

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)

7901 Jones Branch Drive, Suite 900,

McLean, VA  
(Address of principal executive offices)

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

22102  
(Zip Code)

(703) 902-2800

(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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

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

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

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

| Class                          | Outstanding as of 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<br>Ended<br>September 30,<br>2010 | Three Months<br>Ended<br>September 30,<br>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<br>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<br>GROUP, INCORPORATED                        | \$ 5,080                                       | \$ 2,165                                       | \$ 431,797  |
| BASIC INCOME (LOSS) PER COMMON SHARE:   |  |  |             |
| Income (loss) from continuing operations attributable to Primus Telecommunications<br>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     |

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### 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<br>Ended<br>September 30,<br>2010 | Three Months<br>Ended<br>September 30,<br>2009 | Six Months<br>Ended<br>July 1,<br>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<br>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<br>GROUP, INCORPORATED                        | \$ (8,957)                                    | \$ 2,165                                       | \$ 471,154                             |
| BASIC INCOME (LOSS) PER COMMON SHARE:   |   |  |  |
| Income (loss) from continuing operations attributable to Primus Telecommunications<br>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                                |

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### 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.

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

(in thousands, except share amounts)

(unaudited)

|   | September 30,<br>2010 | December 31,<br>2009 |
|---|-----------------------|----------------------|
| <b>ASSETS</b>   |                       |                      |
| 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           |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>  |                       |                      |
| 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              |
| <b>COMMITMENTS AND CONTINGENCIES (See Note 6.)</b>  |                       |                      |
| <b>STOCKHOLDERS EQUITY:</b>   |                       |                      |
| Preferred stock, \$0.001 par value 20,000,000 shares authorized; none issued or outstanding                         |                       |                      |
| Common stock, \$0.001 par value 80,000,000 shares authorized; 9,743,157 and 9,600,000 shares issued and outstanding | 10                    | 10                   |
| Additional paid-in capital  | 85,381                | 85,533               |



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|   |                   |                   |
|---|-------------------|-------------------|
| 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            |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>         | <b>\$ 522,872</b> | <b>\$ 558,914</b> |

See notes to consolidated financial statements.

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

(in thousands)

(unaudited)

|   | Successor<br>Nine Months<br>Ended<br>September 30,<br>2010 | Three Months<br>Ended<br>September 30,<br>2009 | Predecessor<br>Six Months<br>Ended<br>July 1,<br>2009 |
|---|--|--|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |  |  |   |
| 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  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |  |  |   |
| 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)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |  |  |   |
| Principal payments on long-term obligations   | (13,577)   | (4,598)  | (8,292)   |
| Net cash used in financing activities   | (13,577)   | (4,598)  | (8,292)   |

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|   |           |           |           |
|---|-----------|-----------|-----------|
| 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.

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

|  | Successor                                      |  | Predecessor     |
|--|--|--|-----------------|
|  | Three Months<br>Ended<br>September 30,<br>2010 | Three Months<br>Ended<br>September 30,<br>2009 | July 1,<br>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<br>TELECOMMUNICATIONS GROUP, INCORPORATED | \$ 4,432                                       | \$ 5,317                                       | \$ 521,013      |

See notes to consolidated financial statements.

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

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

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):

| <b>Successor</b>                                     |                     |               |               |   |   |   |                                    |
|--|---------------------|---------------|---------------|---|---|---|------------------------------------|
| <b>As of September 30, 2010</b>                      |                     |               |               |   |   |   |                                    |
| <b>Primus Telecommunications Group, Incorporated</b> |                     |               |               |   |   |   |                                    |
| <b>Shareholders</b>                                  |                     |               |               |   |   |   |                                    |
|  | <b>Common Stock</b> |               |               | <b>Additional<br/>Paid-In<br/>Capital</b> | <b>Accumulated<br/>Earnings<br/>(Deficit)</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Loss</b> | <b>Noncontrolling<br/>Interest</b> |
|  | <b>Total</b>        | <b>Shares</b> | <b>Amount</b> |   |   |   |                                    |
| 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)                                     |   |   |                                    |
| <b>Comprehensive Income</b>                          |                     |               |               |   |   |   |                                    |
| Net income (loss)                                    | (8,853)             |               |               |   | (8,957)                                       |   | 104                                |
| Other comprehensive income (loss)                    | (1,658)             |               |               |   |   | (1,728)   | 70                                 |
| <b>Comprehensive Income</b>                          | <b>(10,511)</b>     |               |               |   |   |   |                                    |
| Balance as of September 30, 2010                     | \$ 89,246           | 9,743         | \$ 10         | \$ 85,381                                 | \$ (2,225)                                    | \$ 2,336  | \$ 3,744                           |

| <b>Predecessor</b>                                   |                     |               |               |   |   |   |                                    |
|--|---------------------|---------------|---------------|---|---|---|------------------------------------|
| <b>As of July 1, 2009</b>                            |                     |               |               |   |   |   |                                    |
| <b>Primus Telecommunications Group, Incorporated</b> |                     |               |               |   |   |   |                                    |
| <b>Shareholders</b>                                  |                     |               |               |   |   |   |                                    |
|  | <b>Common Stock</b> |               |               | <b>Additional<br/>Paid-In<br/>Capital</b> | <b>Accumulated<br/>Earnings<br/>(Deficit)</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Loss</b> | <b>Noncontrolling<br/>Interest</b> |
|  | <b>Total</b>        | <b>Shares</b> | <b>Amount</b> |   |   |   |                                    |
| Balance as of January 1, 2009                        | \$ (458,725)        | 142,695       | \$ 1,427      | \$ 718,956                                | \$ (1,099,809)                                | \$ (82,113)   | \$ 2,814                           |
| Stock Option Compensation Expense                    | 27                  |               |               | 27  |   |   |                                    |
| <b>Comprehensive Income</b>                          |                     |               |               |   |   |   |                                    |
| Net income (loss)                                    | 39,325              |               |               |   | 39,357  |   | (32)                               |
| Other comprehensive income (loss)                    | (6,954)             |               |               |   |   | (7,103)   | 149                                |
| <b>Comprehensive Income</b>                          | <b>32,371</b>       |               |               |   |   |   |                                    |
| 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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&nb                                  **Successor**