PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-Q/A
February 02, 2010
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended September 30, 2009

OR

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

Commission File No. 0-29092

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

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

(703) 902-2800

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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

Class	Outstanding as of October 31, 2009
Common Stock $0.001 par value	9,600,000

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Explanatory Note

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

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Successor Three Months Ended September 30, 2009	Predecessor July 1, 2009	Predecessor Three Months Ended September 30, 2008
NET REVENUE	$ 207,947	$	$ 231,256
OPERATING EXPENSES			
Cost of revenue (exclusive of depreciation included below)	136,076		149,834
Selling, general and administrative	51,139		69,511
Depreciation and amortization	20,029		9,351
(Gain) loss on sale or disposal of assets	83		(4,576)
Total operating expenses	207,327		224,120
INCOME FROM OPERATIONS	620		7,136
INTEREST EXPENSE	(8,763)		(12,810)
ACCRETION ON DEBT DISCOUNT, net			269
GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT			121
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	(4,066)		(1,032)
FOREIGN CURRENCY TRANSACTION LOSS	(4,447)		(23,045)
LOSS FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	(16,656)		(29,361)
REORGANIZATION ITEMS, net	(307)	431,797	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(16,963)	431,797	(29,361)
INCOME TAX BENEFIT (EXPENSE)	2,085		(1,489)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(14,878)	431,797	(30,850)
LOSS FROM DISCONTINUED OPERATIONS, net of tax			(436)
LOSS FROM SALE OF DISCONTINUED OPERATIONS, net of tax	(110)		
NET INCOME (LOSS)	(14,988)	431,797	(31,286)
Less: Net income attributable to the noncontrolling interest	(210)		(1,934)
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (15,198)	$ 431,797	$ (33,220)
BASIC INCOME (LOSS) PER COMMON SHARE:			
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (1.57)	$ 3.03	$ (0.23)
Loss from discontinued operations			
Loss from sale of discontinued operations	(0.01)		
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (1.58)	$ 3.03	$ (0.23)
DILUTED LOSS PER COMMON SHARE:			
	$ (1.57)	$ 2.49	$ (0.23)

Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated						
Loss from discontinued operations						
Loss from sale of discontinued operations		(0.01)				
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$	(1.58)	$	2.49	$	(0.23)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING						
Basic		9,600		142,695		142,633
Diluted		9,600		173,117		142,633
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income (loss) from continuing operations, net of tax	$	(15,088)	$	431,797	$	(32,784)
Loss from discontinued operations						(436)
Loss from sale of discontinued operations		(110)				
Net income (loss)	$	(15,198)	$	431,797	$	(33,220)

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Successor	Predecessor	
	Three Months Ended September 30, 2009	Six Months Ended July 1, 2009	Nine Months Ended September 30, 2008
NET REVENUE	$ 207,947	$ 391,216	$ 692,587
OPERATING EXPENSES			
Cost of revenue (exclusive of depreciation included below)	136,076	255,288	433,813
Selling, general and administrative	51,139	95,836	208,338
Depreciation and amortization	20,029	12,346	25,401
(Gain) loss on sale or disposal of assets	83	(43)	(7,041)
Total operating expenses	207,327	363,427	660,511
INCOME FROM OPERATIONS	620	27,789	32,076
INTEREST EXPENSE	(8,763)	(14,135)	(41,557)
ACCRETION ON DEBT DISCOUNT, net		189	456
GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT			34,608
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	(4,066)	396	2,157
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	(4,447)	21,121	(13,204)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	(16,656)	35,360	14,536
REORGANIZATION ITEMS, net	(307)	440,094	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(16,963)	475,454	14,536
INCOME TAX BENEFIT (EXPENSE)	2,085	(3,907)	(1,527)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(14,878)	471,547	13,009
LOSS FROM DISCONTINUED OPERATIONS, net of tax		(676)	(502)
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	(110)	251	
NET INCOME (LOSS)	(14,988)	471,122	12,507
Less: Net (income) loss attributable to the noncontrolling interest	(210)	32	(2,202)
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (15,198)	$ 471,154	$ 10,305
BASIC INCOME (LOSS) PER COMMON SHARE:			
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (1.57)	$ 3.30	$ 0.07
Loss from discontinued operations			
Loss from sale of discontinued operations	(0.01)		
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (1.58)	$ 3.30	$ 0.07
DILUTED INCOME (LOSS) PER COMMON SHARE:			
	$ (1.57)	$ 2.72	$ 0.06

Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated			
Loss from discontinued operations			
Loss from sale of discontinued operations	(0.01)		
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (1.58)	$ 2.72	$ 0.06
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	9,600	142,695	142,633
Diluted	9,600	173,117	176,138
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED			
Income (loss) from continuing operations, net of tax	$ (15,088)	$ 471,579	$ 10,807
Loss from discontinued operations		(676)	(502)
Gain (loss) from sale of discontinued operations	(110)	251	
Net income (loss)	$ (15,198)	$ 471,154	$ 10,305

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except share amounts)

(unaudited)

	Successor September 30, 2009	Predecessor December 31, 2008
CURRENT ASSETS:		
Cash and cash equivalents	$ 41,850	$ 37,000
Accounts receivable (net of allowance for doubtful accounts receivable of $8,210 and $9,710)	92,580	99,483
Prepaid expenses and other current assets	15,665	15,846
Total current assets	150,095	152,329
RESTRICTED CASH	10,177	8,133
PROPERTY AND EQUIPMENT Net	152,028	112,152
GOODWILL	61,086	32,688
OTHER INTANGIBLE ASSETS Net	187,552	746
OTHER ASSETS	22,130	24,396
TOTAL ASSETS	$ 583,068	$ 330,444
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$ 43,087	$ 58,671
Accrued interconnection costs	43,468	41,422
Deferred revenue	13,686	13,303
Accrued expenses and other current liabilities	49,237	42,440
Accrued income taxes	17,601	18,213
Accrued interest	4,429	10,248
Current portion of long-term obligations	15,442	564,797
Total current liabilities	186,950	749,094
LONG-TERM OBLIGATIONS	237,119	40,040
DEFERRED INCOME TAXES	58,866	
OTHER LIABILITIES	6,786	35
Total liabilities	489,721	789,169
COMMITMENTS AND CONTINGENCIES (See Note 8.)		
STOCKHOLDERS EQUITY (DEFICIT):		
Primus Telecommunications Group, Incorporated Stockholders Equity (Deficit):		
Predecessor Preferred stock: Not Designated, $0.01 par value 1,410,050 shares authorized; none issued and outstanding; Series A and B, $0.01 par value 485,000 shares authorized; none issued and outstanding; Series C, $0.01 par value 559,950 shares authorized; none issued and outstanding		
Predecessor Common stock, $0.01 par value 300,000,000 shares authorized; 142,695,390 shares issued and outstanding		1,427
Successor Preferred stock, $0.001 par value 20,000,000 shares authorized; none issued or outstanding		
Successor Common stock, $0.001 par value 80,000,000 shares authorized; 9,600,000 shares issued or outstanding	10	
Additional paid-in capital	84,690	718,956

Accumulated deficit	(15,198)	(1,099,809)
Accumulated other comprehensive income (loss)	20,515	(82,113)
Total Primus Telecommunications Group, Incorporated stockholders equity (deficit)	90,017	(461,539)
Noncontrolling interest	3,330	2,814
Total stockholders equity (deficit)	93,347	(458,725)
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 583,068	$ 330,444

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Successor	Predecessor	
	Three Months Ended September 30, 2009	Six Months Ended July 1, 2009	Nine Months Ended September 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (14,988)	$ 471,122	$ 12,507
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Reorganization items, net	307	(440,094)	
Provision for doubtful accounts receivable	2,593	5,140	8,945
Stock compensation expense	308	27	199
Depreciation and amortization	20,029	12,346	25,407
(Gain) loss on sale or disposal of assets	193	(294)	(7,041)
Accretion of debt discount		(189)	(456)
Deferred income taxes			3,201
Gain on early extinguishment or restructuring of debt			(34,608)
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	3,233	(20,702)	13,587
Changes in assets and liabilities, net of acquisitions:			
(Increase) decrease in accounts receivable	2,634	7,798	(12,276)
Decrease in prepaid expenses and other current assets	2,150	461	8,861
(Increase) decrease in other assets	(3,339)	2,454	1,428
Decrease in accounts payable	(9,949)	(12,794)	(7,237)
Increase (decrease) in accrued interconnection costs	3,719	(5,361)	(4,473)
Increase in accrued expenses, deferred revenue, other current liabilities and other liabilities, net	5,426	1,313	845
Increase (decrease) in accrued income taxes	(3,734)	2,113	(3,503)
Increase (decrease) in accrued interest	4,410	(1,600)	(691)
Net cash provided by operating activities before cash reorganization items	12,992	21,740	4,695
Cash effect of reorganization items	(6,121)	(4,595)	
Net cash provided by operating activities	6,871	17,145	4,695
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(3,886)	(5,660)	(20,756)
Sale of property and equipment	12	179	5,741
Cash from disposition of business, net of cash disposed	(110)	232	1,676
Cash used in business acquisitions, net of cash acquired		(199)	(583)
(Increase) decrease in restricted cash	17	(146)	(100)
Net cash used in investing activities	(3,967)	(5,594)	(14,022)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase of the Company s debt securities			(11,217)
Principal payments on long-term obligations	(4,598)	(8,292)	(10,536)
Net cash used in financing activities	(4,598)	(8,292)	(21,753)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	2,083	1,202	(2,572)

NET CHANGE IN CASH AND CASH EQUIVALENTS		389		4,461		(33,652)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		41,461		37,000		81,282
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	41,850	$	41,461	$	47,630
SUPPLEMENTAL CASH FLOW INFORMATION:						
Cash paid for interest	$	3,977	$	14,909	$	40,533
Cash paid for taxes	$	2,810	$	962	$	1,133
Non-cash investing and financing activities:						
Capital lease additions	$	321	$	1,882	$	364
Settlement of outstanding debt with issuance of new senior secured debt	$		$		$	(133,159)
Issuance of new senior secured debt in exchange for outstanding debt	$		$		$	88,794
Business acquisition financed with note payable	$		$		$	247

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Successor	Predecessor	
	Three Months Ended September 30, 2009	July 1, 2009	Three Months Ended September 30, 2008
NET INCOME (LOSS)	$ (14,988)	$ 431,797	$ (31,286)
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation adjustment	20,704		6,302
Fresh-start adjustment		89,216	
COMPREHENSIVE INCOME (LOSS)	5,716	521,013	(24,984)
Less: Comprehensive income attributable to the noncontrolling interest	(399)		(1,857)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 5,317	$ 521,013	$ (26,841)

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Successor	Predecessor	
	Three Months Ended September 30, 2009	Six Months Ended July 1, 2009	Nine Months Ended September 30, 2008
NET INCOME (LOSS)	$ (14,988)	$ 471,122	$ 12,507
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation adjustment	20,704	(6,954)	2,229
Fresh-start adjustment		89,216	
COMPREHENSIVE INCOME	5,716	553,384	14,736
Less: Comprehensive (income) loss attributable to the noncontrolling interest	(399)	(118)	2,100
COMPREHENSIVE INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 5,317	$ 553,266	$ 16,836

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

1. EMERGENCE FROM VOLUNTARY REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

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

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

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

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

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

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

IHC s 14¼% Senior Secured Notes were cancelled and the holders thereof received (a) their pro rata portion of $123.5 million of aggregate principal amount of 14 ¼% Senior Subordinated Secured Notes due May 20, 2013 (see Amendment of IHC s 14¼% Senior Secured Notes Indenture below), (b) 4,800,000 shares of the new Common Stock of Group (the New Common Stock), and (c) all reasonable fees, expenses and disbursements of their counsel;

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

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

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

all outstanding equity incentive grants of Group were cancelled on the Effective Date, and the Primus Telecommunications Group, Incorporated Management Compensation Plan (the Management Compensation Plan) became effective. As of the Effective Date, 400,000 restricted stock units, 387,403 service-based stock options and 100,000 performance-based stock options were granted to certain employees and executive officers under the Management Compensation Plan.

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

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

Notwithstanding effectiveness of the Plan, we expect to continue to have significant debt service obligations on a long-term basis. Cash flows from operations are not anticipated to be sufficient to make the balloon payments on the remaining outstanding $94.8 million principal amount of Senior Secured Term Loan Facility and the $28.0 million principal amount of Canadian Credit Facility due February and May 2011, respectively; therefore, we expect to seek external financing prior to that date. There can be no assurance we will be successful in these efforts to consummate timely any such transactions or at all or to obtain any such financing on acceptable terms or at all, especially in consideration of the state of the current global economic and credit situation.

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Agreements Relating to the Debtors Securities

Amended Term Loan Facility

As of the Effective Date, Group and Holding entered into a Third Amendment to the Term Loan Agreement, dated as of February 18, 2005 (as amended through the date hereof, the Amended Term Loan), with the several banks and other financial institutions or entities from time to time parties thereto, Lehman Commercial Paper, Inc., a debtor and debtor in possession under chapter 11 of the Bankruptcy Code acting through one or more of its branches as the Administrative Agent and The Bank of New York Mellon, as the successor Administrative Agent. In accordance with the Amended Term Loan, Holding s Term Loan facility due February 2011 was reinstated and amended in certain respects, including: (i) at the option of Holding, interest rates are now (A) LIBOR + 9.00% with a LIBOR floor of 3.00% (or LIBOR + 11.00% with 4.00% to be paid in kind) or (B) Prime Rate + 8.00% with a Prime Rate floor of 4.00% (or Prime Rate + 10.00% with 4.00% to be paid in kind); (ii) The Bank of New York Mellon has been appointed as successor Administrative Agent; (iii) amortization payments have been increased; (iv) mandatory prepayments are required from (A) 25% of the net proceeds of certain equity issuances (including 25% of the cash of businesses acquired in exchange for equity), (B) 100% of the net proceeds from debt issuances (other than as permitted under the limitation of indebtedness covenant), and (C) 80% of net cash proceeds from asset sales or insurance recoveries not otherwise reinvested within 180 days or committed to reinvestment within 270 days of such asset sales; (v) Group or its affiliates are able to purchase annually up to $5 million in principal amount of loans at less than par without being subject to the pro-rata provisions of the Term Loan facility (or purchases in excess of such annual amount by way of an offer to all lenders), any such purchased loans deemed immediately cancelled; and (vi) certain covenants have been modified, including restrictions on the ability to incur additional debt and the addition of a minimum EBITDA covenant, a maximum indebtedness covenant and a maximum capital expenditure covenant. In addition, the Debtors have agreed to pay all reasonable fees, expenses and disbursements of counsel and the financial advisor to the Term Loan lenders.

Amendment of IHC s 14.25% Senior Secured Notes Indenture

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

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

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

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Also on the Effective Date, IHC, each of the Grantors party thereto and U.S. Bank National Association, as collateral agent, entered into a First Amendment to the Collateral Agreement, dated as of February 26, 2007 (as amended through the date hereof, the Amended Collateral Agreement), to provide that the obligations of both IHC and PTII, an indirect wholly owned subsidiary of Group, shall be secured by PTII s assets, including 65% of the voting stock of foreign subsidiaries owned by PTII. In addition, on the Effective Date, Group and Holding entered into an Assumption Agreement in favor of U.S. Bank National Association, as collateral agent, pursuant to which each of Group and Holding became party to the Amended Collateral Agreement. As a result, Group and Holding s existing guarantees of the Senior Subordinated Secured Notes are secured by a lien on the property of Group and Holding, respectively.

Warrant Agreements

As of the Effective Date, Group issued Class A warrants to purchase up to an aggregate of 3,000,000 shares of New Common Stock to holders of the Holding Notes. The Class A warrants consist of 1,000,000 each of Class A-1 warrants, Class A-2 warrants and Class A-3 warrants. In connection with the issuance of the Class A warrants, Group entered into a warrant agreement, dated as of the Effective Date (the Class A Warrant Agreement), with StockTrans, Inc., as warrant agent. Subject to the terms of the Class A Warrant Agreement, Class A-1 warrant holders are entitled to purchase up to 1,000,000 shares of New Common Stock at an initial exercise price of $12.22 per share, Class A-2 warrant holders are entitled to purchase up to 1,000,000 shares of New Common Stock at an initial exercise price of $16.53 per share, and Class A-3 warrant holders are entitled to purchase up to 1,000,000 shares of New Common Stock at an initial exercise price of $20.50 per share. The Class A warrants have a five-year term and will expire on July 1, 2014. A holder may exercise Class A warrants by paying the applicable exercise price in cash. In addition, a holder may exercise Class A warrants on a cashless basis in connection with a change of control (as defined in the Class A Warrant Agreement), in connection with a transaction pursuant to an effective registration statement covering the sale of New Common Stock underlying such Class A warrants, or if the exercise occurs on a date when the daily volume-weighted average price of the New Common Stock for the immediately preceding 10 trading days exceeds 150% of the exercise price applicable to such Class A warrants. The Class A warrants are freely transferrable by the holder thereof.

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

The number of shares of New Common Stock issuable upon exercise of the Class A warrants and Class B warrants (together, the Warrants) and the exercise prices of the Warrants will be adjusted in connection with any dividend or distribution of New Common Stock, assets or cash (other than any regular cash dividend not to exceed in any fiscal year 45% of the consolidated net income of Group), or any subdivision or combination of the New Common Stock. In addition, the number of shares of New Common Stock issuable upon exercise of the Warrants and the exercise prices of the Warrants are also subject to adjustment in connection with any issuance, grant or sale to any person of (A) rights, warrants, options, exchangeable securities or convertible securities entitling such person to subscribe for, purchase or otherwise acquire shares of New Common Stock at a price per share less than the fair market value of the New Common Stock on the trading day immediately prior to such

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issuance, sale or grant, subject to certain exceptions, or (B) shares of New Common Stock at a price per share less than the fair market value of the New Common Stock on the trading day immediately prior to such issuance, sale or grant. Additionally, if any transaction or event occurs in which all or substantially all of the outstanding New Common Stock is converted into, exchanged for, or the holders thereof are otherwise entitled to receive on account thereof stock, other securities, cash or assets (each, a Fundamental Change Transaction) the holder of each Warrant outstanding immediately prior to the occurrence of such Fundamental Change Transaction shall have the right to receive upon exercise of the applicable Warrant the kind and amount of stock, other securities, cash and/or assets that such holder would have received if such Warrant had been exercised.

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

Contingent Value Rights Distribution Agreement

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

The CVRs may not be transferred by the holder thereof except in certain limited circumstances. Subject to the terms of the CVR Agreement, holders of CVRs will receive their pro rata share of up to 2,665,000 CVR Shares. A distribution of CVR Shares is required to be made by Group if, as of any determination date (described below), Group s equity value (assuming cash exercise in full on such date of in-the-money warrants and options of Group) divided by the sum of the number of shares of New Common Stock then issued and outstanding plus the number of shares of New Common Stock underlying warrants, options and similar securities of Group (other than CVRs) that are then in-the-money exceeds $35.95. The aggregate number of such shares of New Common Stock is referred to as the Applicable Shares; the price per share of $35.95, subject to adjustment as described below, is referred to as the CVR Strike Price; and the per share amount of any such excess over the CVR Strike Price is referred to as the Excess Equity Value Per Share. If such a distribution is required, the number of CVR Shares to be distributed by Group equals the product of Excess Equity Value Per Share multiplied by the number of Applicable Shares divided by the CVR Strike Price. Such product of Excess Equity Value Per Share and the number of Applicable Shares is referred to as the Excess Equity Value.

Group will determine if and to the extent a distribution of CVR Shares is required on January 1 and July 1 of each year, commencing on the first such date (but in no event later than July 1, 2013) on which certain financial thresholds outlined in the CVR Agreement are met, and upon a change of control of Group. Distributions of CVR Shares (if any) will be made within 45 calendar days of a determination by Group that a distribution is required.

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

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

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

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

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

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

2. BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements of Primus Telecommunications Group, Incorporated and subsidiaries (the Company or Primus) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and Securities and Exchange Commission (SEC) regulations. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such principles and regulations. In the opinion of management, the financial statements reflect all adjustments (all of which are of a normal and recurring nature), which are necessary to present fairly the financial position, results of operations, cash flows and comprehensive income (loss) for the interim periods. The results for the Company s three months ended September 30, 2009 and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

In accordance with Financial Accounting Standard Board (FASB) Accounting Standards Codification (ASC) No. 852, Reorganizations, for periods including and subsequent to the filing of the Chapter 11 petition through the bankruptcy emergence date of July 1, 2009, all pre-petition liabilities subject to compromise were segregated in the unaudited Consolidated Condensed Balance Sheets and classified as liabilities subject to compromise, at management s estimate of the amount of allowable claims. Liabilities not subject to compromise were separately classified as current and non-current in the unaudited Consolidated Condensed Balance Sheet. Revenues, expenses, realized gains and losses, and provisions for losses that result from the reorganization were

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

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

The results for all periods presented in this quarterly Form 10-Q reflect the activities of certain operations as discontinued operations (see Note 12 Discontinued Operations).

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

	Predecessor As of September 30, 2008							
			Primus Telecommunications Group, Incorporated Shareholders					
			Common Stock					
	Total	Comprehensive Income (Loss)	Shares	Amount	Additional Paid-In Capital	Accumulated Income (Deficit)	Accumulated Other Comprehensive Loss	Noncontrolling Interest
Balance as of January 1, 2008	$ (446,701)		142,633	$ 1,426	$ 718,695	$ (1,074,778)	$ (92,883)	$ 839
Stock Option Compensation Expense	200				200			
Comprehensive Income								
Net income	12,507	$ 12,507				10,305		