOUNTING**

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

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

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

Fresh-start accounting reflects the value of the Company as determined in the confirmed Plan. Under fresh-start accounting, the Company's asset values are remeasured and allocated in conformity with ASC No. 805, Business Combinations. The excess of reorganization value over the fair value of tangible and identifiable intangible assets is recorded as goodwill in the accompanying consolidated balance sheet. Fresh-start accounting also requires that all liabilities, other than deferred taxes and pension and other postretirement benefit obligations, should be stated at fair value.

**Table of Contents**

Estimates of fair value included in the Successor Company financial statements, in conformity with ASC No. 820, represent the Company's best estimates and valuations developed with the assistance of independent appraisers and, where the foregoing have not yet been completed or are not available, 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 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.

As of March 31, 2010 the Company has completed the valuation of its assets and liabilities and has completed its adoption of fresh-start accounting in accordance with ASC No. 852, Reorganizations.

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



**Table of Contents**

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

	Predecessor July 1, 2009	Plan of Reorganization Adjustments	Fresh-Start Accounting Adjustments	Successor July 1, 2009
<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		32,298 d	150,138
GOODWILL	35,351		25,947 d, h	61,298
OTHER INTANGIBLE ASSETS Net	482		184,318 d	184,800
OTHER ASSETS	19,155		1,461 d, h	20,616
TOTAL ASSETS	\$ 334,537	\$	\$ 244,024	\$ 578,561
<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		(1,767) d	52,215
Accrued income taxes	20,986			20,986
Accrued interest	19			19
Current portion of long-term obligations	107,097	(91,100) g		15,997
Total current liabilities	284,074	(91,100)	(1,767)	191,207
LONG-TERM OBLIGATIONS	25,740	214,572 e, g		240,312
OTHER LIABILITIES		2,557 b	57,162 h	59,719
Total liabilities not subject to compromise	309,814	126,029	55,395	491,238
LIABILITIES SUBJECT TO COMPROMISE	451,050	(451,050) a		
Total Liabilities	760,864	(325,021)	55,395	491,238
<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 income (deficit)	(1,060,452)	243,185 a	817,267 d, f	
Accumulated other comprehensive income (loss)	(89,216)		89,216 f	

Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

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

**Table of Contents**

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

- (a) This adjustment reflects the discharge of \$451.1 million of liabilities subject to compromise (see Liabilities Subject to Compromise below), of which includes \$123.5 million Senior Subordinated Secured Notes reclassified to long-term obligations, in accordance with the terms of the Plan and the issuance of 4.8 million shares of Successor Company common stock to the holders of each of the Senior Subordinated Secured Notes and the Holding Senior Notes.
  - (b) To record the issuance of Contingent Value Rights to the holders of the Old Common Stock.
  - (c) To record the cancellation of the Old Common Stock.
  - (d) To record assets and liabilities at their estimated fair values per fresh-start accounting. These amounts include adjustments to the estimated fair values from what was originally reported in the quarter ending September 30, 2009.
  - (e) To reclass Term Loan from current portion of long-term obligations to long-term obligations and record the issuance of the Senior Subordinated Secured Notes.
  - (f) To reset additional paid-in capital, accumulated other comprehensive loss and accumulated deficit to zero.
  - (g) To reclass long-term portion of the Term Loan to long-term obligations.
  - (h) To record the deferred tax attributes related to fresh-start accounting.
- In the first quarter of 2010, the Company made no further fresh-start accounting adjustments to the fair value of its assets or liabilities.

**4. GOODWILL AND OTHER INTANGIBLE ASSETS**

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

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

	March 31, 2010	December 31, 2009
Trade names	\$ 81,126	\$ 81,372
Goodwill	\$ 65,042	\$ 64,220

The Company allocated goodwill to all of its reporting units as part of fresh-start accounting, excluding the wholesale reporting unit which had nominal value relative to the total value of the Company. The changes in the carrying amount of trade names and goodwill by reporting unit for the three months ended March 31, 2010 are as follows (in thousands):

*Goodwill*

	<b>United States</b>	<b>Canada</b>	<b>Australia</b>	<b>Europe</b>	<b>Brazil</b>	<b>Total</b>
Balance as of January 1, 2010	\$ 29,960	\$ 30,285	\$ 1,714	\$ 2,217	\$ 44	\$ 64,220
Effect of change in foreign currency exchange rates		898	50	(125)	(1)	822
Balance as of March 31, 2010	\$ 29,960	\$ 31,183	\$ 1,764	\$ 2,092	\$ 43	\$ 65,042

**Table of Contents**

*Trade Names*

	United States	Canada	Australia	Europe	Brazil	Total
Balance as of January 1, 2010	\$ 76,200	\$	\$	\$ 5,172	\$	\$ 81,372
Effect of change in foreign currency exchange rates				(246)		(246)
Balance as of March 31, 2010	\$ 76,200	\$	\$	\$ 4,926	\$	\$ 81,126

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

	March 31, 2010			December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trade names	\$ 4,041	\$ (290)	\$ 3,751	\$ 4,057	\$ (203)	\$ 3,854
Customer relationships	109,818	(20,092)	89,726	107,612	(14,032)	93,580
Total	\$ 113,859	\$ (20,382)	\$ 93,477	\$ 111,669	\$ (14,235)	\$ 97,434

Amortization expense for trade names and customer relationships for the three months ended March 31, 2010 and 2009 was \$5.8 million and \$0.3 million, respectively.

The Company expects amortization expense for trade names and customer relationships for the remainder of 2010, the years ended December 31, 2011, 2012, 2013, 2014, and thereafter to be approximately \$17.8 million, \$18.9 million, \$13.4 million, \$9.8 million, \$7.4 million and \$26.2 million, respectively.

**5. LONG-TERM OBLIGATIONS**

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

	March 31, 2010	December 31, 2009
Obligations under capital leases and other	\$ 2,769	\$ 3,178
Leased fiber capacity		2,809
Senior secured notes	130,000	130,000
Senior subordinated secured notes	123,472	123,472
Subtotal	256,241	259,459
Original issue discount on Senior Secured Notes	(1,919)	(1,943)
Subtotal	254,322	257,516
Less: Current portion of long-term obligations	(1,274)	(4,274)
Total long-term obligations	\$ 253,048	\$ 253,342



**Table of Contents**

The following table reflects the contractual payments of principal and interest for the Company's long-term obligations as of March 31, 2010 as follows:

Year Ending December 31,	Capital Leases and Other	13% Senior Secured Notes	14 1/4% Senior Subordinated Secured Notes	Total
2010 (as of March 31, 2010)	\$ 1,191	\$ 16,665	\$ 17,595	\$ 35,451
2011	1,314	16,900	17,595	35,809
2012	340	16,900	17,595	34,835
2013	106	16,900	132,269	149,275
2014	28	16,900		16,928
Thereafter	20	163,847		163,867
<b>Total Minimum Principal &amp; Interest Payments</b>	<b>2,999</b>	<b>248,112</b>	<b>185,054</b>	<b>436,165</b>
Less: Amount Representing Interest	(230)	(118,112)	(61,582)	(179,924)
<b>Total Long Term Obligations</b>	<b>\$ 2,769</b>	<b>\$ 130,000</b>	<b>\$ 123,472</b>	<b>\$ 256,241</b>

In January 2010, the Company paid \$2.7 million (3.1 million AUD) and fully repaid the leased fiber capacity obligation.

**6. COMMITMENTS AND CONTINGENCIES**

Future minimum lease payments under capital leases and other ( Vendor Financing ), purchase obligations and non-cancellable operating leases as of March 31, 2010 are as follows (in thousands):

Year Ending December 31,	Capital Leases and Other	Purchase Obligations	Operating Leases
2010 (as of March 31, 2010)	\$ 1,191	\$ 11,620	\$ 13,525
2011	1,314	4,688	13,492
2012	340	3,001	11,443
2013	106		8,735
2014	28		4,136
Thereafter	20		11,263
<b>Total minimum lease payments</b>	<b>2,999</b>	<b>19,309</b>	<b>62,594</b>
Less: Amount representing interest	(230)		
	<b>\$ 2,769</b>	<b>\$ 19,309</b>	<b>\$ 62,594</b>

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 March 31, 2010. The Predecessor made purchases under purchase commitments of \$6.3 million for the three months ended March 31, 2009.

Successor's rent expense under operating leases was \$3.9 million for the three months ended March 31, 2010. Predecessor's rent expense under operating leases was \$3.3 million for the three months ended March 31, 2009.

*Litigation*

## Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

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



**Table of Contents**

that some of these matters may be decided unfavorably. The Company believes that any aggregate liability that may result from the resolution of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

**7. SHARE-BASED COMPENSATION**

*Successor*

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

*Restricted Stock Units (RSU)*

For three months ended March 31, 2010, the Company recognized \$0.1 million of stock compensation expense related to the RSU.

In March 2010, the Company issued 143,157 shares of common stock in satisfaction of 200,000 vested RSUs per the Emergence RSU Agreement, net of shares withheld for tax obligations.

On March 29, 2010, the Company, Primus Telecommunications, Inc. and Mr. John F. DePodesta, Executive Vice President and Director, entered into a Termination Agreement which provides for the termination, as of March 31, 2010, of all director, officer and employment positions of Mr. DePodesta held with the Company and any of its affiliates. In connection with the termination, 9,937 RSUs and 2,484 performance based stock options, granted to Mr. DePodesta are subject to future vesting should the Company meet certain performance criteria.

*Stock Options*

A summary of the Company's stock option activity during the three months ended March 31, 2010 is as follows:

	<b>Three Months Ended March 31, 2010</b>	
	<b>Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding December 31, 2009	478,199	\$ 12.22
Granted		\$
Exercised		\$
Forfeitures	(57,153)	\$ 12.22
<b>Outstanding March 31, 2010</b>	<b>421,046</b>	<b>\$ 12.22</b>
Eligible for exercise	143,127	\$ 12.22

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:

	<b>Three Months Ended March 31, 2010</b>
Expected dividend yield	0%
Expected stock price volatility (1)	42%
Risk-free interest rate	2.0%
Expected option term	4 years



**Table of Contents**

- (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 Successor Company's common stock price from July 13, 2009 to March 31, 2010 at a rate of 43.63% and the historical volatility of the stock price of a peer group in the telecommunications industry with similar market capitalization from April 1, 2005 to March 31, 2010 at a rate of 49.13%.

The following table summarizes information about the Company's stock options outstanding at March 31, 2010:

Range of Option Prices	Options Outstanding				Options Exercisable			
	Total Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value	Total Exercisable	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value
\$12.22	421,046	9.25	\$ 12.22	\$	143,127	9.25	\$ 12.22	\$

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

As of March 31, 2010, the Company had 0.5 million unvested awards outstanding of which \$0.4 million of compensation expense is expected to be recognized over the weighted average remaining period of 0.79 years. The number of unvested awards expected to vest is 0.4 million shares, with a weighted average remaining life of 9.25 years, a weighted average exercise price of \$12.22, and an intrinsic value of \$0.

**Predecessor**

Under the Plan of Reorganization, all stock options granted under the Predecessor's Equity Incentive Plan were cancelled as of the July 1, 2009. The Predecessor Company recorded \$16 thousand stock-based compensation expenses for the three months ended March 31, 2009.

**8. INCOME TAXES**

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

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

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

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

## **Table of Contents**

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 March 31, 2010, the Company recorded \$1.3 million of gross unrecognized tax benefit and \$0.2 million of unrecognized tax benefit which impacted the rate including \$0.1 of penalties and interest. As of March 31, 2010, the gross unrecognized tax benefit on the balance sheet was \$91.0 million.

Pursuant to Section 382 of the Internal Revenue Code, the Company believes that it underwent an ownership change for tax purposes (i.e., a more than 50% change in stock ownership) on the July 1, 2009 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 will be subject to an annual limitation of approximately \$1.7 million. The annual limitation will be determined based upon an Internal Revenue Code section that allows corporations emerging from bankruptcy to determine their section 382 limitation based upon the post emergence stock value. The Company has prepared its financial statements assuming the annual limitation will apply. However, Section 382 provides that a taxpayer emerging from bankruptcy can elect out of the annual limitation. If the Company elects not to apply the limitation, there are adverse consequences if an ownership change occurs before July 1, 2011. The election is not required to be made until the extended due date of the 2009 return, which is September 15, 2010. The company has reviewed its 13-G filings, as filed with the United States Securities Exchange Commission, subsequent to emergence from bankruptcy and believes that a change in ownership has not occurred during this period of July 1, 2009 to March 31, 2010.

## **9. FAIR VALUE OF FINANCIAL INSTRUMENTS AND DERIVATIVES**

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

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

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

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

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate fair value due to relatively short periods to maturity. The estimated aggregate fair value of the Successor Company's 13% Senior Secured Notes and 14<sup>3</sup>/<sub>4</sub>% Senior Subordinated Secured Notes, based on quoted market prices, was \$250 million and \$245 million at March 31, 2010 and December 31, 2009, respectively.

**Table of Contents**

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

	Fair Value as of March 31, 2010, using:			
	March 31, 2010	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Liabilities:</b>				
Contingent Value Rights (CVR)	\$ 7,404		\$ 7,404	
<b>Total</b>	<b>\$ 7,404</b>		<b>\$ 7,404</b>	

The CVRs are marked to fair value at each balance sheet date. The change in value is reflected in our Statements of Operation. Estimates of fair value represent the Company's best estimates based on a Black-Scholes pricing model. During the three months ended March 31, 2010, \$2.0 million of expense was recognized as a result of marking the CVRs to their fair value.

**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.

**Table of Contents**

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

	<b>Successor Three Months Ended March 31, 2010</b>	<b>Predecessor Three Months Ended March 31, 2009</b>
<b>Net Revenue by Geographic Region</b>		
United States	\$ 27,090	\$ 41,455
Canada	57,476	53,245
Europe	44,659	43,287
Australia	69,898	52,027
Brazil	5,270	3,267
<b>Total</b>	<b>\$ 204,393</b>	<b>\$ 193,281</b>
<b>Net Revenue by Segment</b>		
United States	\$ 13,576	\$ 18,095
Canada	57,476	53,245
Europe	11,666	12,444
Australia	69,898	52,027
Wholesale	46,507	54,203
Brazil	5,270	3,267
<b>Total</b>	<b>\$ 204,393</b>	<b>\$ 193,281</b>
<b>Provision for Doubtful Accounts Receivable</b>		
United States	\$ 525	\$ 592
Canada	844	566
Europe	102	88
Australia	737	618
Wholesale	(490)	273
Brazil	83	65
<b>Total</b>	<b>\$ 1,801</b>	<b>\$ 2,202</b>
<b>Income (Loss) from Operations</b>		
United States	\$ (871)	\$ 1,383
Canada	2,942	9,428
Europe	(450)	(153)
Australia	3,794	4,261
Wholesale	851	694
Brazil	322	135
<b>Total From Operating Segments</b>	<b>6,588</b>	<b>15,748</b>
Corporate	(4,090)	(2,069)
<b>Total</b>	<b>\$ 2,498</b>	<b>\$ 13,679</b>
<b>Capital Expenditures</b>		
United States	\$ 191	\$ 56
Canada	2,225	1,948
Europe	83	137
Australia	2,274	509
Brazil	140	136
<b>Total</b>	<b>\$ 4,913</b>	<b>\$ 2,786</b>



**Table of Contents**

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

	March 31, 2010	December 31, 2009
<b>Property and Equipment Net</b>		
United States	\$ 9,802	\$ 10,760
Canada	58,754	58,927
Europe	3,937	4,955
Australia	68,874	71,682
Brazil	1,327	1,282
<b>Total</b>	<b>\$ 142,694</b>	<b>\$ 147,606</b>

	March 31, 2010	December 31, 2009
<b>Assets</b>		
United States	\$ 135,554	\$ 133,276
Canada	193,317	194,600
Europe	79,705	84,587
Australia	137,501	138,988
Brazil	9,410	7,463
<b>Total</b>	<b>\$ 555,487</b>	<b>\$ 558,914</b>

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

	Successor Three Months Ended March 31, 2010	Predecessor Three Months Ended March 31, 2009
Retail voice	\$ 100,891	\$ 92,235
Wholesale	46,507	54,203
Data/Internet	46,863	34,213
Retail VOIP	10,132	12,630
<b>Total</b>	<b>\$ 204,393</b>	<b>\$ 193,281</b>

**11. DISCONTINUED OPERATIONS**

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

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



## Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

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.

**Table of Contents**

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

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

	<b>Successor Three Months Ended March 31, 2010</b>	<b>Predecessor Three Months Ended March 31, 2009</b>
Net revenue	\$ 1,388	\$ 1,487
Operating expenses	1,517	1,947
Loss from operations	(129)	(460)
Interest expense		(1)
Interest income and other income	(17)	24
Foreign currency transaction gain (loss)	(20)	
Income (loss) before income tax	(166)	(437)
Income tax expense	(1)	(1)
Loss from discontinued operations	\$ (167)	\$ (438)

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

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

**Successor**

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

For Successor's three months ended March 31, 2010, the following could potentially dilute income per common share in the future but was excluded from the calculation of diluted income per common share due to its antidilutive effect:

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

4.5 million shares issuable upon exercise of stock warrants, and

2.7 million shares issuable upon exercise of CVRs.

**Predecessor**

## Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

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

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

**Table of Contents**

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

For the three months ended March 31, 2009, the following could potentially dilute income per common share in the future but were excluded from the calculation of diluted income per common share due to their antidilutive effects:

8.1 million shares issuable upon exercise of stock options,

46.9 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

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

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

	<b>Successor Three Months Ended March 31, 2010</b>	<b>Predecessor Three Months Ended March 31, 2009</b>
Income (loss) from continuing operations	\$ (832)	\$ 14,178
Income (loss) from discontinuing operations, net of tax	(167)	(438)
Gain (loss) from sale of discontinued operations, net of tax		251
Net income (loss) attributable to common stockholders basic	(999)	13,991
Adjustment for interest expense on Step Up Convertible Subordinated Debentures		210
Income (loss) attributable to common stockholders diluted	\$ (999)	\$ 14,201
Weighted average common shares outstanding basic	9,645	142,695
5% Exchangeable Senior Notes		19,474
Step Up Convertible Subordinated Debentures		7,280
Weighted average common shares outstanding diluted	9,645	169,449
<b>Basic income (loss) per common share:</b>		
Income (loss) from continuing operations attributable to common stockholders	\$ (0.08)	\$ 0.10
Income (loss) from discontinued operations	(0.02)	(0.00)
Gain (loss) from sale of discontinued operations		0.00
Net income (loss) attributable to common stockholders	\$ (0.10)	\$ 0.10
<b>Diluted income (loss) per common share:</b>		
Income (loss) from continuing operations attributable to common stockholders	\$ (0.08)	\$ 0.08
Income (loss) from discontinued operations	(0.02)	(0.00)
Gain (loss) from sale of discontinued operations		0.00
Net income (loss) attributable to common stockholders	\$ (0.10)	\$ 0.08



**Table of Contents****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):

	<b>Successor Three Months Ended March 31, 2010</b>	<b>Predecessor Three Months Ended March 31, 2009</b>
Professional Fees	\$ 1	\$ (3,796)
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
<b>Reorganization Items, net</b>	<b>\$ 1</b>	<b>\$ 16,568</b>

**Successor**

Professional fees include financial, legal and other services directly associated with the reorganization process. Payments for reorganization expense professional fees for the three months ended March 31, 2010 were \$0.1 million.

**Predecessor**

Payments for the three months ended March 31, 2009 for professional fees and retainers were \$3.8 million. In accordance with ASC No. 852, the Company ceased amortization of debt premiums, discounts and deferred financing costs related to the liabilities subject to compromise on the Petition Date. The \$3.5 million of unamortized debt premiums and discounts has been written off and recorded as a gain, offset by the expensing of \$3.6 million of unamortized deferred financing costs, as an adjustment to the net carrying value of the pre-petition debt. Long term debt was further reduced by \$20.5 million of future interest payable that previously had been recorded as a portion of long-term obligations for the 14<sup>1</sup>/<sub>4</sub>% Senior Secured Notes and 5% Exchangeable Senior Notes as the issuance of these notes had been deemed troubled debt restructurings.

**14. GUARANTOR/NON-GUARANTOR CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

Primus Telecommunications IHC, Inc. s 14<sup>1</sup>/<sub>4</sub>% 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 14<sup>1</sup>/<sub>4</sub>% Senior Subordinated Secured Notes are secured by a lien on the property of Group and Holding, respectively.

**Table of Contents**

Accordingly, the following consolidating condensed financial information for the three months ended March 31, 2010 for Successor and three months ended March 31, 2009 for Predecessor are included for (a) Group on a stand-alone basis; (b) Primus Telecommunications IHC, Inc. (IHC) on a stand-alone basis; (c) the Other Guarantor subsidiaries on a combined basis; (d) Group's indirect non-guarantor subsidiaries on a combined basis and (e) Group on a consolidated basis. The plan and fresh-start accounting adjustments reflected in Predecessor's Consolidated Condensed Statements of Operations on July 1, 2009 are not presented separately in this presentation.

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

**Table of Contents**

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

(in thousands)

	Successor For the Three Months Ended March 31, 2010					Consolidated
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	
NET REVENUE	\$	\$	\$ 22,036	\$ 182,357	\$	\$ 204,393
<b>OPERATING EXPENSES</b>						
Cost of revenue (exclusive of depreciation included below)			16,909	113,100		130,009
Selling, general and administrative	860	5	9,085	42,942		52,892
Depreciation and amortization			1,534	17,450		18,984
(Gain) loss on sale or disposal of assets				10		10
<b>Total operating expenses</b>	<b>860</b>	<b>5</b>	<b>27,528</b>	<b>173,502</b>		<b>201,895</b>
INCOME (LOSS) FROM OPERATIONS	(860)	(5)	(5,492)	8,855		2,498
INTEREST EXPENSE		(4,399)	(3,018)	(1,920)		(9,337)
ACCRETION ON DEBT PREMIUM (DISCOUNT)			(28)	(16)		(44)
GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT						
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(2,043)					(2,043)
INTEREST AND OTHER INCOME			1	227		228
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)		1,476	(4)	4,530		6,002
INTERCOMPANY INTEREST	(301)	3,847	(2,503)	(1,043)		
MANAGEMENT FEE			1,590	(1,590)		
ROYALTY FEE		3,307		(3,307)		
INCOME (LOSS) BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(3,204)	4,226	(9,454)	5,736		(2,696)
REORGANIZATION ITEMS NET	1					1
INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES	(3,203)	4,226	(9,454)	5,736		(2,695)
INCOME TAX EXPENSE		(229)	(430)	2,658		1,999
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(3,203)	3,997	(9,884)	8,394		(696)
EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	2,204		12,088		(14,292)	
INCOME (LOSS) FROM CONTINUING OPERATIONS	(999)	3,997	2,204	8,394	(14,292)	(696)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax				(167)		(167)
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax						
NET INCOME (LOSS)	(999)	3,997	2,204	8,227	(14,292)	(863)
Less: Net (income) loss attributable to the noncontrolling interest				(136)		(136)
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	\$ (999)	\$ 3,997	\$ 2,204	\$ 8,091	\$ (14,292)	\$ (999)



Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED							
Income (loss) from continuing operations, net of tax	\$ (999)	\$ 3,997	\$ 2,204	\$ 8,258	\$ (14,292)	\$ (832)	
Income (loss) from discontinued operations				(167)		(167)	
Gain (loss) from sale of discontinued operations							
Net income (loss)	\$ (999)	\$ 3,997	\$ 2,204	\$ 8,091	\$ (14,292)	\$ (999)	

**Table of Contents**

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

(in thousands)

Predecessor  
For the Three Months Ended March 31, 2009

	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	\$	\$	\$ 34,891	\$ 158,390	\$	\$ 193,281
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			28,767	99,888		128,655
Selling, general and administrative	1,039	19	6,572	37,300		44,930
Depreciation and amortization			679	5,397		6,076
Gain (loss) on sale or disposal of assets			(58)	(1)		(59)
Total operating expenses	1,039	19	35,960	142,584		179,602
INCOME (LOSS) FROM OPERATIONS	(1,039)	(19)	(1,069)	15,806		13,679
INTEREST EXPENSE	(794)	(3,331)	(5,625)	(1,025)		(10,775)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(129)	318				189
INTEREST AND OTHER INCOME			5	222		227
FOREIGN CURRENCY TRANSACTION LOSS	(67)	(1,056)	(140)	(1,787)		(3,050)
INTERCOMPANY INTEREST	(2,078)	7,209	(4,367)	(764)		
MANAGEMENT FEE			1,129	(1,129)		
ROYALTY FEE		2,509		(2,509)		
INCOME (LOSS) BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(4,107)	5,630	(10,067)	8,814		270
REORGANIZATION ITEMS NET	(2,169)	22,643	(3,906)			16,568
INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES	(6,276)	28,273	(13,973)	8,814		16,838
INCOME TAX EXPENSE		(183)	(670)	(1,943)		(2,796)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(6,276)	28,090	(14,643)	6,871		14,042
EQUITY IN NET INCOME OF SUBSIDIARIES	20,267		34,297		(54,564)	
INCOME FROM CONTINUING OPERATIONS	13,991	28,090	19,654	6,871	(54,564)	14,042
LOSS FROM DISCONTINUED OPERATIONS, net of tax				(438)		(438)
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax				251		251
NET INCOME	13,991	28,090	19,654	6,684	(54,564)	13,855
Less: Net loss attributable to the noncontrolling interest				136		136
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	\$ 13,991	\$ 28,090	\$ 19,654	\$ 6,820	\$ (54,564)	\$ 13,991

AMOUNTS ATTRIBUTABLE TO COMMON  
SHAREHOLDERS OF PRIMUS  
TELECOMMUNICATIONS GROUP,  
INCORPORATED

Income from continuing operations, net of tax	\$ 13,991	\$ 28,090	\$ 19,654	\$ 7,007	\$ (54,564)	\$ 14,178
Loss from discontinued operations				(438)		(438)
Gain from sale of discontinued operations				251		251
Net income	\$ 13,991	\$ 28,090	\$ 19,654	\$ 6,820	\$ (54,564)	\$ 13,991

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

(in thousands)

	PTGI	IHC	Guarantor Subsidiaries	Successor March 31, 2010 Non Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>						
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 15,048	\$	\$ 793	\$ 36,238	\$	\$ 52,079
Accounts receivable			6,319	77,523		83,842
Prepaid expenses and other current assets	557		5,580	9,843		15,980
Total current assets	15,605		12,692	123,604		151,901
INTERCOMPANY RECEIVABLES		236,680	556,192	50,399	(843,271)	
INVESTMENTS IN SUBSIDIARIES	475,597		169,442		(645,039)	
RESTRICTED CASH			253	10,503		10,756
PROPERTY AND EQUIPMENT Net			9,524	133,170		142,694
GOODWILL		29,642	318	35,082		65,042
OTHER INTANGIBLE ASSETS Net		76,200	6,787	91,616		174,603
OTHER ASSETS			4,468	6,023		10,491
TOTAL ASSETS	\$ 491,202	\$ 342,522	\$ 759,676	\$ 450,397	\$ (1,488,310)	\$ 555,487
<b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>						
<b>CURRENT LIABILITIES:</b>						
Accounts payable	\$ 19	\$	\$ 3,495	\$ 39,379	\$	\$ 42,893
Accrued interconnection costs			7,164	31,041		38,205
Deferred revenue			877	11,747		12,624
Accrued expenses and other current liabilities	419		10,149	34,980		45,548
Accrued income taxes		2,933	(56)	7,989		10,866
Accrued interest		5,914	3,069	1,670		10,653
Current portion of long-term obligations			62	1,212		1,274
Total current liabilities	438	8,847	24,760	128,018		162,063
INTERCOMPANY PAYABLES	388,585		174,361	280,325	(843,271)	
LONG-TERM OBLIGATIONS		123,472	83,895	45,681		253,048
DEFERRED TAX LIABILITY		29,642		4,234		33,876
OTHER LIABILITIES	7,404		1,063	(558)		7,909
Total liabilities	396,427	161,961	284,079	457,700	(843,271)	456,896
<b>COMMITMENTS AND CONTINGENCIES</b>						
<b>STOCKHOLDERS EQUITY (DEFICIT):</b>						
Primus Telecommunications Group, Incorporated						
Stockholders Deficit:						
Common stock	10					10
Additional paid-in capital	85,276	161,445	458,781	(35,161)	(585,065)	85,276
Accumulated earnings (deficit)	5,733	19,116	13,060	19,236	(51,412)	5,733
Accumulated other comprehensive income (loss)	3,756		3,756	4,806	(8,563)	3,756

Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

Total Primus Telecommunications Group, Incorporated stockholders equity (deficit)	94,775	180,561	475,597	(11,119)	(645,039)	94,775
Noncontrolling interest				3,816		3,816
Total stockholders equity (deficit)	94,775	180,561	475,597	(7,303)	(645,039)	98,591
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>	<b>\$ 491,202</b>	<b>\$ 342,522</b>	<b>\$ 759,676</b>	<b>\$ 450,397</b>	<b>\$ (1,488,310)</b>	<b>\$ 555,487</b>

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

(in thousands)

			Successor December 31, 2009			
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>						
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 6,736	\$	\$ 1,672	\$ 34,130	\$	\$ 42,538
Accounts receivable			9,831	79,511		89,342
Prepaid expenses and other current assets	324		5,666	9,157		15,147
Total current assets	7,060		17,169	122,798		147,027
INTERCOMPANY RECEIVABLES		227,973	557,151	55,390	(840,514)	
INVESTMENTS IN SUBSIDIARIES	473,703		80,922		(554,625)	
RESTRICTED CASH			253	10,185		10,438
PROPERTY AND EQUIPMENT Net			10,356	137,250		147,606
GOODWILL		29,642	318	34,260		64,220
OTHER INTANGIBLE ASSETS Net			83,497	95,310		178,807
OTHER ASSETS			4,615	6,201		10,816
TOTAL ASSETS	\$ 480,763	\$ 257,615	\$ 754,281	\$ 461,394	\$ (1,395,139)	\$ 558,914
<b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>						
<b>CURRENT LIABILITIES:</b>						
Accounts payable	\$ 57	\$	\$ 3,784	\$ 41,978	\$	\$ 45,819
Accrued interconnection costs			10,427	27,134		37,561
Deferred revenue			1,860	12,022		13,882
Accrued expenses and other current liabilities	1,251		7,827	40,626		49,704
Accrued income taxes		2,622	78	7,929		10,629
Accrued interest		1,515	307	163		1,985
Current portion of long-term obligations			62	4,212		4,274
Total current liabilities	1,308	4,137	24,345	134,064		163,854
INTERCOMPANY PAYABLES	377,754		171,457	291,303	(840,514)	
LONG-TERM OBLIGATIONS		123,472	83,874	45,896		253,242
DEFERRED TAX LIABILITY		29,642		6,410		36,052
OTHER LIABILITIES	5,362		495			5,857
Total liabilities	384,424	157,251	280,171	477,673	(840,514)	459,005
<b>COMMITMENTS AND CONTINGENCIES</b>						
<b>STOCKHOLDERS EQUITY (DEFICIT):</b>						
Primus Telecommunications Group, Incorporated						
Stockholders Equity (Deficit):						
Common stock	10					10
Additional paid-in capital	85,533	85,245	458,783	(35,161)	(508,867)	85,533
Accumulated deficit	6,732	15,119	11,263	11,145	(37,527)	6,732
Accumulated other comprehensive loss	4,064		4,064	4,167	(8,231)	4,064

Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

Total Primus Telecommunications Group, Incorporated stockholders equity (deficit)	96,339	100,364	474,110	(19,849)	(554,625)	96,339
Noncontrolling interest				3,570		3,570
Total stockholders equity (deficit)	96,339	100,364	474,110	(16,279)	(554,625)	99,909
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>	<b>\$ 480,763</b>	<b>\$ 257,615</b>	<b>\$ 754,281</b>	<b>\$ 461,394</b>	<b>\$ (1,395,139)</b>	<b>\$ 558,914</b>

**Table of Contents**

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

(in thousands)

Successor  
For the Three Months Ended March 31, 2010

	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net income	\$ (999)	\$ 3,997	\$ 2,204	\$ 8,227	\$ (14,292)	\$ (863)
Adjustments to reconcile net income to net cash provided by operating activities:						
Reorganization items, net	(1)					(1)
Provision for doubtful accounts receivable			409	1,425		1,834
Stock compensation expense			87			87
Depreciation and amortization			1,534	17,514		19,048
Gain on sale or disposal of assets				10		10
Accretion of debt (premium) discount			28	16		44
Equity in net income of subsidiary	(2,204)		(12,088)		14,292	
Change in fair value of Contingent Value Rights	2,043					2,043
Deferred income taxes				(2,303)		(2,303)
Gain on early extinguishment or restructuring of debt						
Unrealized foreign currency transaction gain (loss) on intercompany and foreign debt		(1,450)		(4,404)		(5,854)
Changes in assets and liabilities, net of acquisitions:						
Decrease in accounts receivable			3,103	(414)		2,689
(Increase) decrease in prepaid expenses and other current assets	(234)		86	(541)		(689)
Decrease in other assets			147	1		148
(Increase) decrease in intercompany balance		1,048	2,423	(3,471)		
Decrease in accounts payable	(38)		(290)	(2,553)		(2,881)
Decrease in accrued interconnection costs			(3,262)	4,127		865
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities and other liabilities	(1,037)		1,906	(5,862)		(4,993)
Increase (decrease) in accrued income taxes		203	(134)	(152)		(83)
Increase (decrease) in accrued interest		4,399	2,763	1,472		8,633
Net cash provided by (used in) operating activities before reorganization items	(2,470)	8,196	(1,084)	13,091		17,734
Cash effect of reorganization items	(137)					(137)
Net cash provided by (used in) operating activities	(2,607)	8,196	(1,084)	13,091		17,597
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Purchase of property and equipment			(192)	(4,721)		(4,913)
Sale of property and equipment and intangible assets				26		26
Cash from disposition of business, net of cash disposed						
Cash used for business acquisitions, net of cash acquired						
Increase in restricted cash				(51)		(51)
Proceeds from intercompany balance	10,919		12,099		(23,018)	
Net cash provided by (used in) investing activities	10,919		11,907	(4,746)	(23,018)	(4,938)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Proceeds from issuance of long-term obligations						
Deferred financing costs						
Principal payments on other long-term obligations			(6)	(3,383)		(3,389)



## Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

Proceeds from (payments on) intercompany balance		(8,196)	(10,618)	(4,204)	23,018	
Net cash provided by (used in) financing activities		(8,196)	(10,624)	(7,586)	23,018	(3,389)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			(1,077)	1,348		271
NET CHANGE IN CASH AND CASH EQUIVALENTS	8,312	(0)	(879)	2,108		9,541
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,736		1,672	34,130		42,538
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 15,048	\$ (0)	\$ 793	\$ 36,238	\$	\$ 52,079

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

(in thousands)

	Predecessor For the Three Months Ended March 31, 2009					Consolidated
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net income	\$ 13,991	\$ 28,090	\$ 19,654	\$ 6,684	\$ (54,564)	\$ 13,855
Adjustments to reconcile net income to net cash provided by operating activities:						
Reorganization items, net	2,169	(22,641)	3,906	(2)		(16,568)
Provision for doubtful accounts receivable			506	1,724		2,230
Stock compensation expense			16			16
Depreciation and amortization			679	5,417		6,096
Gain on sale or disposal of assets			(58)	(252)		(310)
Accretion of debt (premium) discount	129	(318)				(189)
Equity in net income of subsidiary	(20,267)		(34,161)		54,428	
Minority interest share of income			(136)		136	
Deferred income taxes			141	(141)		
Unrealized foreign currency transaction loss on intercompany and foreign debt	68	1,113	193	1,769		3,143
Changes in assets and liabilities, net of acquisitions:						
(Increase) decrease in accounts receivable			(469)	5,570		5,101
(Increase) decrease in prepaid expenses and other current assets	(1,117)		307	(611)		(1,421)
Decrease in other assets	52	17	851	1,350		2,270
(Increase) decrease in intercompany balance		(3,270)	10,331	(7,061)		
Decrease in accounts payable	(1,500)		(2,269)	(3,606)		(7,375)
Increase (decrease) in accrued interconnection costs			(2,126)	288		(1,838)
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities and other liabilities	80		(33)	(10)		37
Increase (decrease) in accrued income taxes	(2)	125	(1)	268		390
Increase (decrease) in accrued interest	397	3,314	(4,367)	(138)		(794)
Net cash provided by (used in) operating activities before reorganization items	(6,000)	6,430	(7,036)	11,249		4,643
Cash effect of reorganization items	(1,412)		(2,384)	2		(3,794)
Net cash provided by (used in) operating activities	(7,412)	6,430	(9,420)	11,251		849
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Purchase of property and equipment			(82)	(2,704)		(2,786)
Sale of property and equipment and intangible assets			59			59
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	(276)		(215)
Proceeds from intercompany balance	7,228		6,075		(13,303)	
Net cash provided by (used in) investing activities	7,228		6,113	(2,947)	(13,303)	(2,909)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Principal payments on other long-term obligations			(257)	(2,751)		(3,008)
Proceeds from (payments on) intercompany balance		(6,430)	3,992	(10,865)	13,303	
Net cash provided by (used in) financing activities		(6,430)	3,735	(13,616)	13,303	(3,008)

Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				104				104
NET CHANGE IN CASH AND CASH EQUIVALENTS	(184)		428	(5,208)				(4,964)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	152		3,551	33,297				37,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ (32)	\$	\$ 3,979	\$ 28,089	\$		\$	\$ 32,036

**Table of Contents**

**15. SUBSEQUENT EVENTS**

In May 2010, the Company's wholly owned subsidiary, Primus Telecommunications IHC, Inc., made open market purchases of \$9.5 million principal amount of its 14<sup>1/4</sup>% Senior Subordinated Secured Notes. These notes were subsequently cancelled.

---

**Table of Contents**

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

**Introduction and Overview of Operations**

We are a global provider of advanced facilities-based communication solutions, including traditional and internet based voice, internet broadband, data, mobile, collocation/hosting, and outsourced managed services to business and residential customers in the United States, Canada, Australia, Brazil, the United Kingdom and certain countries in western Europe, and to telecommunications carriers worldwide. We own and operate our global network of next generation IP soft switches, media gateways, hosted IP/SIP platforms, broadband infrastructure, fiber capacity, and data centers located in Canada, Australia, Brazil and the United States. Our primary markets are Australia and Canada where we have deployed significant network infrastructure. We classify our services into three categories: Growth Services, Traditional Services and Wholesale Services. Our focus is on expanding our Growth Services, which includes our broadband, IP-based voice, local, wireless, data and data center services, to fulfill the demand for high quality, competitively priced communications services. This demand is being driven, in part, by the globalization of the world's economies, the global trend toward telecommunications deregulation and the migration of communication traffic to the Internet. We manage our Traditional Services, which includes our domestic and international long-distance voice, prepaid cards, dial-up Internet services and Australian off-network local services for cash flow generation that we reinvest to develop and market our Growth Services, particularly in our primary markets of Australia and Canada. We provide our wholesale voice termination services to other telecommunications carriers and resellers requiring IP or time-division multiplexing access.

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 SMEs, multinational corporations, residential customers, and other telecommunications carriers and resellers.

Industry trends have shown that the overall market for domestic and international long-distance voice, prepaid phone cards and dial-up Internet services has declined in favor of Internet-based, wireless and broadband communications. 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 network transmission costs, we pursue a flexible approach with respect to the management of our network capacity. In most instances, we (1) optimize the cost of traffic by using the least expensive cost routing, (2) negotiate lower variable usage based costs with domestic and foreign service providers, (3) negotiate additional and lower cost foreign carrier agreements with the foreign incumbent carriers and others, and (4) 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

## **Table of Contents**

install and transfer a new customer onto our network and to migrate broadband and local customers. However, installing and migrating customers to our network infrastructure, enables us to increase our margin on such services as compared to resale of services using other carriers networks.

Selling, general and administrative expenses are comprised primarily of salaries and benefits, commissions, occupancy costs, sales and marketing expenses, advertising, professional fees, and other administrative costs. All selling, general and administrative 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.

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

### **Foreign Currency**

Foreign currency can have a major impact on our financial results. Currently approximately 85% 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 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), USD/Euro (EUR), and USD/Brazilian Real (BRL). 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. 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.

**Table of Contents**

In the three months ended March 31, 2010, as compared to the three months ended March 31, 2009, the USD was weaker on average as compared to the CAD, AUD, GBP, EUR and BRL. The following tables demonstrate the impact of currency fluctuations on our net revenue for the three months ended March 31, 2010 and 2009 (in thousands, except percentages):

Net Revenue by Location in USD

	For the Three Months Ended March 31,			
	2010	2009	Variance	Variance %
Canada	\$ 57,476	\$ 53,245	\$ 4,231	7.9%
Australia	\$ 69,898	\$ 52,027	\$ 17,871	34.4%
United Kingdom	\$ 20,847	\$ 25,300	\$ (4,453)	(17.6)%
Europe*	\$ 23,435	\$ 17,547	\$ 5,888	33.6%
Brazil	\$ 5,270	\$ 3,267	\$ 2,003	61.3%

Net Revenue by Location in Local Currencies

	For the Three Months Ended March 31,			
	2010	2009	Variance	Variance %
Canada (in CAD)	59,845	66,183	(6,338)	(9.6)%
Australia (in AUD)	77,343	78,425	(1,082)	(1.4)%
United Kingdom (in GBP)	13,425	17,631	(4,206)	(23.9)%
Europe* (in EUR)	16,516	13,156	3,360	25.5%
Brazil (in BRL)	9,495	7,597	1,898	25.0%

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

**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, 2009 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.

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, 2009.

**Financial Presentation Background**

In the following presentations and narratives within this Management's Discussion and Analysis of Financial Condition and Results of Operations, we compare, pursuant to SEC disclosure rules, Successor's results of operations for the three months ended March 31, 2010 (the Successor Period) to the three months ended March 31, 2009 (the Predecessor Period).

**Table of Contents**

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 March 31, 2010, show the operations of the reorganized Company. References to Predecessor or Predecessor Company refer to the operations of the Company prior to July 1, 2009. See Note 3 Fresh-Start Accounting in the notes to these Consolidated Condensed Financial Statements for further details.

In reviewing the results and narratives below, it is important to note that there were significant effects resulting from the adoption of fresh-start accounting that affected our historical presentations and that will impact future results compared to pre-Reorganization results, including significant changes in:

debt balances and associated interest expense;

taxes and the adverse cash flow effects of our obligation to pay additional taxes compared to prior periods, given the termination of significant net operating loss carry-forward credits in connection with the Reorganization; and

depreciation and amortization, as triggered by our requirement to institute a new capital structure and fully re-measure our tangible and identifiable intangible assets.

We also present detailed changes in results, excluding currency impacts, since a large portion of our revenues are derived outside of the U.S., and currency changes can influence or mask underlying changes in foreign operating unit performance. For purposes of calculating constant currency rates between periods in connection with presentations that describe changes in values excluding currency effects herein, we have taken results from foreign operations for a given year (that were computed in accordance with GAAP using local currency) and converted such amounts utilizing the same U.S. dollar to applicable local currency exchange rates that were used for purposes of calculating corresponding preceding year GAAP presentations.

**Results of Operations****Results of operations for the three months ended March 31, 2010 as compared to the three months ended March 31, 2009**

**Net revenue:** Net revenue, exclusive of the currency effect, decreased \$21.0 million, or 10.9%, to \$172.3 million for the three months ended March 31, 2010 from \$193.3 million for the three months ended March 31, 2009. Inclusive of the currency effect, which accounted for an increase of \$32.1 million, net revenue increased \$11.1 million to \$204.4 million for the three months ended March 31, 2010 from \$193.3 million for the three months ended March 31, 2009.

(in thousands)	Exclusive of Currency Effect							Inclusive of Currency Effect	
	Quarter Ended		Quarter Ended		Quarter-over-Quarter		Currency Effect	Quarter Ended	
	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009	Variance	Variance %		March 31, 2010	March 31, 2009
	Net Revenue	% of Total	Net Revenue	% of Total				Net Revenue	% of Total
Canada	48,138	27.9%	53,245	27.6%	(5,107)	(9.6)%	9,338	57,476	28.1%
Australia	51,300	29.8%	52,027	26.9%	(727)	(1.4)%	18,598	69,898	34.2%
Wholesale	44,253	25.7%	54,203	28.0%	(9,950)	(18.4)%	2,254	46,507	22.8%
United States	13,576	7.9%	18,095	9.4%	(4,519)	(25.0)%		13,576	6.6%
Europe	10,933	6.3%	12,444	6.4%	(1,511)	(12.1)%	734	11,666	5.7%
Brazil	4,083	2.4%	3,267	1.7%	816	25.0%	1,186	5,270	2.6%
<b>Total Revenue</b>	<b>\$ 172,283</b>	<b>100.0%</b>	<b>\$ 193,281</b>	<b>100.0%</b>	<b>\$ (20,998)</b>	<b>(10.9)%</b>	<b>\$ 32,110</b>	<b>\$ 204,393</b>	<b>100.0%</b>





**Table of Contents**

Canada: Canada net revenue, exclusive of the currency effect, decreased \$5.1 million, or 9.6%, to \$48.1 million for the three months ended March 31, 2010 from \$53.2 million for the three months ended March 31, 2009. The net revenue decrease is primarily attributable to a decrease of \$3.7 million due to customer attrition in retail voice services, a decrease of \$2.4 million in prepaid voice services and a decrease of \$0.2 million in wireless services offset, in part, by an increase of \$0.4 million in local services and an increase of \$0.8 million in Internet, data and hosting services. Inclusive of the currency effect, which accounted for a \$9.3 million increase, net revenue increased \$4.3 million to \$57.5 million for the three months ended March 31, 2010 from \$53.2 million for the three months ended March 31, 2009.

Australia: Australia net revenue, exclusive of the currency effect, decreased \$0.7 million, or 1.4%, to \$51.3 million for the three months ended March 31, 2010 from \$52.0 million for the three months ended March 31, 2009. The net revenue decrease is primarily attributable to a decrease of \$0.9 million in Internet services and a decrease of \$1.2 million in residential voice offset, in part, by increases of \$0.3 million in business voice services, \$0.4 million in wireless services and an increase of \$0.7 million other services. Inclusive of the currency effect, which accounted for a \$18.6 million increase, net revenue increased \$17.9 million to \$69.9 million for the three months ended March 31, 2010 from \$52.0 million for the three months ended March 31, 2009.

Wholesale: Wholesale net revenue, exclusive of the currency effect, decreased \$9.9 million, or 18.4%, to \$44.3 million for the three months ended March 31, 2010 from \$54.2 million for the three months ended March 31, 2009. The net revenue decrease is a result of general market traffic flow, pricing movements and our continued focus on profitability rather than revenue. Inclusive of the currency effect, which accounted for a \$2.3 million increase, net revenue decreased \$7.7 million to \$46.5 million for the three months ended March 31, 2010, from \$54.2 million for the three months ended March 31, 2009.

United States: United States net revenue decreased \$4.5 million, or 25.0%, to \$13.6 million for the three months ended March 31, 2010 from \$18.1 million for the three months ended March 31, 2009. The decrease is primarily attributable to a decrease of \$2.6 million due to customer attrition in retail voice services, a decrease of \$1.6 million in VoIP services and a decrease of \$0.3 million in Internet services.

Europe: Europe net revenue, exclusive of the currency effect, decreased \$1.5 million, or 12.1%, to \$10.9 million for the three months ended March 31, 2010 from \$12.4 million for the three months ended March 31, 2009. The decrease is primarily attributable to a decline in retail voice services of \$1.8 million, offset, in part, by an increase in wireless and VoIP services of \$0.3 million. Inclusive of the currency effect, which accounted for a \$0.7 million increase, net revenue decreased \$0.7 million to \$11.7 million for the three months ended March 31, 2010 from \$12.4 million for the three months ended March 31, 2009.

Brazil: Brazil net revenue, exclusive of the currency effect, increased \$0.8 million, or 25.0%, to \$4.1 million for the three months ended March 31, 2010 from \$3.3 million for the three months ended March 31, 2009. The revenue increase is due primarily to an increase in wholesale voice services. Inclusive of the currency effect, which accounted for a \$1.2 million increase, net revenue increased \$2.0 million to \$5.3 million for the three months ended March 31, 2010 from \$3.3 million for the three months ended March 31, 2009.

**Cost of revenue:** Cost of revenue, exclusive of the currency effect, decreased \$17.6 million to \$111.1 million, or 64.5% of net revenue, for the three months ended March 31, 2010 from \$128.7 million, or 66.6% of net revenue, for the three months ended March 31, 2009. Inclusive of the currency effect, which accounted for an \$18.9 million increase, cost of revenue increased \$1.3 million to \$130.0 million for the three months ended March 31, 2010 from \$128.7 million for the three months ended March 31, 2009.

Canada: Canada cost of revenue, exclusive of the currency effect, decreased \$1.7 million to \$22.0 million, or 45.7% of net revenue, for the three months ended March 31, 2010 from \$23.7 million, or 44.5% of net revenue, for the three months ended March 31, 2009. The decrease is primarily attributable to a decrease in net

**Table of Contents**

revenue of \$5.1 million. Inclusive of the currency effect, which accounted for a \$4.3 million increase, cost of revenue increased \$2.6 million to \$26.3 million for the three months ended March 31, 2010 from \$23.7 million for the three months ended March 31, 2009.

Australia: Australia cost of revenue, exclusive of the currency effect, decreased \$2.5 million to \$30.5 million, or 59.5% of net revenue, for the three months ended March 31, 2010 from \$33.0 million, or 63.5% of net revenue, for the three months ended March 31, 2009. The decrease is primarily attributable to management cost control initiatives and a \$0.7 million decrease in net revenue. Inclusive of the currency effect, which accounted for a \$11.1 million increase, cost of revenue increased \$8.6 million to \$41.6 million for the three months ended March 31, 2010 from \$33.0 million for the three months ended March 31, 2009.

Wholesale: Wholesale cost of revenue, exclusive of the currency effect, decreased \$9.9 million to \$41.8 million, or 94.5% of net revenue, for the three months ended March 31, 2010 from \$51.7 million, or 95.5% of net revenue, for the three months ended March 31, 2009. The decrease is primarily attributable to a decrease in net revenue of \$9.9 million offset, in part, by lower costs and improved bad debt experience, as a percentage of net revenues. Inclusive of the currency effect, which accounted for a \$2.2 million decrease, cost of revenues decreased \$7.7 million to \$44.0 million for the three months ended March 31, 2010 from \$51.7 million for the three months ended March 31, 2009.

United States: United States cost of revenue decreased \$3.1 million to \$5.9 million, or 43.7% of net revenue, for the three months ended March 31, 2010 from \$9.0 million, or 49.8% of net revenue, for the three months ended March 31, 2009. The decrease is attributable to a decrease in net revenue of \$4.5 million and management cost control initiatives.

Europe: Europe cost of revenue, exclusive of the currency effect, decreased by \$1.1 million to \$7.6 million, or 69.5% of net revenue, for the three months ended March 31, 2010 from \$8.7 million, or 70.2% of net revenue, for the three months ended March 31, 2009. The decrease is primarily due to a decrease in net revenue of \$1.5 million. Inclusive of the currency effect, which accounted for a \$0.5 million increase, cost of revenue decreased \$0.6 million to \$8.1 million for the three months ended March 31, 2010 from \$8.7 million for the three months ended March 31, 2009.

Brazil: Brazil cost of revenue, exclusive of the currency effect, increased \$0.8 million to \$3.2 million, or 77.9% of net revenue, for the three months ended March 31, 2010 from \$2.4 million, or 73.9% of net revenue, for the three months ended March 31, 2009. The increase is primarily attributable to an increase in net revenue of \$0.8 million and a shift in the revenue product mix to lower margin wholesale voice products. Inclusive of the currency effect, which accounted for a \$0.9 million increase, cost of revenue increased \$1.7 million to \$4.1 million for the three months ended March 31, 2010 from \$2.4 million for the three months ended March 31, 2009.

***Selling, general and administrative expenses:*** Selling, general and administrative expenses, exclusive of the currency effect, decreased \$0.1 million to \$44.8 million, or 26.0% of net revenue, for the three months ended March 31, 2010 from \$44.9 million, or 23.2% of net revenue, for the three months ended March 31, 2009. Inclusive of the currency effect, which accounted for an \$8.1 million increase, selling, general and administrative expenses increased \$8.0 million to \$52.9 million for the three months ended March 31, 2010 from \$44.9 million for the three months ended March 31, 2009.

Canada: Canada selling, general and administrative expense, exclusive of the currency effect, decreased \$1.3 million to \$16.4 million, or 34.1% of net revenue, for the three months ended March 31, 2010 from \$17.7 million, or 33.3% of net revenue, for the three months ended March 31, 2009. The decrease is attributable to a decrease of \$0.4 million in salaries and benefits, a decrease of \$0.8 million in sales and marketing expenses, a decrease of \$0.3 million in professional fees and a decrease of \$0.5 million in general and administrative

**Table of Contents**

expenses offset, in part, by an increase of \$0.5 million in advertising expenses and \$0.2 million of other expenses. Inclusive of the currency effect, which accounted for a \$3.2 million increase, selling, general and administrative expenses increased \$1.9 million to \$19.6 million for the three months ended March 31, 2010 from \$17.7 million for the three months ended March 31, 2009.

Australia: Australia selling, general and administrative expense, exclusive of the currency effect, decreased \$0.4 million to \$12.2 million, or 23.9% of net revenue, for the three months ended March 31, 2010 from \$12.6 million, or 24.3% of net revenue, for the three months ended March 31, 2009. The decrease is attributable to a decrease of \$0.2 million in salaries and benefits, a decrease of \$0.2 million in sales and marketing expense, and a decrease of \$0.5 million in general and administrative offset, in part by an increase of \$0.5 million in advertising expense. Inclusive of the currency effect, which accounted for a \$4.4 million increase, selling, general and administrative expense increased \$4.0 million to \$16.6 million for the three months ended March 31, 2010 from \$12.6 million for the three months ended March 31, 2009.

Wholesale: Wholesale selling, general and administrative expense for the three months ended March 31, 2010 was consistent with the three months ended March 31, 2009.

United States: United States selling, general and administrative expense for the three months ended March 31, 2010 was consistent with the three months ended March 31, 2009.

Europe: Europe selling, general and administrative expense, exclusive of the currency effect, decreased \$0.8 million to \$2.7 million, or 24.4% of net revenue, for the three months ended March 31, 2010 from \$3.5 million, or 27.8% of net revenue, for the three months ended March 31, 2009. The decrease is attributable to a decrease of \$0.3 million in salaries and benefits, \$0.2 million of sales and marketing expense, \$0.2 million in general and administrative expense and \$0.1 million in other expenses. Inclusive of the currency effect, which accounted for a \$0.2 million increase, selling, general and administrative expense decreased \$0.6 million to \$2.9 million for the three months ended March 31, 2010 from \$3.5 million for the three months ended March 31, 2009.

Brazil: Brazil selling, general and administrative expense for the three months ended March 31, 2010 was consistent with the three months ended March 31, 2009.

Corporate: Corporate selling, general and administrative expense increased \$2.0 million to \$4.1 million for the three months ended March 31, 2010 from \$2.1 million for the three months ended March 31, 2009. The increase is primarily due to a \$1.8 million severance accrual.

**Depreciation and amortization expense:** Depreciation and amortization expense increased \$12.9 million to \$19.0 million for the three months ended March 31, 2010 from \$6.1 million for the three months ended March 31, 2009. The increase was the result of valuing tangible and intangible assets to the fair values per Fresh-Start accounting which was implemented effective July 1, 2009. See Financial Presentation Background.

**Interest expense and accretion (amortization) on debt discount/premium:** Interest expense and accretion (amortization) on debt discount/premium, net decreased \$1.2 million to \$9.4 million for the three months ended March 31, 2010 from \$10.6 million for the three months ended March 31, 2009. The decrease was due to the lower debt levels primarily resulting from the cancellation of certain indebtedness through the Plan of Reorganization, effective as of July 1, 2009.

**Gain (loss) from contingent value rights valuation:** The value of the contingent value rights decreased \$2.0 million during the three months ended March 31, 2010 due to the change of the fair market value. The Company determined these contingent value rights to be derivative instruments to be accounted for as liabilities and were marked to fair value, (and in future periods will be marked to fair value), at each balance sheet date. Upon issuance of the contingent value rights, the Company recorded a liability of \$2.6 million in other liabilities as part

---

**Table of Contents**

of fresh-start accounting, and we will adjust this liability quarterly to its then estimated fair value, (which in future periods potentially could be substantially greater than the initial recorded liability balance). Estimates of fair value represent the Company's best estimates based on a Black-Scholes pricing model.

**Foreign currency transaction gain (loss):** Foreign currency transaction gain increased \$9.0 million to a gain of \$6.0 million for the three months ended March 31, 2010 from a loss of \$3.0 million for the three months ended March 31, 2009. The gains are 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** were \$1 thousand of expense for the three months ended March 31, 2010. For the three months ended March 31, 2009, it was a \$16.6 million gain. 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 of the Reorganization. The \$3.5 million of unamortized debt premiums and discounts has been written off and recorded as a gain, offset by the expensing of \$3.6 million of unamortized deferred financing costs, as an adjustment to the net carrying value of the pre-petition debt. Long term debt was further reduced by \$20.5 million of future interest payable that previously had been recorded as a portion of long-term obligations for the 14 1/4% Senior Secured Notes and 5% Exchangeable Senior Notes as the issuance of these notes had been deemed troubled debt restructurings.

**Income tax benefit (expense):** Income tax benefit was \$2.0 million for the three months ended March 31, 2010 compared to a \$2.8 million expense for the three months ended March 31, 2009. The benefit includes the release of deferred tax liabilities related to amortization of certain fresh-start adjustments to fixed and intangible assets and an intercompany loan.

**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 and taxes. We have financed our historical 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 \$17.6 million for the three months ended March 31, 2010. For the three months ended March 31, 2010, net income, net of non-cash operating activity, provided \$14.0 million of cash. In addition, cash was increased by a reduction in accounts receivable of \$2.7 million, a reduction in other assets of \$0.4 million, an increase in accrued interconnection costs of \$0.9 million, and an increase in accrued interest of \$8.6 million. For the three months ended March 31, 2010, \$7.7 million was used to reduce our accrued expenses, deferred revenue, other current liabilities and other liabilities, net, \$2.9 million was used to reduce our accounts payable, \$0.7 million was used to increase prepaid expenses and other current assets, \$0.1 million was used to reduce our accrued income taxes and the cash used for reorganization items was \$0.1 million.

Net cash used in investing activities was \$4.9 million for the three months ended March 31, 2010, which included \$4.9 million of capital expenditures.

Net cash used in financing activities was \$3.4 million for the three months ended March 31, 2010 and reflects the repayment, in full, of the leased fiber capacity agreement in Australia.

**Table of Contents****Short- and Long-Term Liquidity Considerations and Risks**

As of March 31, 2010, we had \$52.1 million of unrestricted cash and cash equivalents. We believe that our existing cash and cash equivalents will be sufficient to fund our debt service requirements, other fixed obligations (such as capital leases), and other cash needs for our operations for at least the next twelve months. The Company and/or its subsidiaries will evaluate and determine on a continuing basis the most efficient use of the Company's capital and resources, including efforts to invest in the Company's network, systems and product initiatives and to strengthen its balance sheet through debt repurchase or other means.

As of March 31, 2010, we have \$19.3 million in future minimum purchase obligations, \$62.6 million in future operating lease payments and \$256.2 million of indebtedness. At March 31, 2010, approximately \$89.7 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 March 31, 2010.

The obligations reflected in the table below reflect the contractual payments of principal and interest that existed as of March 31, 2010:

Year Ending December 31,	Capital Leases and Other	13% Senior Secured Notes	14 1/4% Senior Subordinated Secured Notes	Purchase Obligations	Operating Leases	Total
2010 (as of March 31, 2010)	\$ 1,191	\$ 16,665	\$ 17,595	\$ 11,620	\$ 13,525	\$ 60,596
2011	1,314	16,900	17,595	4,688	13,492	53,989
2012	340	16,900	17,595	3,001	11,443	49,279
2013	106	16,900	132,269		8,735	158,010
2014	28	16,900			4,136	21,064
Thereafter	20	163,847			11,263	175,130
<b>Total Minimum Principal &amp; Interest Payments</b>	<b>2,999</b>	<b>248,112</b>	<b>185,054</b>	<b>19,309</b>	<b>62,594</b>	<b>518,068</b>
Less: Amount Representing Interest	(230)	(118,112)	(61,582)			(179,924)
<b>Total Long-Term Obligations</b>	<b>\$ 2,769</b>	<b>\$ 130,000</b>	<b>\$ 123,472</b>	<b>\$ 19,309</b>	<b>\$ 62,594</b>	<b>\$ 338,144</b>

The foregoing table assumes that the 14 1/4% Senior Subordinated Secured Notes are refinanced before January 21, 2013 and holders of 13% Senior Secured Notes do not accept any Excess Cash Flow Offer to purchase 13% Senior Secured Notes. In this regard, the Company must extend an offer to repurchase to the holders of the 13% Senior Secured Notes an applicable amount, (equal to 50% of Excess Cash Flow), of the 13% Senior Secured Notes at par, in the event the Company and certain subsidiaries have excess cash flow for any fiscal year commencing with the fiscal year ending December 31, 2010. See Item 1A. Risks Associated with our Liquidity Needs and Debt Securities. for certain risks and uncertainties related thereto.

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 \$11.6 million, \$4.7 million, and \$3.0 million remaining in 2010, 2011 and 2012, respectively.

---

**Table of Contents**

**New Accounting Pronouncements**

*New Accounting Pronouncements*

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

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

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

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

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

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

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

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

We adopted ASU No. 2009-17 in the first quarter of 2010. The provisions of ASU No. 2009-17 replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling

## **Table of Contents**

financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impacts the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this update also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. The adoption of this standard did not have an impact on the Company's financial position, results of operations or cash flows.

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

Certain statements in this Quarterly Report on Form 10-Q and elsewhere concerning strategic objectives, prospects, 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, reinstate, opportunity, goal, objective, exchange, growth, outcome, could, expect, intend, plan, commitment, result, seek, pursue, ongoing, include or in the negative of such terms or comparable terminology. These 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:

our 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.

**Table of Contents**

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 our indentures or other financing agreements;

an inability to fully fund and repurchase holder acceptances of offers to repurchase 13% Notes that we are obligated to make annually, subject to certain limitations, in connection with Excess Cash Flow Offers;

an inability to fully fund and repurchase holder acceptances of offers to repurchase debt securities that we may be obligated to make following certain change in control developments affecting the Company and certain of its subsidiaries;

customer, vendor, carrier and third-party responses to our completed Reorganization;

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;

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;

inadequate financial resources to promote and to market product initiatives, whether due to acceptance of Excess Cash Flow Offers or otherwise;

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;

## Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

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;

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;

**Table of Contents**

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;

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;

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

## Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

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. Approximately 85% 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

**Table of Contents**

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, USD/EUR and USD/BRL. 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.

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 reported losses for Europe.

In the three months ended March 31, 2010, as compared to the three months ended March 31, 2009, the USD was weaker on average as compared to the AUD, CAD, GBP, EUR and BRL. As a result, our revenue of the subsidiaries whose local currency is AUD, CAD, GBP, EUR and BRL increased (decreased) (1.4)%, (9.6)%, (23.9)%, 25.5% and 25.0% in local currency compared to the three months ended March 31, 2009, but increased (decreased) 34.4%, 7.9%, (17.6)%, 33.6% and 61.3% in USD, respectively.

*Interest rates* Our Senior Secured Notes and Senior Subordinated Secured Notes are at a fixed interest rate of 13.00% and 14.25%, respectively. 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 three months ended March 31, 2010 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 Notes, Senior Subordinated Secured Notes, and other long-term obligations in effect at March 31, 2010.

	2010	2011	Year of Maturity				Total	Fair Value
			2012	2013	2014	Thereafter		
				(in thousands, except percentages)				
Fixed Rate	\$ 1,059	\$ 1,231	\$ 330	\$ 123,575	\$ 28	\$ 130,018	\$ 256,241	\$ 252,452
Average Interest Rate	10.7%	10.9%	8.8%	14.2%	4.0%	13.0%	13.6%	

**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 weakness 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

## **Table of Contents**

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, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in Internal Control-Integrated Framework. Based on the assessment, management identified a material weakness in our internal control over accounting for foreign currency transaction gain (loss) on inter-company balances.

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 activity in the third quarter 2009 resulting in the Company amending its form 10-Q for the quarter ended September 30, 2009. As a result of the error described above, management concluded that as of December 31, 2009 and March 31, 2010, 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 and therefore our internal controls over financial reporting were not effective based upon the criteria set forth by COSO. 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 March 31, 2010, that have materially affected or is reasonably likely to affect materially, our internal control over financial reporting, except for the items noted below.

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 during the third quarter of 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.

---

**Table of Contents**

**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:

*The following is not intended as, and should not be construed as, an exhaustive list of relevant risk factors. There may be other risks that are relevant to its own particular circumstances or generally.*

**RISKS RELATED TO OUR BUSINESS AND INDUSTRY**

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

The global economy and capital and credit markets have been experiencing exceptional turmoil and upheaval. Many major economies worldwide entered significant economic recessions in 2007 and continue to experience economic weakness even though economies have begun to show signs of recovery. Ongoing concerns about the systemic impact of potential long-term and widespread recession and potentially prolonged economic recovery, volatile energy costs, geopolitical issues, the availability, cost and terms of credit, consumer and business confidence, substantially increased and increasing unemployment rates and the crisis in the global housing and mortgage markets have all 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 economic uncertainty of unprecedented levels. The availability, cost and terms of credit also have been and may continue to be adversely affected by illiquid markets and wider credit spreads. 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 over the past two years, and a corresponding decrease in global infrastructure spending. Continued turbulence in the U.S. and international markets and economies and prolonged declines in business and consumer spending may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers, including 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 may have an impact on our business and financial condition in the following 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 are scheduled to mature before 2013, at the earliest, if the volatility in the global capital markets were to continue, our ability to refinance our existing indebtedness when due could be severely constrained. See Risks Associated with Our Liquidity Needs and Debt Securities. Any such refinancing could require significantly more expensive interest rates and covenants that 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, business and governments



---

**Table of Contents**

to defer purchases in response to tighter credit, decreased availability of cash and credit, and declining business and consumer confidence, any of which may affect the usage of our services by the customers and the ability of those customers to pay for our services. Accordingly, future demand for our products and services could differ from our current expectations. Similarly, our customers may experience liquidity issues of 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 or cease to recover and our future sales decline, our financial condition and results of operations would be adversely impacted.

***Strengthening of the United States Dollar ( USD ) against certain foreign currencies reduces the amount of USDs 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 (approximately 85% for the quarter ended March 31, 2010) is derived from sales and operations outside the U.S. The reporting currency for our consolidated financial statements is the USD. Our foreign operating subsidiaries, including our largest operating subsidiaries in Canada and Australia, generates cash in their respective local currencies and fluctuations in exchange rates can have a material adverse impact on amounts of USDs transferred to U.S. parent entities. In the future, we expect to continue to derive a significant portion of our net revenue (which is a substantial source for servicing our significant debt obligations at the parent entity level, as well as a source for making principal payments) and incur a significant portion of our operating costs outside the U.S.

Due to the large percentage of our operations conducted outside of the U.S., and the cash transfers from these foreign operating subsidiaries to the U.S. parent, a strengthening of the USD relative to one or more of the foregoing foreign currencies could have an adverse impact on future results of operations and could adversely affect our ability to service or repay our consolidated indebtedness and obligations.

We historically have not typically 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.

***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, digital subscriber lines ( DSL ), data and hosting and wireless telecommunications industry is significantly influenced by the marketing and pricing decisions of the larger 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. The most significant competitors in our primary markets include:

United States: AT&T Inc., Verizon Communications Inc., Qwest Communications International Inc. and other incumbent carriers, cable companies, including Comcast Corporation, Time Warner Cable

---

**Table of Contents**

Inc., Cablevision Systems Corporation and Charter Communications, Inc., other competitive local exchange carriers, including PaeTec Communications, Inc., Time Warner Telecom Inc., XO Communications Services, Inc. and Frontier Communications Corp., independent VoIP providers, including Vonage Holdings Corp and Cbeyond, Inc., wireless carriers in the U.S., including Verizon Communications Inc., AT&T Inc., Sprint Corp., T-Mobile USA Inc., MetroPCS Communications, Inc. and Leap Wireless International, Inc., and web based companies, including Skype Technologies S.A. and Google Inc.;

Australia: Telstra Corporation Limited ( Telstra ), SingTel Optus Pty Limited, Telecom New Zealand Limited, iiNet Limited, SP Telemedia Limited (known as TPG), Macquarie Telecom Group Ltd. and other smaller national and regional service providers and resellers.; and

Canada: TELUS Corporation ( TELUS ), BCE Inc. ( Bell Canada ), MTS Allstream, Inc., Saskatchewan Telecommunications, wireless providers, including Rogers Communications Inc. ( Rogers ), TELUS, Bell Canada, Bragg Communications Inc., COGECO Inc., Quebecor Inc. and Shaw Communications, Inc., cable companies, and other service providers and resellers including Globalive Communications Corp. 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, customers generally can switch carriers and service offerings at their discretion with little notice to us. Competition in all of our markets is likely to remain intense, or increase in intensity and, as deregulatory influences affect markets outside the U.S., competition in non-U.S. markets is increasing to a level similar to the intense competition in the U.S.

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 U.S., Canada and Australia and the major wireless carriers and cable companies have introduced pricing and product bundling strategies that provide for fixed, low rates or unlimited plans for domestic and international calls. This strategy could have a material adverse effect on our net revenue per minute, results of operations and financial condition if our pricing, which we 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.

***Given strong competition in delivering individual and bundled local, wireless, broadband, DSL, VoIP services, we may not be able to operate successfully or expand these parts of our business.***

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 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 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,

---

**Table of Contents**

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 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 intense domestic and international competition in these services places 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 Growth Services segments of the telecom market, including 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. However, 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. For example, the U.S. 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 U.S., the major landline incumbent carriers (including AT&T Inc. and Verizon Communications Inc.) have for many years also provided long-distance services, and previously independent long-distance providers (including AT&T Inc. and MCI Inc.) have been acquired by the landline incumbents. In addition, many entities, including large cable television companies (including Comcast Corporation, Time Warner Cable Inc., Cablevision Systems Corporation and Charter Communications, Inc.) 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 expand its coverage and capacity including the data centers expansion, maintain or improve our service quality levels, purchase and utilize other transmission facilities, evolve our support and billing systems 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. In addition, our operating and financial control systems and infrastructure could be inadequate to ensure timely and accurate financial reporting, which could impact debt covenant compliance.

***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.***

As of June 30, 2009, Predecessor had an accumulated deficit of \$1.06 billion. Predecessor incurred net losses of \$10.6 million in 2004, \$149.2 million in 2005, \$238.0 million in 2006 and \$25.0 million in 2008. During the year ended December 31, 2007, Predecessor recognized net income of \$15.7 million, of which \$32.7 million of revenue was related to the positive impact of foreign currency transaction gains. Even with the

## **Table of Contents**

elimination of our significant accumulated deficit and the reduction in indebtedness through our recent reorganization under Chapter 11, 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 local, wireless, broadband, data and 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 reason, 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 three months ended March 31, 2010, derived approximately 85% of our net revenues by providing services outside of the U.S. 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 modify and/or 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 longer term customer and supplier agreements on preferred and better terms. Moreover, the incumbent carrier may take many months to allow competitors, including us, to interconnect to their 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 in the new service areas; (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, or have not been accrued for in our historical results of operations or both. 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 U.S.

## **Table of Contents**

***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 broadband 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. As the overall market for domestic and international long-distance and dial-up Internet services continues to decline in favor of Internet-based, wireless, and broadband communications, revenue contribution from our Traditional Services, which for the three months ended March 31, 2010 comprised 43% of total revenue, has been consequently declining. 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 and Internet 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 U.S. 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 enhanced 911 emergency services ( E911 ). 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 infrastructure, including data hosting centers. In addition, we rely on third party equipment and service vendors 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 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 U.S. and internationally. We rely on a combination of trade secrets, trademarks and licenses to protect our intellectual

**Table of Contents**

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 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 licenses 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 our financial condition and results of operations.

**RISKS ASSOCIATED WITH OUR FINANCIAL STATEMENTS**

*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 a material weakness that existed in our internal control over accounting for income taxes and as of December 31, 2009 and March 31, 2010, due to a material weakness that existed in our internal control over accounting for foreign currency transaction gain (loss). If we fail to maintain effective internal control over financial reporting at a reasonable assurance level, we may not be able to accurately report our financial results, which could have a material adverse effect on our operations, investor confidence in our business and the trading prices of our securities.*

Effective internal controls are necessary for us to provide reliable financial reports. In evaluating the effectiveness of our internal control over financial reporting, our management identified as of December 31, 2006, 2007 and 2008 a control deficiency in our controls and procedures over accounting for income taxes and as of December 31, 2009 and March 31, 2010, a control deficiency over accounting for foreign currency transaction gain (loss) and management concluded in each case that the control deficiency in our internal controls over financial reporting constituted a material weakness. These deficiencies represented 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 could occur and would not be prevented or detected by our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis.

Specifically, management's assessment of our internal control over financial reporting as of December 31, 2006, 2007 and 2008 identified a material weakness in internal control related to a lack of documentation, insufficient historical analysis and ineffective reconciliation procedures, primarily caused by lack of personnel with adequate expertise in income tax accounting matters. Since identifying the material weakness concerning accounting for income taxes, we have undertaken the following initiatives to remediate the material weakness: hired a new Corporate Tax Director and a Manager of Taxation in our Canadian operating unit; established functioning procedures for foreign finance personnel to communicate regularly any tax concerns with the Corporate Tax Director; purchased and implemented tax provision preparation software; and developed quarterly tax documentation formats. Accordingly, as of December 31, 2009 our management concluded the controls surrounding accounting for income taxes are effective.

## **Table of Contents**

In March 2010, the Company determined that an error existed related to accounting for foreign currency transaction gain (loss) on certain inter-company balances. Specifically, this error related to activity in the third quarter 2009 resulting in the Company amending its Form 10-Q for the quarter ended September 30, 2009. This amendment restated our financial statements in order to correct a non-cash error relating to accounting for unrealized foreign currency transaction losses associated with certain inter-company balances that were permanent in nature and, therefore, should have been recorded as currency translation adjustment to accumulated other comprehensive income (loss) in the equity section of the balance sheet. Since identifying this, we have undertaken initiatives to remediate this material weakness by (a) performing additional recalculations and analysis of the foreign currency transaction gain (loss) recorded on these intercompany balances; (b) implementing an improved process for assessing the reasonableness of foreign currency transaction gain (loss) recorded on these intercompany balances; and (c) confirming intercompany settlements related to these balances at a transactional level. Notwithstanding such efforts, the material weakness concerning currency transaction will not be remediated until the new controls operate for a sufficient period of time and are tested to enable management to conclude that the controls are effective. As a result, as of December 31, 2009 and March 31, 2010 management concluded that the control deficiency concerning foreign currency transactions represented a material weakness. See Part I. Item 4. Controls and Procedures herein.

Our management will consider the design and operating effectiveness of our controls and necessary changes to such controls. However, we can not assure you that additional material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses, and cause us to fail to timely meet our periodic reporting obligations or result in material misstatements in our financial statements. The existence of a material weakness could result in future errors in our financial statements that could result in a restatement of financial statements, cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information.

***Financial information in our future financial statements will not be comparable to our financial information from periods before July 1, 2009 due to our Reorganization and the application of fresh-start accounting to our financial statements.***

Upon emergence from Chapter 11 on July 1, 2009, we adopted fresh-start accounting in accordance with Accounting Standards Codification ( ASC ) 852, *Reorganizations*, pursuant to which our reorganization value, which represents the fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the Reorganization, has been allocated to the fair value of assets in conformity with ASC 805, *Business Combinations*, using the purchase method of accounting for business combinations. We stated liabilities, other than deferred taxes, at a present value of amounts expected to be paid. The amount remaining after allocation of the reorganization value to the fair value of identified tangible and intangible assets is reflected as goodwill, which is subject to periodic evaluation for impairment. In addition, under fresh-start accounting, our accumulated deficit (\$1.06 billion at June 30, 2009) has been eliminated. In addition to fresh-start accounting, our consolidated financial statements reflect all effects of the transactions contemplated by the Plan of Reorganization. Thus, our future consolidated balance sheets and consolidated condensed statements of operations data will not be comparable in many respects to our consolidated balance sheets and consolidated condensed statements of operations data for periods prior to our adoption of fresh-start accounting and prior to accounting for the effects of the Reorganization.

## **RISKS ASSOCIATED WITH OUR LIQUIDITY NEEDS AND DEBT SECURITIES**

***We may not be able to generate sufficient cash to service all of our indebtedness, and may be forced to take other actions to satisfy our obligations under our indebtedness that may not be successful.***

Our ability to satisfy our debt obligations will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, many of which are beyond our control. We cannot assure you that our business will

**Table of Contents**

generate cash flow from operations in an amount sufficient to fund our liquidity needs. If our cash flows and capital resources are insufficient to service our indebtedness, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. In addition, the terms of existing or future debt agreements may restrict us from adopting some of these alternatives. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions for fair market value or at all. Furthermore, any proceeds that we could realize from any such disposition may not be adequate to meet our debt service obligations then due.

***A significant portion of our future cash flow may need to be committed to repurchasing or redeeming certain outstanding debt prior to its stated maturity, rather than for use in our business operations.***

If Primus and its restricted subsidiaries have Excess Cash Flow (as defined below) for any fiscal year commencing with the fiscal year ending December 31, 2010, then the issuers (the Issuers) of the 13% Senior Secured Notes (the 13% Notes) are obligated to jointly apply an amount equal to 50% of such Excess Cash Flow for such period (the Excess Cash Flow Offer Amount) and to make a joint offer to the holders of the 13% Notes to repurchase all or a portion of such notes as Units with an aggregate repurchase price in cash equal to the Excess Cash Flow Offer Amount (an Excess Cash Flow Offer). Excess Cash Flow means for any such fiscal year (a) the excess of (1) consolidated EBITDA over (2) the sum, subject to certain exceptions, represented by: (i) capital expenditures; (ii) consolidated interest expense paid in cash; (iii) income and franchise taxes paid in cash; and (iv) reductions in certain indebtedness *minus* (b) the absolute value of negative Excess Cash Flow, if any.

Within 110 days after the end of any fiscal year with respect to which an Excess Cash Flow Offer is required, an offer must be sent to each holder of 13% Notes stating the repurchase date, which must be no earlier than 30 days nor later than 60 days from the date such notice is mailed. With respect to each Excess Cash Flow Offer, the Issuers are entitled to reduce the applicable Excess Cash Flow Offer Amount by an amount equal to the sum of (x) the aggregate repurchase price paid for any 13% Notes repurchased by the Issuers in the open market or privately negotiated transaction (and, in each case, cancelled by the Issuers) and (y) the aggregate redemption price paid for any 13% Notes redeemed pursuant to one or more optional redemptions, subject to certain limitations.

If our outstanding 14<sup>1</sup>/<sub>4</sub>% Senior Subordinated Secured Notes due May 2013 (the 14<sup>1</sup>/<sub>4</sub>% Notes) have not been refinanced on or prior to January 21, 2013, then the Issuers will be required to redeem the 13% Notes in advance of the 14<sup>1</sup>/<sub>4</sub>% Notes scheduled maturity at a price equal to the then applicable optional redemption price.

If such early redemption of the 13% Notes are required or an Excess Cash Flow Offer is made, there can be no assurance that the Issuers will have available funds sufficient to pay for such redemption or for the Excess Cash Flow purchase price for all the 13% Notes that might be delivered by holders seeking to accept the Excess Cash Flow Offer. Any such failure could have a material adverse effect on us.

***We must repay or refinance the 14<sup>1</sup>/<sub>4</sub>% Notes prior to the maturity of the 13% Notes. Failure to do so could have a material adverse effect upon us.***

The scheduled maturity of the 14<sup>1</sup>/<sub>4</sub>% Notes is earlier than the scheduled maturity of the 13% Notes. While we expect to refinance the 14<sup>1</sup>/<sub>4</sub>% Notes, we may not be able to do so or refinancing may not be available on commercially reasonable terms. Our ability to complete a refinancing of the 14<sup>1</sup>/<sub>4</sub>% Notes prior to their maturity is subject to a number of conditions beyond our control. For example, if disruption in the financial markets were



## **Table of Contents**

to occur at the time that we intended to refinance the 14<sup>1/4</sup>% Notes, we might be restricted in our ability to refinance that indebtedness. If we are unable to refinance the 14<sup>1/4</sup>% Notes our alternatives would consist of negotiating an extension of such indebtedness with the holders and seeking or raising new capital. If we were unsuccessful, the holders of the 14<sup>1/4</sup>% Notes could demand repayment of the indebtedness owed to them on May 20, 2013. As a result, our ability to pay the principal of and interest on such indebtedness would be adversely affected.

*We may not be able to repurchase the 14<sup>1/4</sup>% Notes or 13% Notes upon a change of control.*

Upon the occurrence of certain specific kinds of change of control events, we (or our subsidiaries) will be required to jointly offer to repurchase all outstanding notes at 101% of the principal amount thereof plus, without duplication, accrued and unpaid interest and additional interest, if any, to the date of repurchase. However, it is possible that they will not have sufficient funds at the time of the change of control to make the required repurchase of all notes delivered by holders seeking to exercise their repurchase rights, particularly as that change of control may trigger a similar repurchase requirement for, or result in an event of a default under a debt indenture and may also constitute a cross-default on other indebtedness existing at that time. In addition, certain important corporate events, such as leveraged recapitalization that would increase the level of our indebtedness, would not constitute a Change of Control under the indenture.

*Our indentures governing our 14<sup>1/4</sup>% Notes and 13% Notes contain significant operating and financial restrictions which may limit our ability and our restricted subsidiaries' ability to operate their business.*

The indentures governing our 14<sup>1/4</sup>% Notes and 13% Notes contain significant operating and financial restrictions on us and our subsidiaries. These restrictions limit the ability of us and our restricted subsidiaries to, among other things:

incur additional indebtedness or issue certain preferred shares;

create liens on certain assets to secure debt;

pay dividends or make other equity distributions;

purchase or redeem capital stock;

make certain investments;

transfer or sell assets;

agree to restrictions on the ability of restricted subsidiaries to make payments to us or the issuers;

consolidate, merge, sell or otherwise dispose of all or substantially all of our or an issuer's assets; and

engage in transactions with affiliates.

These restrictions could limit the ability of us and our subsidiaries to finance future operations or capital needs, make acquisitions or pursue available business opportunities. We may be required to take action to reduce their debt or act in a manner contrary to our business objectives to satisfy these covenants. Events beyond our control, including changes in economic and business conditions in the markets in which we operate, may affect our ability to do so. We may not be able to satisfy these covenants. A breach of any of the covenants in our debt could result in a default under such debt, which could lead to that debt becoming immediately due and payable and, if such debt is secured, foreclosure on our

## Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

assets that secure that obligation. A default under a debt instrument could, in turn, result in a default under other obligations and result in other creditors accelerating the payment of other obligations and foreclosing on asset security such debt, if any. Any such defaults could materially impair our financial conditions and liquidity.

## **Table of Contents**

*Despite current indebtedness levels and restrictive covenants, we and our subsidiaries may still be able to incur substantial additional debt, which could exacerbate the risks described above.*

We may be able to incur additional debt in the future, including debt secured by the collateral that secures our 14 1/4% Notes and 13% Notes, as well as other assets that do not secure such notes. Although the terms of the agreements governing our indebtedness contain restrictions on our ability to incur additional indebtedness, those restrictions are subject to a number of exceptions, and the indebtedness incurred in compliance with those restrictions could be substantial. In addition, if we are able to designate some of the restricted subsidiaries under the indenture governing the notes as unrestricted subsidiaries, those unrestricted subsidiaries would be permitted to borrow beyond the limitations specified in the indenture and engage in other activities in which restricted subsidiaries may not engage. If we incur any additional secured debt that ranks equally with the 13% Notes, the holders of that debt will be entitled to share ratably with the holders of the 13% Notes in any proceeds distributed in connection with any bankruptcy, liquidation, reorganization or similar proceedings. Adding new debt to current debt levels could intensify the related risks that we now face.

*The issuance of the 13% Notes may subject us to additional currency exchange risks.*

The 13% Notes were issued and paid for, and the interest to be paid on those notes will be paid, in U.S. dollars. However, the Canadian issuer of such notes receives revenues primarily in Canadian dollars ( CAD ). As a result, the financial condition of the Canadian issuer might be materially adversely affected if the U.S. dollar appreciates against the CAD. From time to time, if we determine it is appropriate and advisable to do so, we may seek to lessen the effect of exchange rate fluctuations through the use of derivative financial instruments. However, we cannot assure you that we will be successful in these efforts.

## **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. 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. For example, in connection with the promulgation of the National Broadband Plan announced in March 2010, in April 2010 the FCC stated its intention to initiate dozens of new proceedings to impose new requirements, or modify existing requirements, affecting essentially all entities involved in the provision of communications services. It is impossible to predict at this time what specific rules or requirements the FCC will propose or adopt, or how any such rules or requirements would affect our business or financial results.

In the U.S., the Communications Act of 1934, as amended (the Communications Act ), and associated Federal Communications Commission ( FCC ) regulations, requires that every provider of interstate telecommunications carrier 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. On

---

**Table of Contents**

April 21, 2010, the FCC issued certain specific new proposals regarding contributions to the universal service fund that, if adopted, could materially affect our own contributions to the fund. These new proposals would affect most of our competitors, but not all of our competitors would be affected in the same way or to the same degree as we would be. The FCC has also announced its intention to propose new rules regarding the universal service program during the fourth quarter of calendar year 2010. It is impossible to predict the impact of these new proposals, if adopted, on our operations and financial results. In addition, AT&T Inc. 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 Universal Service Fund ( USF ) based on assessable telephone numbers rather than interstate and international revenues. This AT&T proposal remains pending. 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 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:

Rules with respect to the use of customer proprietary network information ( CPNI ) requiring VoIP providers to adhere to particular customer approval processes when using CPNI outside of pre-defined limits and when using CPNI for marketing purposes, and requiring VoIP providers to take certain steps to verify a customer s identity before releasing any CPNI over the telephone or the Internet, and to report unauthorized disclosures of CPNI. In April 2010, the FCC adopted a Notice of Inquiry regarding the possible establishment of a voluntary cyber security certification program. At present it is not possible to predict whether any new formal or informal requirements will arise from this proceeding or how any such requirements might affect our business.

The disability access requirements of Sections 225 and 255 of the Communications Act, which have been interpreted by the FCC to require interconnected VoIP providers to contribute to the telecommunications relay services fund and offer 711 abbreviated dialing access to relay services, and to ensure that VoIP services are accessible to persons with disabilities, if reasonably achievable. In April 2010 the FCC announced plans to adopt, during the third quarter of 2010, a further order with respect to hearing aid compatibility requirements applicable to various services. We cannot predict at this time what new requirements the FCC will establish, if any, or how any such new requirements may affect us.

Rules requiring VoIP providers to configure VoIP networks in a manner that facilitates lawful surveillance under CALEA.

Rules requiring VoIP providers to permit customers to retain their assigned telephone numbers when changing carriers including newly established requirements to process customer carrier changes on an expedited basis.

---

**Table of Contents**

Rules requiring VoIP providers to provide access to E911 emergency services on terms generally similar to those provided by traditional landline carriers. In April 2010 the FCC adopted a Notice of Inquiry regarding the survivability of broadband infrastructure, including in the case of damage due to natural or human-caused disasters or public emergencies. In addition, also in April 2010 the FCC announced its intention to initiate, during the fourth quarter of calendar year 2010, a Notice of Inquiry regarding Next Generation 911 service. It is uncertain whether the FCC will adopt specific requirements arising from these proceedings or, if it does, how and whether any such requirements will affect us.

Rules requiring VoIP providers to pay regulatory fees based on reported interstate and international revenues. In Canada the Canadian Radio-television and Telecommunications Commission ( CRTC ) has extended rules to interconnected VoIP providers that are similar to certain of those described above for the U.S., which rules are also subject to change from time to time. In addition, the CRTC is currently conducting public proceedings on whether to recover its operating fees from all telecommunications service providers, including resellers such as us, rather than only from Canadian carriers; and on whether and how to redefine the Basic Service Objectives, for whose subsidization we and other telecom service providers are required to contribute a proportion of our Canadian telecom service 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.

***Proposed future U.S. federal income tax legislation could impact the Company's 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 U.S. 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 changes in tax policy to our services will increase their cost to consumers thereby decreasing our competitive price advantage over the competing alternatives available to the customer. Further, we may be subject 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 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 retroactively and we could be subject to penalties and interest.

***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, which could limit our growth.

## **Table of Contents**

We cannot assure you that these conditions will not have a material effect on our revenues and growth 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 and services needed by us to compete;

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 for which the copper wire based last mile infrastructure we use to furnish broadband services using our DSLAM network infrastructure will be continued;

a regulatory reform package recently announced by the Australian government that, if enacted, will (a) separate Telstra's retail arm from its wholesale business (via either functional or structural separation); and (b) provide the ACCC with greater powers to set access prices;

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 residential and 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 FCC orders regarding 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 March 31, 2010, 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, cease and desist orders prohibiting Lingo from providing service on the federal and state levels or any combination of the foregoing.

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

## **Table of Contents**

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 Notice of Proposed Rulemaking 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 July 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. In October 2008, the FCC issued regulations implementing the provisions of the new law that require other entities involved in the provision of E911 services to make the technical capabilities used in such services available to VoIP providers, like us, on reasonable terms. 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. Therefore, while this law provides significant liability protection to interconnected VoIP providers such as us, we may still face significant and material liability with respect to any past, present or future failures of our E911 service to function properly.

We may be similarly exposed to liability in Canada in connection with emergency services associated with our VoIP services. A description of our regulatory obligations associated with our VoIP services in Canada is set forth under Regulation.

***The rates we pay to interconnected telecommunications carriers in the U.S. 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. In April 2010 the FCC announced its intention to issue a ruling, during the third quarter of calendar year 2010, clarifying network operators' interconnection obligations. The FCC also announced its intention to issue, during the fourth quarter of calendar year 2010, proposed new rules governing the payments carriers make and receive in connection with the exchange of telecommunications traffic. The result of these actions, as well as any action the FCC may take in currently pending proceedings bearing on these issues, 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.

***We may not be able to comply with recent FCC requirements regarding the transfer of telephone numbers to other providers when customers change providers.***

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. To

## **Table of Contents**

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 and desist 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 in the U.S. to subject our service to state universal service fund obligations.***

Several states have attempted 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 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 a 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.

As noted above, the FCC has announced its intention to propose new rules regarding universal service contributions during the second and fourth quarters of calendar year 2010. It is impossible at this time to predict whether the FCC will actually issue such new proposals and, if it does, whether such proposals will establish or affect any obligation to contribute to state universal service funds or, in the alternative, to clarify and confirm that no such obligation exists.

### ***We are subject to the requirements of the Federal Trade Commission's new Red Flag identity theft rules.***

We must comply with Section 114 of the Fair and Accurate Credit Transactions Act of 2003 ( FACTA ) and rules of the Federal Trade Commission ( FTC ) that require creditors to develop and effectuate written internal programs to detect, prevent, and mitigate identity theft in connection with their accounts. The rules are scheduled to become effective on June 1, 2010, and we likely would be deemed to be a creditor as defined in the FACTA. We are taking steps to ensure compliance with the FTC's rules, but if and to the extent that we are determined to be out of compliance with the rules we may be subject to fines, penalties, compliance orders or any combination of the foregoing.

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

None.

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

None.



**Table of Contents**

**ITEM 4. (REMOVED AND RESERVED)**

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

(a) Exhibits (see index)

**Table of Contents**

**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: May 17, 2010

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

Date: May 17, 2010

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

64

**Table of Contents**

**EXHIBIT INDEX**

**Exhibit**

<b>Number</b>	<b>Description</b>
10.1*	Termination Agreement dated March 29, 2010 by and between John F. DePodesta and Primus Telecommunications Group, Incorporated and Primus Telecommunications, Inc.
10.2*	Agreement for Professional Services dated March 31, 2010 by and between Primus Telecommunications Group, Incorporated and John F. DePodesta
31	Certifications.
32**	Certifications.

\* Incorporated by reference to the Registrant's Form 8-K, filed with the Commission on March 30, 2010.

\*\* 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.