PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-Q
November 15, 2010
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

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

Commission File No. 0-29092

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

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

(703) 902-2800

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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

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

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

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Successor		Predecessor
	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	July 1, 2009
NET REVENUE	$ 188,199	$ 194,946	$
OPERATING EXPENSES			
Cost of revenue (exclusive of depreciation included below)	120,858	126,889	
Selling, general and administrative	51,576	47,132	
Depreciation and amortization	13,641	18,740	
(Gain) loss on sale or disposal of assets		36	
Total operating expenses	186,075	192,797	
INCOME (LOSS) FROM OPERATIONS	2,124	2,149	
INTEREST EXPENSE	(8,602)	(8,747)	
(ACCRETION) AMORTIZATION ON DEBT PREMIUM/DISCOUNT, net	(46)		
GAIN (LOSS) FROM EARLY EXTINGUISHMENT OF DEBT			
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	33	(4,229)	
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	254	160	
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	14,006	13,448	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	7,769	2,781	
REORGANIZATION ITEMS, net		(307)	431,797
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	7,769	2,474	431,797
INCOME TAX BENEFIT (EXPENSE)	3,238	2,121	
INCOME (LOSS) FROM CONTINUING OPERATIONS	11,007	4,595	431,797
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(5,464)	(2,110)	
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	(389)	(110)	
NET INCOME (LOSS)	5,154	2,375	431,797
Less: Net (income) loss attributable to the noncontrolling interest	(74)	(210)	
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 5,080	$ 2,165	$ 431,797
BASIC INCOME (LOSS) PER COMMON SHARE:			
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ 1.12	$ 0.46	$ 3.03
Income (loss) from discontinued operations	(0.56)	(0.22)	
Gain (loss) from sale of discontinued operations	(0.04)	(0.01)	
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ 0.52	$ 0.23	$ 3.03

DILUTED INCOME (LOSS) PER COMMON SHARE:			
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ 1.12	$ 0.46	$ 2.49
Income (loss) from discontinued operations	(0.56)	(0.22)	
Gain (loss) from sale of discontinued operations	(0.04)	(0.01)	
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ 0.52	$ 0.23	$ 2.49
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	9,743	9,600	142,695
Diluted	9,743	9,600	173,117
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED			
Income (loss) from continuing operations, net of tax	$ 10,933	$ 4,385	$ 431,797
Income (loss) from discontinued operations	(5,464)	(2,110)	
Gain (loss) from sale of discontinued operations	(389)	(110)	
Net income (loss)	$ 5,080	$ 2,165	$ 431,797

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Successor		Predecessor
	Nine Months Ended September 30, 2010	Three Months Ended September 30, 2009	Six Months Ended July 1, 2009
NET REVENUE	$ 575,809	$ 194,946	$ 365,245
OPERATING EXPENSES			
Cost of revenue (exclusive of depreciation included below)	366,809	126,889	236,925
Selling, general and administrative	149,549	47,132	88,585
Depreciation and amortization	49,703	18,740	11,545
(Gain) loss on sale or disposal of assets	(179)	36	(43)
Total operating expenses	565,882	192,797	337,012
INCOME (LOSS) FROM OPERATIONS	9,927	2,149	28,233
INTEREST EXPENSE	(26,661)	(8,747)	(14,093)
(ACCRETION) AMORTIZATION ON DEBT PREMIUM/DISCOUNT, net	(135)		189
GAIN (LOSS) FROM EARLY EXTINGUISHMENT OF DEBT	164		
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(2,392)	(4,229)	
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	617	160	378
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	10,212	13,448	20,332
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	(8,268)	2,781	35,039
REORGANIZATION ITEMS, net	1	(307)	424,825
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(8,267)	2,474	459,864
INCOME TAX BENEFIT (EXPENSE)	7,291	2,121	(3,988)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(976)	4,595	455,876
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(7,681)	(2,110)	14,995
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	(196)	(110)	251
NET INCOME (LOSS)	(8,853)	2,375	471,122
Less: Net (income) loss attributable to the noncontrolling interest	(104)	(210)	32
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (8,957)	$ 2,165	$ 471,154
BASIC INCOME (LOSS) PER COMMON SHARE:			
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (0.11)	$ 0.46	$ 3.19
Income (loss) from discontinued operations	(0.79)	(0.22)	0.11
Gain (loss) from sale of discontinued operations	(0.02)	(0.01)	
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (0.92)	$ 0.23	$ 3.30

DILUTED INCOME (LOSS) PER COMMON SHARE:			
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (0.11)	$ 0.46	$ 2.63
Income (loss) from discontinued operations	(0.79)	(0.22)	0.09
Gain (loss) from sale of discontinued operations	(0.02)	(0.01)	
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (0.92)	$ 0.23	$ 2.72
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	9,711	9,600	142,695
Diluted	9,711	9,600	173,117
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED			
Income (loss) from continuing operations, net of tax	$ (1,080)	$ 4,385	$ 455,908
Income (loss) from discontinued operations	(7,681)	(2,110)	14,995
Gain (loss) from sale of discontinued operations	(196)	(110)	251
Net income (loss)	$ (8,957)	$ 2,165	$ 471,154

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except share amounts)

(unaudited)

	September 30, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 49,599	$ 42,538
Accounts receivable (net of allowance for doubtful accounts receivable of $5,350 and $8,163)	74,139	89,342
Prepaid expenses and other current assets	15,795	15,147
Current assets held for sale	7,799	
Total current assets	147,332	147,027
RESTRICTED CASH	10,947	10,438
PROPERTY AND EQUIPMENT Net	134,556	147,606
GOODWILL	62,740	64,220
OTHER INTANGIBLE ASSETS Net	150,748	178,807
OTHER ASSETS	9,425	10,816
NON-CURRENT ASSETS HELD FOR SALE	7,124	
TOTAL ASSETS	$ 522,872	$ 558,914
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$ 35,861	$ 45,819
Accrued interconnection costs	31,021	37,561
Deferred revenue	12,461	13,882
Accrued expenses and other current liabilities	45,562	49,704
Accrued income taxes	9,751	10,629
Accrued interest	10,458	1,985
Current portion of long-term obligations	1,162	4,274
Current liabilities held for sale	10,420	
Total current liabilities	156,696	163,854
LONG-TERM OBLIGATIONS	242,947	253,242
DEFERRED TAX LIABILITY	25,715	36,052
OTHER LIABILITIES	8,257	5,857
NON-CURRENT LIABILITIES HELD FOR SALE	11	
Total liabilities	433,626	459,005
COMMITMENTS AND CONTINGENCIES **(See Note 6.)**		
STOCKHOLDERS EQUITY:		
Preferred stock, $0.001 par value 20,000,000 shares authorized; none issued or outstanding		
Common stock, $0.001 par value 80,000,000 shares authorized; 9,743,157 and 9,600,000 shares issued and outstanding	10	10
Additional paid-in capital	85,381	85,533

Accumulated earnings (deficit)	(2,225)	6,732
Accumulated other comprehensive income (loss)	2,336	4,064
Total stockholders equity before noncontrolling interest	85,502	96,339
Noncontrolling interest	3,744	3,570
Total stockholders equity	89,246	99,909
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 522,872	$ 558,914

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Successor		Predecessor
	Nine Months Ended September 30, 2010	Three Months Ended September 30, 2009	Six Months Ended July 1, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (8,853)	$ 2,375	$ 471,122
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Reorganization items, net	(1)	307	(440,094)
Provision for doubtful accounts receivable	5,722	2,593	5,140
Stock compensation expense	192	308	27
Depreciation and amortization	52,714	20,029	12,346
Impairment of goodwill and long-lived assets	6,161		
(Gain) loss on sale or disposal of assets	16	193	(294)
Accretion (amortization) of debt premium/discount, net	135		(189)
Change in fair value of Contingent Value Rights	2,392		
Deferred income taxes	(7,183)		
(Gain) loss on early extinguishment of debt	(164)		
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	(9,843)	(14,130)	(20,702)
Changes in assets and liabilities, net of acquisitions:			
(Increase) decrease in accounts receivable	3,785	2,634	7,798
(Increase) decrease in prepaid expenses and other current assets	(650)	2,150	461
(Increase) decrease in other assets	626	(3,339)	2,454
Increase (decrease) in accounts payable	(6,872)	(9,949)	(12,794)
Increase (decrease) in accrued interconnection costs	(5,768)	3,719	(5,361)
Increase (decrease) in accrued expenses, deferred revenue, other current liabilities and other liabilities, net	(2,379)	5,426	1,313
Increase (decrease) in accrued income taxes	(1,037)	(3,734)	2,113
Increase (decrease) in accrued interest	8,466	4,410	(1,600)
Net cash provided by operating activities before cash reorganization items	37,459	12,992	21,740
Cash effect of reorganization items	(137)	(6,121)	(4,595)
Net cash provided by operating activities	37,322	6,871	17,145
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(17,147)	(3,886)	(5,660)
Sale of property and equipment and intangible assets	716	12	179
Cash from disposition of business, net of cash disposed	275	(110)	232
Cash used in business acquisitions, net of cash acquired			(199)
(Increase) decrease in restricted cash	(86)	17	(146)
Net cash used in investing activities	(16,242)	(3,967)	(5,594)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on long-term obligations	(13,577)	(4,598)	(8,292)
Net cash used in financing activities	(13,577)	(4,598)	(8,292)

EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(442)	2,083	1,202
NET CHANGE IN CASH AND CASH EQUIVALENTS	7,061	389	4,461
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	42,538	41,461	37,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 49,599	$ 41,850	$ 41,461
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 18,378	$ 3,977	$ 14,909
Cash paid for taxes	$ 2,428	$ 2,810	$ 962
Non-cash investing and financing activities:			
Capital lease additions	$ 51	$ 321	$ 1,882

See notes to consolidated financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Successor		Predecessor
	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	July 1, 2009
NET INCOME (LOSS)	$ 5,154	$ 2,375	$ 431,797
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation adjustment	(581)	3,341	
Fresh-start adjustment			89,216
COMPREHENSIVE INCOME (LOSS)	4,573	5,716	521,013
Less: Comprehensive (income) loss attributable to the noncontrolling interest	(141)	(399)	
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 4,432	$ 5,317	$ 521,013

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Successor Nine Months Ended September 30, 2010	Successor Three Months Ended September 30, 2009	Predecessor Six Months Ended July 1, 2009
NET INCOME (LOSS)	$ (8,853)	$ 2,375	$ 471,122
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation adjustment	(1,658)	3,341	(6,954)
Fresh-start adjustment			89,216
COMPREHENSIVE INCOME (LOSS)	(10,511)	5,716	553,384
Less: Comprehensive (income) loss attributable to the noncontrolling interest	(174)	(399)	(117)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (10,685)	$ 5,317	$ 553,267

See notes to consolidated financial statements.

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

As of July 1, 2009, the Company adopted fresh-start accounting in accordance with Accounting Standards Codification (ASC) No. 852, Reorganizations . The adoption of fresh-start accounting resulted in the Company becoming a new entity for financial reporting purposes. Accordingly, the financial statements on or prior to July 1, 2009 are not comparable with the financial statements for periods after July 1, 2009. The consolidated condensed statements of operations, cash flows, comprehensive income (loss) and any references to Successor or Successor Company for the three months ended September 30, 2009 and for the three months and nine months ended September 30, 2010, show the operations of the reorganized Company. References to Predecessor or Predecessor Company refer to the operations of the Company prior to July 1, 2009, except for Predecessor s July 1, 2009 statement of operations and comprehensive income (loss), which reflect only the effect of the plan adjustments and fresh-start accounting as of such date and do not reflect any operating results. See Note 3 Fresh Start Accounting in the notes to these Consolidated Condensed Financial Statements for further details.

The results for all periods presented in this quarterly Form 10-Q 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.

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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. 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 nine months ended September 30, 2010 and three months ended September 30, 2009 and Predecessor s six months ended July 1, 2009 are as follows (in thousands):

Successor
As of September 30, 2010
Primus Telecommunications Group, Incorporated Shareholders

	Total	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Loss	Noncontrolling Interest
Balance as of January 1, 2010	$ 99,909	9,600	$ 10	$ 85,533	$ 6,732	$ 4,064	$ 3,570
Stock Option Compensation Expense	192			192			
Common shares issued for restricted stock units	(344)	143		(344)			
Comprehensive Income							
Net income (loss)	(8,853)				(8,957)		104
Other comprehensive income (loss)	(1,658)					(1,728)	70
Comprehensive Income	(10,511)						
Balance as of September 30, 2010	$ 89,246	9,743	$ 10	$ 85,381	$ (2,225)	$ 2,336	$ 3,744

Predecessor
As of July 1, 2009
Primus Telecommunications Group, Incorporated Shareholders

	Total	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Loss	Noncontrolling Interest
Balance as of January 1, 2009	$ (458,725)	142,695	$ 1,427	$ 718,956	$ (1,099,809)	$ (82,113)	$ 2,814
Stock Option Compensation Expense	27			27			
Comprehensive Income							
Net income (loss)	39,325				39,357		(32)
Other comprehensive income (loss)	(6,954)					(7,103)	149
Comprehensive Income	32,371						
Balance as of June 30, 2009	$ (426,327)	142,695	$ 1,427	$ 718,983	$ (1,060,452)	$ (89,216)	$ 2,931
Plan and fresh-start adjustments	513,650	(133,095)	(1,417)	(634,601)	1,060,452	89,216	
Balance as of July 1, 2009	$ (87,323)	9,600	$ 10	$ 84,382	$	$	$ 2,931

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		Successor As of September 30, 2009 Primus Telecommunications Group, Incorporated Shareholders					
		Common Stock					
	Total	Shares	Amount	Additional Paid-In Capital	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Loss	Noncontrolling Interest
Balance as of July 1, 2009	$ 87,323	9,600	$ 10	$ 84,382	$	$	$ 2,931
Stock Option Compensation Expense	308			308			
Comprehensive Income							
Net income (loss)	2,375				2,165		210
Other comprehensive income (loss)	3,341					3,152	189
Comprehensive Income	5,716						
Balance as of September 30, 2009	$ 93,347	9,600	$ 10	$ 84,690	$ 2,165	$ 3,152	$ 3,330

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

In October 2010 the Company completed the sale of its Italian and United Kingdom retail operations. See Note 15, Subsequent Events .

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.

Reorganization Costs In accordance with 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 . 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 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 as of July 1, 2009, the Company s asset values were remeasured and allocated in conformity with ASC No. 805, Business Combinations. Deferred taxes are reported in conformity with ASC No. 740, Income Taxes.

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

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

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 includes 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 are expensed as incurred. The estimated useful lives of property and equipment are 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 are expensed as incurred. Costs incurred during the application development stage were capitalized and amortized over the estimated useful life of the software.

New Accounting Pronouncements

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

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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). 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 financial interest in a variable interest entity (VIE) 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 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.

Accounting Standards Update No. 2009-13 Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements (ASU 2009-13)

In October 2009, the FASB issued ASU No. 2009-13, Revenue Recognition (Topic 605) *Multiple-Deliverable Revenue Arrangements*: a consensus of the FASB EITF (ASU 2009-13). ASU 2009-13 establishes a selling-price hierarchy for determining the selling price of each element within a multiple-deliverable arrangement. Specifically, the selling price assigned to each deliverable is to be based on vendor-specific objective evidence (VSOE), if available, third-party evidence, if VSOE is unavailable, and estimated selling price if neither VSOE nor third-party evidence is available. In addition, ASU 2009-13 eliminates the residual method of allocating arrangement consideration and instead requires allocation using the relative selling price method. ASU 2009-13 is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted at the beginning of a company s fiscal year. The Company plans to implement this guidance on January 1, 2011 and is currently evaluating the potential impact of ASU 2009-13 on the Company s financial statements.

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.

Estimates of fair value included in the Successor Company financial statements, in conformity with ASC No. 820, Fair Value Measurements, represent the Company s best estimates and valuations developed with the

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

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

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

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

Accumulated income (deficit)	(1,060,452)	243,185	a	817,267	d, f	
Accumulated other comprehensive income (loss)	(89,216)			89,216	f	
Total Primus Telecommunications Group, Incorporated stockholders income (deficit)	(429,258)	325,021		188,629		84,392
Noncontrolling interest	2,931					2,931
Total stockholders income (deficit)	(426,327)	325,021		188,629		87,323
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 334,537	$		$ 244,024		$ 578,561

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

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

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

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

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

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

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

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

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

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

4. GOODWILL AND OTHER INTANGIBLE ASSETS

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

Generally accepted accounting principles in the United States require the Company to perform a goodwill impairment test, a two-step test, annually and more frequently when negative conditions or a triggering event arise. The Company completes its annual goodwill impairment test using October 1 as the measurement date for each of its reporting units.

In step one, the estimated fair value of each reporting unit is compared to its carrying value. The Company estimates the fair values of each reporting unit by a combination of (i) estimation of the discounted cash flows of each of the reporting units based on projected earnings in the future (the income approach) and (ii) a comparative analysis of revenue and EBITDA multiples of public companies in similar markets (the market approach). If there is a deficiency (the estimated fair value of a reporting unit is less than its carrying value), a step two test is required. In step two, the amount of any goodwill impairment is measured by comparing the implied fair value of the reporting unit s goodwill to the carrying value of goodwill, with the resulting impairment reflected in operations. The implied fair value is determined in the same manner as the amount

of goodwill recognized in a business combination.

Estimating the fair value of a reporting unit requires various assumptions including projections of future cash flows, perpetual growth rates and discount rates. The assumptions about future cash flows and growth rates are based on management s assessment of a number of factors including the reporting unit s recent performance against budget, performance in the market that the reporting unit serves, as well as industry and general

economic data from third party sources. Discount rate assumptions are based on an assessment of the risk inherent in those future cash flows. Changes to the underlying businesses could affect the future cash flows, which in turn could affect the fair value of the reporting unit.

During the three months ended September 30, 2010, the Company and its Board of Directors ratified a plan to proceed with the disposition of its European retail operations; see Note 11, *Discontinued Operations*. This triggering event prompted the Company to perform a goodwill impairment test, a two-step test, for the Europe reporting unit. Based on the results of the step one test, the Company determined that the carrying value of the Europe reporting unit was in excess of its respective fair value and a step two test was required for the reporting unit.

In completing the step two test to determine the implied fair value of goodwill and therefore the amount of impairment, management first estimated the fair value of the tangible and intangible assets and liabilities. Based on the testing performed, the Company determined that the carrying value of goodwill exceeded its implied fair value for the Europe reporting unit and recorded a goodwill impairment charge of $1.4 million. The impairment charge is included in the line item *Loss from Discontinued Operations, net of tax,* on the Company s Statement of Operations.

The primary driver for the decline in the estimated fair value of the Europe reporting unit compared to the prior year is the decline in its overall outlook stemming from its poor performance.

In addition, the Company evaluated the European trade name and long-lived assets, which primarily consisted of the network equipment and customer relationships, for impairment. In performing the impairment test for the European trade name and long-lived assets, the Company estimated the fair value less cost to sell for the asset groups based on executed and pending purchase offers and compared that to the carrying value of the asset groups. The company recorded a total of $4.7 million impairment charges; $4.2 million related to the European trade name, $0.4 million related to customer relationships and $0.1 million related to long-lived assets during the three months ended September 30, 2010. The impairment charge is included in the line item *Loss from Discontinued Operations, net of tax,* on the Company s Statement of Operations.

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

	September 30, 2010	December 31, 2009
Trade names	$ 76,200	$ 81,372
Goodwill	$ 62,740	$ 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, for continuing operations and assets held for sale, combined, by reporting unit for the nine months ended September 30, 2010 are as follows (in thousands):

Goodwill

	United States	Canada	Australia	Europe	Brazil	Total
Balance as of January 1, 2010	$ 29,960	$ 30,285	$ 1,714	$ 2,217	$ 44	$ 64,220
Effect of change in foreign currency exchange rates		588	148	(109)	1	628
Disposition of business				(662)		(662)
Accumulated impairment loss				(1,446)		(1,446)
Balance as of September 30, 2010	$ 29,960	$ 30,873	$ 1,862	$	$ 45	$ 62,740

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				(100)		(100)
Disposition of business				(836)		(836)
Accumulated impairment loss				(4,236)		(4,236)
Balance as of September 30, 2010	$ 76,200	$	$	$	$	$ 76,200

The Company s other intangible assets consist of trade names and customer relationships; $5.8 million of the customer relationships were classified as held for sale as of September 30, 2010. Intangible assets subject to amortization, including those classified as held for sale, consisted of the following (in thousands):

	September 30, 2010			December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trade names	$ 4,070	$ (490)	$ 3,580	$ 4,057	$ (203)	$ 3,854
Customer relationships	108,101	(31,329)	76,772	107,612	(14,032)	93,580
Total	$ 112,171	$ (31,819)	$ 80,352	$ 111,669	$ (14,235)	$ 97,434

Amortization expense for trade names and customer relationships for the three months and nine months ended September 30, 2010 was $5.9 million and $17.7 million, respectively.

Amortization expense for trade names and customer relationships for Successor s three months ended September 30, 2009 was $7.0 million.

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 $5.5 million, $17.5 million, $12.3 million, $9.0 million, $6.7 million and $23.4 million, respectively. The customer relationships identified above as held for sale will not be amortized while they are classified as such.

5. LONG-TERM OBLIGATIONS

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

	September 30, 2010	December 31, 2009
Obligations under capital leases and other	$ 1,915	$ 3,178
Leased fiber capacity		2,809
Senior secured notes	130,000	130,000
Senior subordinated secured notes	114,015	123,472
Subtotal	245,930	259,459

Original issue discount on senior secured notes	(1,821)	(1,943)
Subtotal	244,109	257,516
Less: Current portion of long-term obligations	(1,162)	(4,274)
Total long-term obligations	$ 242,947	$ 253,242

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

Year Ending December 31,	Capital Leases and Other	13% Senior Secured Notes	14 1/4% Senior Subordinated Secured Notes	Total
2010 (as of September 30, 2010)	$ 417	$ 8,450	$ 8,124	$ 16,991
2011	1,218	16,900	16,247	34,365
2012	309	16,900	16,247	33,456
2013	87	16,900	122,139	139,126
2014	4	16,900		16,904
Thereafter		163,847		163,847
Total Minimum Principal & Interest Payments	2,035	239,897	162,757	404,689
Less: Amount Representing Interest	(120)	(109,897)	(48,742)	(158,759)
Total Long Term Obligations	$ 1,915	$ 130,000	$ 114,015	$ 245,930

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

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

6. COMMITMENTS AND CONTINGENCIES

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

Year Ending December 31,	Capital Leases and Other	Purchase Obligations	Operating Leases
2010 (as of September 30, 2010)	$ 417	$ 8,723	$ 4,753
2011	1,218	19,903	15,151
2012	309	6,498	13,292
2013	87	3,162	10,255
2014	4	1,162	5,440
Thereafter		54	16,237
Total minimum lease payments	2,035	39,502	65,128
Less: Amount representing interest	(120)		

$ 1,915	$ 39,502	$ 65,128

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

Successor

Purchases made under purchase commitments were $8.7 million and $24.1 million, respectively, for the three and nine months ended September 30, 2010.

Purchases made under purchase commitments were $7.0 for the three months ended September 30, 2009.

Rent expense under operating leases was $3.8 million and $11.3 million, respectively, for the three and nine months ended September 30, 2010.

Rent expense under operating leases was $3.5 million for the three months ended September 30, 2009.

Predecessor

Purchases made under purchase commitments were $12.8 million for the six months ended July 1, 2009.

Rent expense under operating leases was $6.4 million for the six months ended July 1, 2009.

Litigation

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

7. SHARE-BASED COMPENSATION

Successor

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

Restricted Stock Units (RSU)

For the three months ended September 30, 2010, the Company s stock compensation expense related to the RSU was fully offset by credits related to forfeitures and cancellations of RSU awards due to termination of employees.

For the nine months ended September 30, 2010, the Company recognized $0.2 million of stock compensation expense related to the RSU.

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Stock Options

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

	Nine Months Ended September 30, 2010	
	Shares	Weighted Average Exercise Price
Outstanding December 31, 2009	478,199	$ 12.22
Granted	30,000	$ 7.60
Exercised		$
Forfeitures	(205,587)	$ 12.22
Outstanding September 30, 2010	302,612	$ 11.76
Eligible for exercise	214,039	$ 12.00

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

	Options Outstanding				Options Exercisable			
Range of Option Prices	Total Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value	Total Exercisable	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value
$7.60 $12.22	302,612	8.86	$ 11.76	$	214,039	8.80	$ 12.00	$

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 Performance Option and RSUs will vest in 2010.

As of September 30, 2010, the Company had 0.2 million unvested awards outstanding of which $0.1 million of compensation expense is expected to be recognized over the weighted average remaining period of 0.8 years.

The number of unvested awards expected to vest is 0.2 million shares, with a weighted average remaining life of 8.9 years, a weighted average exercise price of $11.79, and an intrinsic value of $0.

Predecessor

Under the Plan of Reorganization, all stock options granted under the Predecessor s Equity Incentive Plan were cancelled as of July 1, 2009. The Predecessor Company recorded $64 thousand of stock-based compensation expenses for the six months ended July 1, 2009, due to the accelerated recognition of the cancelled options.

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.

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

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

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

The Company adopted the uncertain tax position related provisions of ASC No. 740, Income Taxes, on January 1, 2007. It is expected that the amount of unrecognized tax benefits, reflected in the Company s financial statements, will change in the next twelve months; however, the Company does not expect the change to have a significant impact on the results of operations or the financial position of the Company. During the three months ended September 30, 2010, the Company recorded $2.0 million of gross unrecognized tax benefit which includes $0.1 million of unrecognized tax benefit which impacted the rate including $0.1 of penalties and interest. As of September 30, 2010, the gross unrecognized tax benefit on the balance sheet was $91.8 million.

The Company monitors actual results and updated projections of our subsidiaries on a quarterly basis to determine the appropriateness of valuation allowance reserves on deferred tax assets. When and if the Company determines that it is more likely than not that the deferred tax asset balances a subsidiary or a tax consolidated group of subsidiaries would be recoverable, the Company will release the related valuation allowance reserve. During the quarter ending September 30, 2010 the Company determined that Australian consolidated tax group of subsidiaries had enough positive factors that it was more likely than not that the net deferred tax asset would be recoverable and released the valuation allowance on all non capital items in the deferred tax inventory. The company did not release valuation reserves on the capital items as the Company currently does not have sufficient capital gain sources or projected sources of capital gain items to justify a release of this portion of the tax deferred asset. The net benefit of the release during the quarter ending September 30, 2010 was $3.3 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 net operating loss carryforwards and tax credits generated prior to the ownership change that are not reduced due to attribute reduction will be subject to an annual limitation under IRC Section 382(l)(6). The federal limitation is approximately $1.7 million.

The Company has reviewed 13-G filings concerning Company common stock, as filed with the United States Securities Exchange Commission, subsequent to emergence from bankruptcy, and the Company believes that a change in ownership has not occurred during this period of July 1, 2009 to September 30, 2010.

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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 14¼% Senior Subordinated Secured Notes, based on quoted market prices, was $241.4 million and $244.7 million at September 30, 2010 and December 31, 2009, respectively.

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

		Fair Value as of September 30, 2010, using:		
	September 30, 2010	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Contingent Value Rights (CVR)	$ 7,754		$ 7,754	
Total	$ 7,754		$ 7,754	

The CVRs are marked to fair value at each balance sheet date. The change in value is reflected in our Statements of Operations. Estimates of fair value represent the Company s best estimates based on a Black-Scholes pricing model. During the three months and nine months ended September 30, 2010, the Company recognized $33 thousand and $2.4 million, respectively, of expense as a result of marking the CVRs to their fair value.

10. OPERATING SEGMENT AND RELATED INFORMATION

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

During the third quarter of 2010 the company discontinued its Europe segment, which is also known as European retail operations and has presented the results of the Europe segment as discontinued operations. Accordingly the Europe segment has been excluded, where appropriate, from segment reporting for all periods presented, see Note 11, *Discontinued Operations,* for further information.

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009
Net Revenue by Segment		
United States	$ 12,072	$ 16,238
Canada	56,876	57,367
Australia	68,360	63,665
Wholesale	41,870	53,571
Brazil	9,021	4,105
Total	$ 188,199	$ 194,946
Provision for Doubtful Accounts Receivable		
United States	$ 556	$ 589
Canada	497	548
Australia	522	999
Wholesale	255	164
Brazil	120	81
Total	$ 1,950	$ 2,381
Income (Loss) from Operations		
United States	$ (376)	$ 1,113
Canada	3,204	1,256
Australia	4,498	1,612
Wholesale	519	554
Brazil	185	(110)
Total From Operating Segments	8,030	4,425
Corporate	(5,906)	(2,276)
Total	$ 2,124	$ 2,149
Capital Expenditures		
United States	$ 246	$ 196
Canada	2,393	2,328
Europe	251	79
Australia	3,290	1,193
Brazil	230	90
Total	$ 6,410	$ 3,886

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	Successor		Predecessor
	Nine Months Ended September 30, 2010	Three Months Ended September 30, 2009	Six Months Ended July 1, 2009
Net Revenue by Segment			
United States	$ 38,778	$ 16,238	$ 35,709
Canada	172,376	57,367	108,306
Australia	205,745	63,665	110,502
Wholesale	137,569	53,571	104,482
Brazil	21,341	4,105	6,246
Total	$ 575,809	$ 194,946	$ 365,245
Provision for Doubtful Accounts Receivable			
United States	$ 1,670	$ 589	$ 1,469
Canada	1,965	548	1,107
Australia	1,884	999	1,737
Wholesale	(734)	164	516
Brazil	313	81	115
Total	$ 5,098	$ 2,381	$ 4,944
Income (Loss) from Operations			
United States	$ (286)	$ 1,113	$ 4,399
Canada	9,187	1,256	18,738
Australia	9,694	1,612	10,123
Wholesale	3,164	554	1,372
Brazil	686	(110)	230
Total From Operating Segments	22,445	4,425	34,862
Corporate	(12,518)	(2,276)	(6,629)
Total	$ 9,927	$ 2,149	$ 28,233
Capital Expenditures			
United States	$ 864	$ 196	$ 74
Canada	7,341	2,328	3,127
Europe	535	79	174
Australia	7,601	1,193	1,997
Brazil	806	90	288
Total	$ 17,147	$ 3,886	$ 5,660

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

	September 30, 2010	December 31, 2009
Property and Equipment Net		
United States	$ 8,553	$ 10,760
Canada	55,451	58,927
Europe	1,938	4,955

Australia		66,699		71,682
Brazil		1,915		1,282
Total	$	134,556	$	147,606

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	September 30, 2010	December 31, 2009
Assets		
United States		