SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 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 ☒ 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 July 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 Three Months Ended June 30, 2010	Predecessor Three Months Ended June 30, 2009
NET REVENUE	$ 205,408	$ 195,559
OPERATING EXPENSES		
Cost of revenue (exclusive of depreciation included below)	131,704	125,175
Selling, general and administrative	50,213	49,726
Depreciation and amortization	19,316	6,231
(Gain) loss on sale or disposal of assets	(189)	16
Total operating expenses	201,044	181,148
INCOME (LOSS) FROM OPERATIONS	4,364	14,411
INTEREST EXPENSE	(8,747)	(3,359)
(ACCRETION) AMORTIZATION ON DEBT PREMIUM/DISCOUNT, net	(45)	—
GAIN (LOSS) FROM EARLY EXTINGUISHMENT OF DEBT	164	—
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(382)	—
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	154	161
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	(9,713)	24,170
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	(14,205)	35,383
REORGANIZATION ITEMS, net	—	(8,656)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(14,205)	26,727
INCOME TAX BENEFIT (EXPENSE)	1,994	(1,110)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(12,211)	25,617
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(1,126)	(147)
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	193	—
NET INCOME (LOSS)	(13,144)	25,470
Less: Net (income) loss attributable to the noncontrolling interest	106	(104)
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (13,038)	$ 25,366
BASIC INCOME (LOSS) PER COMMON SHARE:		
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (1.24)	$ 0.18
Income (loss) from discontinued operations	(0.12)	—
Gain (loss) from sale of discontinued operations	0.02	—
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (1.34)	$ 0.18
DILUTED INCOME (LOSS) PER COMMON SHARE:		
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (1.24)	$ 0.15
Income (loss) from discontinued operations	(0.12)	—
Gain (loss) from sale of discontinued operations	0.02	—
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (1.34)	$ 0.15
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	9,743	142,695
Diluted	9,743	173,117
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED		
Income (loss) from continuing operations, net of tax	$ (12,105)	$ 25,513
Income (loss) from discontinued operations	(1,126)	(147)
Gain (loss) from sale of discontinued operations	193	—
Net income (loss)	$ (13,038)	$ 25,366

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 Six Months Ended June 30, 2010	Predecessor Six Months Ended June 30, 2009
NET REVENUE	$ 409,801	$ 388,840
OPERATING EXPENSES		
Cost of revenue (exclusive of depreciation included below)	261,713	253,830
Selling, general and administrative	103,105	94,656
Depreciation and amortization	38,300	12,307
(Gain) loss on sale or disposal of assets	(179)	(43)
Total operating expenses	402,939	360,750
INCOME (LOSS) FROM OPERATIONS	6,862	28,090
INTEREST EXPENSE	(18,084)	(14,134)
(ACCRETION) AMORTIZATION ON DEBT PREMIUM/DISCOUNT, net	(89)	189
GAIN (LOSS) FROM EARLY EXTINGUISHMENT OF DEBT	164	—
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(2,425)	—
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	382	388
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	(3,711)	21,120
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	(16,901)	35,653
REORGANIZATION ITEMS, net	1	7,912
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(16,900)	43,565
INCOME TAX BENEFIT (EXPENSE)	3,993	(3,906)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(12,907)	39,659
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(1,293)	(585)
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	193	251
NET INCOME (LOSS)	(14,007)	39,325
Less: Net (income) loss attributable to the noncontrolling interest	(30)	32
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (14,037)	$ 39,357
BASIC INCOME (LOSS) PER COMMON SHARE:		
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (1.34)	$ 0.28
Income (loss) from discontinued operations	(0.13)	—
Gain (loss) from sale of discontinued operations	0.02	—
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (1.45)	$ 0.28
DILUTED INCOME (LOSS) PER COMMON SHARE:		
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (1.34)	$ 0.23
Income (loss) from discontinued operations	(0.13)	—
Gain (loss) from sale of discontinued operations	0.02	—
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (1.45)	$ 0.23
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	9,694	142,695
Diluted	9,694	173,117
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED		
Income (loss) from continuing operations, net of tax	$ (12,937)	$ 39,691
Income (loss) from discontinued operations	(1,293)	(585)
Gain (loss) from sale of discontinued operations	193	251
Net income (loss)	$ (14,037)	$ 39,357

See notes to consolidated financial statements.

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

	June 30, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 33,976	$ 42,538
Accounts receivable (net of allowance for doubtful accounts receivable of $4,862 and $8,163)	83,662	89,342
Prepaid expenses and other current assets	15,881	15,147
Total current assets	133,519	147,027
RESTRICTED CASH	10,160	10,438
PROPERTY AND EQUIPMENT—Net	128,828	147,606
GOODWILL	63,997	64,220
OTHER INTANGIBLE ASSETS—Net	166,267	178,807
OTHER ASSETS	9,844	10,816
TOTAL ASSETS	$512,615	$ 558,914
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$ 41,170	$ 45,819
Accrued interconnection costs	32,362	37,561
Deferred revenue	14,198	13,882
Accrued expenses and other current liabilities	44,965	49,704
Accrued income taxes	9,182	10,629
Accrued interest	2,189	1,985
Current portion of long-term obligations	1,163	4,274
Total current liabilities	145,229	163,854
LONG-TERM OBLIGATIONS	243,235	253,242
DEFERRED TAX LIABILITY	31,177	36,052
OTHER LIABILITIES	8,289	5,857
Total liabilities	427,930	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	85,393	85,533
Accumulated earnings (deficit)	(7,305)	6,732
Accumulated other comprehensive income (loss)	2,984	4,064
Total stockholders' equity before noncontrolling interest	81,082	96,339
Noncontrolling interest	3,603	3,570
Total stockholders' equity	84,685	99,909
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$512,615	$ 558,914

See notes to consolidated financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Successor Six Months Ended June 30, 2010	Predecessor Six Months Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (14,007)	$ 39,325
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Reorganization items, net	(1)	(8,297)
Provision for doubtful accounts receivable	3,449	5,140
Stock compensation expense	204	27
Depreciation and amortization	38,413	12,346
(Gain) loss on sale or disposal of assets	(372)	(294)
Accretion (amortization) of debt premium/discount, net	89	(189)
Change in fair value of Contingent Value Rights	2,425	—
Deferred income taxes	(4,823)	—
(Gain) loss on early extinguishment of debt	(164)	—
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	4,148	(20,702)
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	(2,820)	7,798
(Increase) decrease in prepaid expenses and other current assets	(1,114)	461
(Increase) decrease in other assets	342	2,454
Increase (decrease) in accounts payable	(2,513)	(12,794)
Increase (decrease) in accrued interconnection costs	(3,489)	(5,361)
Increase (decrease) in accrued expenses, deferred revenue, other current liabilities and other liabilities, net	(1,984)	1,313
Increase (decrease) in accrued income taxes	(1,407)	2,113
Increase (decrease) in accrued interest	218	(1,600)
Net cash provided by operating activities before cash reorganization items	16,594	21,740
Cash effect of reorganization items	(137)	(4,595)
Net cash provided by operating activities	16,457	17,145
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(10,737)	(5,660)
Sale of property and equipment and intangible assets	530	179
Cash from disposition of business, net of cash disposed	—	232
Cash used in business acquisitions, net of cash acquired	—	(199)
(Increase) decrease in restricted cash	(132)	(146)
Net cash used in investing activities	(10,339)	(5,594)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term obligations	(13,175)	(8,292)
Net cash used in financing activities	(13,175)	(8,292)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(1,505)	1,202
NET CHANGE IN CASH AND CASH EQUIVALENTS	(8,562)	4,461
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	42,538	37,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 33,976	$ 41,461
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 17,879	$ 14,909
Cash paid for taxes	$ 899	$ 962
Non-cash investing and financing activities:		
Capital lease additions	$ 51	$ 1,882

See notes to consolidated financial statements.

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

	Successor Three Months Ended June 30, 2010	Predecessor Three Months Ended June 30, 2009
NET INCOME (LOSS)	$ (13,144)	$ 25,470
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation adjustment	(879)	(8,426)
COMPREHENSIVE INCOME (LOSS)	(14,023)	17,044
Less: Comprehensive (income) loss attributable to the noncontrolling interest	213	(319)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (13,810)	$ 16,725

See notes to consolidated financial statements.

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

	Successor Six Months Ended June 30, 2010	Predecessor Six Months Ended June 30, 2009
NET INCOME (LOSS)	$ (14,007)	$ 39,325
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation adjustment	(1,077)	(6,954)
COMPREHENSIVE INCOME (LOSS)	(15,084)	32,371
Less: Comprehensive (income) loss attributable to the noncontrolling interest	(33)	(117)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (15,117)	$ 32,254

See notes to consolidated financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements of Primus Telecommunications Group, Incorporated and subsidiaries (the “Company” or “Primus”) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and Securities and Exchange Commission (“SEC”) regulations. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such principles and regulations. In the opinion of management, the financial statements reflect all adjustments (all of which are of a normal and recurring nature), which are necessary to present fairly the financial position, results of operations, cash flows and comprehensive income (loss) for the interim periods. The results for the Company’s three months and six months ended June 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 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 and six months ended June 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.

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.

Effective January 1, 2009, the Company adopted ASC No. 810, "Consolidation." This statement changed the presentation of outstanding noncontrolling interests in one or more subsidiaries or the deconsolidation of those subsidiaries. Reconciliations at the beginning and the end of the period of the total equity, equity attributable to the Company and equity attributable to the noncontrolling interest for Successor's six months ended June 30, 2010 and Predecessor's six months ended June 30, 2009 are as follows (in thousands):

	Successor							
	As of June 30, 2010							
			Primus Telecommunications Group, Incorporated Shareholders					
			Common Stock					
	Total	Comprehensive Income	Shares	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	204		—	—	204	—	—	—
Common shares issued for restricted stock units	(344)		143	—	(344)	—	—	—
Comprehensive Income			—	—	—	—	—	—
Net income (loss)	(14,007)	$ (14,007)	—	—	—	(14,037)	—	30
Other comprehensive income (loss)	(1,077)	(1,077)	—	—	—	—	(1,080)	3
Comprehensive Income	(15,084)	$ (15,084)						
Balance as of June 30, 2010	$ 84,685		9,743	$ 10	$ 85,393	$ (7,305)	$ 2,984	$ 3,603

	Predecessor							
	As of June 30, 2009							
			Primus Telecommunications Group, Incorporated Shareholders					
			Common Stock					
	Total	Comprehensive Income	Shares	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	39,325	—	—	—	39,357	—	(32)
Other comprehensive income (loss)	(6,954)	(6,954)	—	—	—	—	(7,103)	149
Comprehensive Income	32,371	$ 32,371						
Balance as of June 30, 2009	$(426,327)		142,695	$ 1,427	$ 718,983	$ (1,060,452)	$ (89,216)	$ 2,931

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

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

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

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

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

Upon 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 included major expenditures for improvements and replacements which extend useful lives or increase capacity of the assets as well as expenditures necessary to place assets into readiness for use. Expenditures for maintenance and repairs were expensed as incurred. The estimated useful lives of property and equipment were as follows: network equipment—5 to 8 years, fiber optic and submarine cable—8 to 25 years, furniture and equipment—5 years, leasehold improvements and leased equipment—shorter of lease or useful life. In accordance with ASC No. 350, "Intangible—Goodwill and Other," costs for internal use software that were incurred in the preliminary project stage and in the post-implementation stage were expensed as incurred. Costs incurred during the application development stage were capitalized and amortized over the estimated useful life of the software.

New Accounting Pronouncements

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.

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

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

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

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

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

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

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

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

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

3. FRESH START ACCOUNTING

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

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

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

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

Estimates of fair value included in the Successor Company financial statements, in conformity with ASC No. 820, represent the Company's best estimates and valuations developed with the assistance of independent appraisers and, where the foregoing have not yet been completed or are not available, 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 July 1, 2009	Plan of Reorganization Adjustments		Fresh-Start Accounting Adjustments		Successor 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

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 six 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.

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

	June 30, 2010	December 31, 2009
Trade names	$81,126	$ 81,372
Goodwill	$63,997	$ 64,220

The Company allocated goodwill to all of its reporting units as part of fresh-start accounting, excluding the wholesale reporting unit which had nominal value relative to the total value of the Company. The changes in the carrying amount of trade names and goodwill by reporting unit for the six months ended June 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	—	29	(70)	(181)	(1)	(223)
Balance as of June 30, 2010	$ 29,960	$30,314	$ 1,644	$2,036	$ 43	$63,997

Trade Names

	United States	Canada	Australia	Europe	Brazil	Total
Balance as of January 1, 2010	$ 76,200	$ —	$ —	$5,172	$—	$81,372
Effect of change in foreign currency exchange rates	—	—	—	(246)	—	(246)
Balance as of June 30, 2010	$ 76,200	$ —	$ —	$4,926	$—	$81,126

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

	June 30, 2010			December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trade names	$ 4,042	$ (415)	$ 3,627	$ 4,057	$ (203)	$ 3,854
Customer relationships	106,779	(25,265)	81,514	107,612	(14,032)	93,580
Total	$ 110,821	$ (25,680)	$ 85,141	$ 111,669	$ (14,235)	$ 97,434

Successor

Amortization expense for trade names and customer relationships for the three months and six months ended June 30, 2010 was $6.0 million and $11.8 million, respectively.

The Company expects amortization expense for trade names and customer relationships for the remainder of 2010, the years ended December 31, 2011, 2012, 2013, 2014, and thereafter to be approximately $11.5 million, $18.4 million, $13.0 million, $9.5 million, $7.1 million and $25.5 million, respectively.

Predecessor

Amortization expense for trade names and customer relationships for the three months and six months ended June 30, 2009 was $0.2 million and $0.5 million, respectively.

5. LONG-TERM OBLIGATIONS

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

	June 30, 2010	December 31, 2009
Obligations under capital leases and other	$ 2,238	$ 3,178
Leased fiber capacity	—	2,809
Senior secured notes	130,000	130,000
Senior subordinated secured notes	114,015	123,472
Subtotal	246,253	259,459
Original issue discount on senior secured notes	(1,855)	(1,943)
Subtotal	244,398	257,516
Less: Current portion of long-term obligations	(1,163)	(4,274)
Total long-term obligations	$243,235	$ 253,242

The following table reflects the contractual payments of principal and interest for the Company's long-term obligations as of June 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 June 30, 2010)	$ 731	$ 8,450	$ 8,124	$ 17,305
2011	1,262	16,900	16,247	34,409
2012	314	16,900	16,247	33,461
2013	86	16,900	122,139	139,125
2014	3	16,900	—	16,903
Thereafter	—	163,847	—	163,847
Total Minimum Principal & Interest Payments	2,396	239,897	162,757	405,050
Less: Amount Representing Interest	(158)	(109,897)	(48,742)	(158,797)
Total Long Term Obligations	$ 2,238	$ 130,000	$ 114,015	$ 246,253

The foregoing table assumes that the 14 1/4% Senior Subordinated Secured Notes are refinanced before January 21, 2013. In the event the 14.25% 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 June 30, 2010 are as follows (in thousands):

Year Ending December 31,	Capital Leases and Other	Purchase Obligations	Operating Leases
2010 (as of June 30, 2010)	$ 731	$ 14,518	$ 11,264
2011	1,262	27,767	13,995
2012	314	3,142	11,908
2013	86	162	8,941
2014	3	162	3,986
Thereafter	—	54	10,973
Total minimum lease payments	2,396	45,805	61,067
Less: Amount representing interest	(158)	—	—
	$ 2,238	$ 45,805	$ 61,067

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 $8.3 million and $15.3 million, respectively, for the three months and six months ended June 30, 2010.

Rent expense under operating leases was $3.9 million and $7.8 million, respectively, for the three months and six months ended June 30, 2010.

Predecessor

Purchases made under purchase commitments were $6.5 million and $12.8 million, respectively, for the three months and six months ended June 30, 2009.

Rent expense under operating leases was $3.4 million and $6.7 million for the three months and six months ended June 30, 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 and six months ended June 30, 2010, the Company recognized $0.1 million and $0.2 million, respectively, of stock compensation expense related to the RSU.

Stock Options

A summary of the Company's stock option activity during the six months ended June 30, 2010 is as follows:

	Six Months Ended June 30, 2010	
	Shares	**Weighted Average Exercise Price**
Outstanding—December 31, 2009	478,199	$ 12.22
Granted	—	$ —
Exercised	—	$ —
Forfeitures	(93,191)	$ 12.22
Outstanding—June 30, 2010	385,008	$ 12.22
Eligible for exercise	133,464	$ 12.22

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The following table summarizes information about the Company's stock options outstanding at June 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
$12.22	385,008	9.00	$ 12.22	$ —	133,464	9.00	$ 12.22	$ —

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

As of June 30, 2010, the Company had 0.4 million unvested awards outstanding of which $0.2 million of compensation expense is expected to be recognized over the weighted average remaining period of 0.52 years. The number of unvested awards expected to vest is 0.4 million shares, with a weighted average remaining life of 9.00 years, a weighted average exercise price of $12.22, and an intrinsic value of $0.

Predecessor

Under the Plan of Reorganization, all stock options granted under the Predecessor's Equity Incentive Plan were cancelled as of July 1, 2009. The Predecessor Company recorded $11 thousand and $27 thousand stock-based compensation expenses for the three months and six months ended June 30, 2009, respectively.

8. INCOME TAXES

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

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

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

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

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 June 30, 2010, the Company recorded $.4 million of gross unrecognized tax benefit and $0.1 million of unrecognized tax benefit which impacted the rate including $0.1 of penalties and interest. As of June 30, 2010, the gross unrecognized tax benefit on the balance sheet was $89.9 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 will be subject to an annual limitation of approximately $1.7 million. The annual limitation will be determined based upon an Internal Revenue Code section that allows corporations emerging from bankruptcy to determine their section 382 limitation based upon the post emergence stock value. The Company has prepared its financial statements assuming the annual limitation will apply. However, Section 382 provides that a taxpayer emerging from bankruptcy can elect out of the annual limitation. If the Company elects not to apply the limitation, there are adverse consequences if an ownership change occurs before July 1, 2011. The election is not required to be made until the extended due date of the 2009 return, which is September 15, 2010. The company has reviewed its 13-G filings, as filed with the United States Securities Exchange Commission, subsequent to emergence from bankruptcy and believes that a change in ownership has not occurred during this period of July 1, 2009 to June 30, 2010.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS AND DERIVATIVES

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

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

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

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

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate fair value due to relatively short periods to maturity. The estimated aggregate fair value of the Successor Company's 13% Senior Secured Notes and 14 1/4% Senior Subordinated Secured Notes, based on quoted market prices, was $239.8 million and $244.7 million at June 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 June 30, 2010, using:		
	June 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)	$7,787	—	$ 7,787	—
Total	$7,787	—	$ 7,787	—

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 six months ended June 30, 2010, the Company recognized $0.4 million 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 six reportable operating segments based on management's organization of the enterprise into geographic areas—United States, Canada, Europe, Australia, Brazil and the wholesale business from the United States and Europe managed as a separate global segment. 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.

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

	Successor Three Months Ended June 30, 2010	Predecessor Three Months Ended June 30, 2009
Net Revenue by Segment		
United States	$ 12,536	$ 16,918
Canada	58,024	55,061
Europe	11,119	11,848
Australia	67,487	58,475
Wholesale	49,192	50,279
Brazil	7,050	2,978
Total	$ 205,408	$ 195,559
Provision for Doubtful Accounts Receivable		
United States	$ 577	$ 863
Canada	624	541
Europe	127	76
Australia	625	1,120
Wholesale	(499)	243
Brazil	110	50
Total	$ 1,564	$ 2,893
Income (Loss) from Operations		
United States	$ 758	$ 2,921
Canada	3,041	9,310
Europe	(287)	145
Australia	1,402	5,862
Wholesale	1,794	678
Brazil	179	95
Total From Operating Segments	6,887	19,011
Corporate	(2,523)	(4,600)
Total	$ 4,364	$ 14,411
Capital Expenditures		
United States	$ 427	$ 18
Canada	2,723	1,179
Europe	201	37
Australia	2,037	1,488
Brazil	436	152
Total	$ 5,824	$ 2,874

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	Successor Six Months Ended June 30, 2010	Predecessor Six Months Ended June 30, 2009
Net Revenue by Segment		
United States	$ 26,112	$ 35,013
Canada	115,500	108,306
Europe	22,785	24,291
Australia	137,385	110,502
Wholesale	95,699	104,482
Brazil	12,320	6,246
Total	$ 409,801	$ 388,840
Provision for Doubtful Accounts Receivable		
United States	$ 1,102	$ 1,455
Canada	1,468	1,107
Europe	229	165
Australia	1,362	1,737
Wholesale	(989)	516
Brazil	193	115
Total	$ 3,365	$ 5,095
Income (Loss) from Operations		
United States	$ (113)	$ 4,304
Canada	5,983	18,738
Europe	(737)	(8)
Australia	5,196	10,123
Wholesale	2,645	1,372
Brazil	501	230
Total From Operating Segments	13,475	34,759
Corporate	(6,613)	(6,669)
Total	$ 6,862	$ 28,090
Capital Expenditures		
United States	$ 618	$ 74
Canada	4,948	3,127
Europe	284	174
Australia	4,311	1,997
Brazil	576	288
Total	$ 10,737	$ 5,660

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

	June 30, 2010	December 31, 2009
Property and Equipment—Net		
United States	$ 9,077	$ 10,760
Canada	55,614	58,927
Europe	3,116	4,955
Australia	59,305	71,682
Brazil	1,716	1,282
Total	$ 128,828	$ 147,606

	June 30, 2010	December 31, 2009
Assets		
United States	$ 126,782	$ 133,276
Canada	179,732	194,600
Europe	74,581	84,587
Australia	122,007	138,988
Brazil	9,513	7,463
Total	$ 512,615	$ 558,914

11. DISCONTINUED OPERATIONS

In the second quarter 2010, the Company sold certain assets of its Spain retail operations. The sale price was $0.3 million. The Company recorded a $0.2 million gain from sale of these retail operations during the second quarter 2010.

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

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

In the second quarter 2008, the Company determined it would sell its German retail operations. However, buyers were not found; therefore the Company decided to cease operations of the German retail business during the first quarter of 2009.

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

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

	Successor Three Months Ended June 30, 2010	Predecessor Three Months Ended June 30, 2009
Net revenue	$ 823	$ 1,189
Operating expenses	1,923	1,723
Loss from operations	(1,100)	(534)
Interest expense	—	—
Interest income and other income	235	2
Foreign currency transaction gain (loss)	(260)	—
Reorganization items, net	—	385
Income (loss) before income tax	(1,125)	(147)
Income tax expense	(1)	—
Loss from discontinued operations	$ (1,126)	$ (147)

	Successor Six Months Ended June 30, 2010	Predecessor Six Months Ended June 30, 2009
Net revenue	$ 2,211	$ 2,676
Operating expenses	3,440	3,670
Loss from operations	(1,229)	(994)
Interest expense	—	(1)
Interest income and other income	218	26
Foreign currency transaction gain (loss)	(280)	—
Reorganization items, net	—	385
Income (loss) before income tax	(1,291)	(584)
Income tax expense	(2)	(1)
Loss from discontinued operations	$ (1,293)	$ (585)

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

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

Successor

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

For Successor’s three months and six months ended June 30, 2010, the following could potentially dilute income per common share in the future but was excluded from the calculation of diluted income per common share due to its antidilutive effect:

- 0.6 million shares issuable upon exercise of stock options and RSUs,
- 4.5 million shares issuable upon exercise of stock warrants, and
- 2.7 million shares issuable upon exercise of CVRs.

Predecessor

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

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

For the three months and six months ended June 30, 2009, the following could potentially dilute income per common share in the future but were excluded from the calculation of diluted income per common share due to their antidilutive effect:

- 8.0 million shares issuable upon exercise of stock options,

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

	Three Months Ended		Six Months Ended	
	June 30, 2010 Successor	June 30, 2009 Predecessor	June 30, 2010 Successor	June 30, 2009 Predecessor
Income (loss) from continuing operations	$ (12,105)	$ 25,513	$ (12,937)	$ 39,691
Income (loss) from discontinuing operations, net of tax	(1,126)	(147)	(1,293)	(585)
Gain (loss) from sale of discontinued operations, net of tax	193	—	193	251
Net income (loss) attributable to common stockholders—basic	(13,038)	25,366	(14,037)	39,357
Adjustment for interest expense on Step Up Convertible Subordinated Debentures	—	—	—	210
Adjustment for interest expense on Step Up Convertible Subordinated Debentures	—	—	—	332
Income (loss) attributable to common stockholders—diluted	$ (13,038)	$ 25,366	$ (14,037)	$ 39,899
Weighted average common shares outstanding—basic	9,743	142,695	9,694	142,695
5% Exchangeable Senior Notes	—	19,474	—	19,474
Step Up Convertible Subordinated Debentures	—	7,280	—	7,280
33/4 % Convertible Senior Notes	—	3,668	—	3,668
Weighted average common shares outstanding—diluted	9,743	173,117	9,694	173,117
Basic income (loss) per common share:				
Income (loss) from continuing operations attributable to common stockholders	$ (1.24)	$ 0.18	$ (1.34)	$ 0.28
Income (loss) from discontinued operations	(0.12)	—	(0.13)	—
Gain (loss) from sale of discontinued operations	0.02	—	0.02	—
Net income (loss) attributable to common stockholders	$ (1.34)	$ 0.18	$ (1.45)	$ 0.28
Diluted income (loss) per common share:				
Income (loss) from continuing operations attributable to common stockholders	$ (1.24)	$ 0.15	$ (1.34)	$ 0.23
Income (loss) from discontinued operations	(0.12)	—	(0.13)	—
Gain (loss) from sale of discontinued operations	0.02	—	0.02	—
Net income (loss) attributable to common stockholders	$ (1.34)	$ 0.15	$ (1.45)	$ 0.23

13. REORGANIZATION ITEMS, NET

Reorganization items, net, represents amounts incurred as a direct result of the bankruptcy filings and is presented separately in the Consolidated Condensed Statements of Operations. The following describes the components of reorganization items, net (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2010 Successor	June 30, 2009 Predecessor	June 30, 2010 Successor	June 30, 2009 Predecessor
Professional Fees	$ —	$ (8,271)	$ 1	$ (12,067)
Debt Premium, Discount and Deferred Financing Costs Write-off	—	—	—	(91)
Reversal of Future Interest Payments Recorded as Long Term Obligations	—	—	—	20,453
Interest Income	—	—	—	2
Reorganization Items, net	$ —	$ (8,271)	$ 1	$ 8,297

Predecessor

Payments for the six months ended June 30, 2009 for professional fees and retainers were $4.6 million. In accordance with ASC No. 852, the Company ceased amortization of debt premiums, discounts and deferred financing costs related to the liabilities subject to compromise on the Petition Date. The $3.5 million of unamortized debt premiums and discounts has been written off and recorded as a gain, offset by the expensing of $3.6 million of unamortized deferred financing costs, as an adjustment to the net carrying value of the pre-petition debt. Long term debt was further reduced by $20.5 million of future interest payable that previously had been recorded as a portion of long-term obligations for the 14 1/4% Senior Subordinated Secured Notes and 5% Exchangeable Senior Notes as the issuance of these notes had been deemed troubled debt restructurings.

14. GUARANTOR/NON-GUARANTOR CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

On the Effective Date, IHC, each of the Grantors party and U.S. Bank National Association, as collateral agent, entered into a First Amendment to the Collateral Agreement (the "Amended Collateral Agreement"), to provide that the obligations of both IHC and Primus Telecommunications International, Inc. ("PTII"), an indirect wholly owned subsidiary of Group, were secured by PTII's assets, including 65% of the voting stock of foreign subsidiaries owned by PTII. In addition, on the Effective Date, Group and Holding entered into an Assumption Agreement in favor of U.S. Bank National Association, as collateral agent, pursuant to which each of Group and Holding became party to the Amended Collateral Agreement. As a result, Group and Holding's existing guarantees of the 14 1/4% Senior Subordinated Secured Notes are secured by a lien on the property of Group and Holding, respectively.

Accordingly, the following consolidating condensed financial information for the three and six months ended June 30, 2010 for Successor and three months and six months ended June 30, 2009 for Predecessor are included for (a) Group on a stand-alone basis; (b) Primus Telecommunications IHC, Inc. (IHC) on a stand-alone basis; (c) the Other Guarantor subsidiaries on a combined basis; (d) Group's indirect non-guarantor subsidiaries on a combined basis and (e) Group on a consolidated basis. The plan and fresh-start accounting adjustments reflected in Predecessor's Consolidated Condensed Statements of Operations on July 1, 2009 are not presented separately in this presentation.

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

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(in thousands)

	Successor					
	For the Three Months Ended June 30, 2010					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$ —	$ —	$ 24,282	$ 181,126	$ —	$ 205,408
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)	—	—	17,853	113,851	—	131,704
Selling, general and administrative	1,407	1	5,651	43,154	—	50,213
Depreciation and amortization	—	—	1,264	18,052	—	19,316
(Gain) loss on sale or disposal of assets	—	—	(196)	7	—	(189)
Total operating expenses	1,407	1	24,572	175,064	—	201,044
INCOME (LOSS) FROM OPERATIONS	(1,407)	(1)	(290)	6,062	—	4,364
INTEREST EXPENSE	—	(4,187)	(2,933)	(1,627)	—	(8,747)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	—	—	(29)	(16)	—	(45)
GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	—	91	73	—	—	164
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(382)	—	—	—	—	(382)
INTEREST AND OTHER INCOME	—	—	152	2	—	154
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	—	(1,136)	19	(8,596)	—	(9,713)
INTERCOMPANY INTEREST	(263)	3,955	(2,490)	(1,202)	—	—
MANAGEMENT FEE	—	—	949	(949)	—	—
ROYALTY FEE	—	3,254	—	(3,254)	—	—
INCOME (LOSS) BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(2,052)	1,976	(4,549)	(9,580)	—	(14,205)
REORGANIZATION ITEMS—NET	—	—	—	—	—	—
INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES	(2,052)	1,976	(4,549)	(9,580)	—	(14,205)
INCOME TAX BENEFIT (EXPENSE)	—	(238)	(1)	2,233	—	1,994
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(2,052)	1,738	(4,550)	(7,347)	—	(12,211)
EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(10,986)	—	(6,436)	—	17,422	—
INCOME (LOSS) FROM CONTINUING OPERATIONS	(13,038)	1,738	(10,986)	(7,347)	17,422	(12,211)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	—	—	—	(1,126)	—	(1,126)
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	—	—	—	193	—	193
NET INCOME (LOSS)	(13,038)	1,738	(10,986)	(8,280)	17,422	(13,144)
Less: Net (income) loss attributable to the noncontrolling interest	—	—	—	106	—	106
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$(13,038)	$ 1,738	$ (10,986)	$ (8,174)	$ 17,422	$ (13,038)
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income (loss) from continuing operations, net of tax	$(13,038)	$ 1,738	$ (10,986)	$ (7,241)	$ 17,422	$ (12,105)
Income (loss) from discontinued operations	—	—	—	(1,126)	—	(1,126)
Gain (loss) from sale of discontinued operations	—	—	—	193	—	193
Net income (loss)	$(13,038)	$ 1,738	$ (10,986)	$ (8,174)	$ 17,422	$ (13,038)

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(in thousands)

	Predecessor					
	For the Three Month Ended June 30, 2009					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$ —	$ —	$ 30,470	$ 165,089	$ —	$ 195,559
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)	—	—	23,291	101,884	—	125,175
Selling, general and administrative	3,599	4	6,015	40,108	—	49,726
Depreciation and amortization	—	—	638	5,593	—	6,231
(Gain) loss on sale or disposal of assets	—	—	(119)	135	—	16
Total operating expenses	3,599	4	29,825	147,720	—	181,148
INCOME (LOSS) FROM OPERATIONS	(3,599)	(4)	645	17,369	—	14,411
INTEREST EXPENSE	—	—	(2,242)	(1,117)	—	(3,359)
INTEREST AND OTHER INCOME	—	—	3	158	—	161
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	2,699	9,405	(565)	12,631	—	24,170
INTERCOMPANY INTEREST	(2,091)	7,340	(4,397)	(852)	—	—
MANAGEMENT FEE	—	—	3,023	(3,023)	—	—
ROYALTY FEE	—	2,768	—	(2,768)	—	—
INCOME (LOSS) BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(2,991)	19,509	(3,533)	22,398	—	35,383
REORGANIZATION ITEMS—NET	(6,580)	(1)	(1,691)	(384)	—	(8,656)
INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES	(9,571)	19,508	(5,224)	22,014	—	26,727
INCOME TAX EXPENSE	—	(197)	617	(1,530)	—	(1,110)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(9,571)	19,311	(4,607)	20,484	—	25,617
EQUITY IN NET INCOME OF SUBSIDIARIES	34,937	—	41,885	—	(76,822)	—
INCOME FROM CONTINUING OPERATIONS	25,366	19,311	37,278	20,484	(76,822)	25,617
LOSS FROM DISCONTINUED OPERATIONS, net of tax	—	—	—	(147)	—	(147)
NET INCOME	25,366	19,311	37,278	20,337	(76,822)	25,470
Less: Net income attributable to the noncontrolling interest	—	—	—	(104)	—	(104)
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$25,366	$19,311	$ 37,278	$ 20,233	$ (76,822)	$ 25,366
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income from continuing operations, net of tax	$25,366	$19,311	$ 37,278	$ 20,380	$ (76,822)	$ 25,513
Loss from discontinued operations	—	—	—	(147)	—	(147)
Net income	$25,366	$19,311	$ 37,278	$ 20,233	$ (76,822)	$ 25,366

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(in thousands)

	Successor					
	For the Six Months Ended June 30, 2010					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$ —	$ —	$ 46,318	$ 363,483	$ —	$ 409,801
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)	—	—	34,762	226,951	—	261,713
Selling, general and administrative	2,267	6	14,736	86,096	—	103,105
Depreciation and amortization	—	—	2,798	35,502	—	38,300
(Gain) loss on sale or disposal of assets	—	—	(196)	17	—	(179)
Total operating expenses	2,267	6	52,100	348,566	—	402,939
INCOME (LOSS) FROM OPERATIONS	(2,267)	(6)	(5,782)	14,917	—	6,862
INTEREST EXPENSE	—	(8,586)	(5,951)	(3,547)	—	(18,084)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	—	—	(57)	(32)	—	(89)
GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	—	91	73	—	—	164
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(2,425)	—	—	—	—	(2,425)
INTEREST AND OTHER INCOME	—	—	153	229	—	382
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	—	340	15	(4,066)	—	(3,711)
INTERCOMPANY INTEREST	(564)	7,802	(4,993)	(2,245)	—	—
MANAGEMENT FEE	—	—	2,539	(2,539)	—	—
ROYALTY FEE	—	6,561	—	(6,561)	—	—
INCOME (LOSS) BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(5,256)	6,202	(14,003)	(3,844)	—	(16,901)
REORGANIZATION ITEMS—NET	1	—	—	—	—	1
INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES	(5,255)	6,202	(14,003)	(3,844)	—	(16,900)
INCOME TAX EXPENSE	—	(467)	(431)	4,891	—	3,993
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(5,255)	5,735	(14,434)	1,047	—	(12,907)
EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(8,782)	—	5,652	—	3,129	—
INCOME (LOSS) FROM CONTINUING OPERATIONS	(14,037)	5,735	(8,782)	1,047	3,129	(12,907)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	—	—	—	(1,293)	—	(1,293)
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	—	—	—	193	—	193
NET INCOME (LOSS)	(14,037)	5,735	(8,782)	(53)	3,129	(14,007)
Less: Net (income) loss attributable to the noncontrolling interest	—	—	—	(30)	—	(30)
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$(14,037)	$ 5,735	$ (8,782)	$ (83)	$ 3,129	$ (14,037)
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income (loss) from continuing operations, net of tax	$(14,037)	$ 5,735	$ (8,782)	$ 1,017	$ 3,129	$ (12,937)
Income (loss) from discontinued operations	—	—	—	(1,293)	—	(1,293)
Gain (loss) from sale of discontinued operations	—	—	—	193	—	193
Net income (loss)	$(14,037)	$ 5,735	$ (8,782)	$ (83)	$ 3,129	$ (14,037)

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(in thousands)

	Predecessor					
	For the Six Month Ended June 30, 2009					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$ —	$ —	$ 65,361	$ 323,479	$ —	$ 388,840
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)	—	—	52,058	201,772	—	253,830
Selling, general and administrative	4,638	23	12,587	77,408	—	94,656
Depreciation and amortization	—	—	1,317	10,990	—	12,307
(Gain) loss on sale or disposal of assets	—	—	(177)	134	—	(43)
Total operating expenses	4,638	23	65,785	290,304	—	360,750
INCOME (LOSS) FROM OPERATIONS	(4,638)	(23)	(424)	33,175	—	28,090
INTEREST EXPENSE	(794)	(3,331)	(7,867)	(2,142)	—	(14,134)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(129)	318	—	—	—	189
INTEREST AND OTHER INCOME	—	—	8	380	—	388
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	2,632	8,349	(705)	10,844	—	21,120
INTERCOMPANY INTEREST	(4,169)	14,549	(8,764)	(1,616)	—	—
MANAGEMENT FEE	—	—	4,152	(4,152)	—	—
ROYALTY FEE	—	5,277	—	(5,277)	—	—
INCOME (LOSS) BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(7,098)	25,139	(13,600)	31,212	—	35,653
REORGANIZATION ITEMS—NET	(8,749)	22,642	(5,597)	(384)	—	7,912
INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES	(15,847)	47,781	(19,197)	30,828	—	43,565
INCOME TAX EXPENSE	—	(380)	(53)	(3,473)	—	(3,906)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(15,847)	47,401	(19,250)	27,355	—	39,659
EQUITY IN NET INCOME OF SUBSIDIARIES	55,204	—	76,182	—	(131,386)	—
INCOME FROM CONTINUING OPERATIONS	39,357	47,401	56,932	27,355	(131,386)	39,659
LOSS FROM DISCONTINUED OPERATIONS, net of tax	—	—	—	(585)	—	(585)
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax	—	—	—	251	—	251
NET INCOME	39,357	47,401	56,932	27,021	(131,386)	39,325
Less: Net loss attributable to the noncontrolling interest	—	—	—	32	—	32
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 39,357	$47,401	$ 56,932	$ 27,053	$ (131,386)	$ 39,357
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income from continuing operations, net of tax	$ 39,357	$47,401	$ 56,932	$ 27,387	$ (131,386)	$ 39,691
Loss from discontinued operations	—	—	—	(585)	—	(585)
Gain from sale of discontinued operations	—	—	—	251	—	251
Net income	$ 39,357	$47,401	$ 56,932	$ 27,053	$ (131,386)	$ 39,357

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED BALANCE SHEET
(in thousands)

	Successor June 30, 2010					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 1,721	$ —	$ 3,513	$ 28,742	$ —	$ 33,976
Accounts receivable	—	—	10,066	73,596	—	83,662
Prepaid expenses and other current assets	159	—	5,586	10,136	—	15,881
Total current assets	1,880	—	19,165	112,474	—	133,519
INTERCOMPANY RECEIVABLES	—	224,160	555,928	49,441	(829,529)	—
INVESTMENTS IN SUBSIDIARIES	463,839	—	165,271	—	(629,110)	—
RESTRICTED CASH	—	—	253	9,907	—	10,160
PROPERTY AND EQUIPMENT—Net	—	—	8,924	119,904	—	128,828
GOODWILL	—	29,642	318	34,037	—	63,997
OTHER INTANGIBLE ASSETS—Net	—	76,200	3,055	87,012	—	166,267
OTHER ASSETS	—	—	4,275	5,569	—	9,844
TOTAL ASSETS	$465,719	$330,002	$ 757,189	$ 418,344	$(1,458,638)	$ 512,615
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
CURRENT LIABILITIES:						
Accounts payable	$ 44	$ —	$ 3,186	$ 37,940	$ —	$ 41,170
Accrued interconnection costs	—	—	7,789	24,573	—	32,362
Deferred revenue	—	—	1,595	12,603	—	14,198
Accrued expenses and other current liabilities	842	—	9,326	34,797	—	44,965
Accrued income taxes	—	2,692	—	6,490	—	9,182
Accrued interest	—	1,354	522	313	—	2,189
Current portion of long-term obligations	—	—	—	1,163	—	1,163
Total current liabilities	886	4,046	22,418	117,879	—	145,229
INTERCOMPANY PAYABLES	375,964	—	186,071	267,494	(829,529)	—
LONG-TERM OBLIGATIONS	—	114,015	83,798	45,422	—	243,235
DEFERRED TAX LIABILITY	—	29,642	560	975	—	31,177
OTHER LIABILITIES	7,787	—	503	(1)	—	8,289
Total liabilities	384,637	147,703	293,350	431,769	(829,529)	427,930
COMMITMENTS AND CONTINGENCIES						
STOCKHOLDERS' EQUITY (DEFICIT):						
Primus Telecommunications Group, Incorporated Stockholders' Equity (Deficit):						
Common stock	10	—	—	—	—	10
Additional paid-in capital	85,393	161,445	458,781	(31,661)	(588,565)	85,393
Accumulated earnings (deficit)	(7,305)	20,854	2,074	11,062	(33,990)	(7,305)
Accumulated other comprehensive income (loss)	2,984	—	2,984	3,571	(6,555)	2,984
Total Primus Telecommunications Group, Incorporated stockholders' equity (deficit)	81,082	182,299	463,839	(17,028)	(629,109)	81,082
Noncontrolling interest	—	—	—	3,603	—	3,603
Total stockholders' equity (deficit)	81,082	182,299	463,839	(13,425)	(629,109)	84,685
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$465,719	$330,002	$ 757,189	$ 418,344	$(1,458,638)	$ 512,615

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED BALANCE SHEET
(in thousands)

	Successor					
	December 31, 2009					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 6,736	$ —	$ 1,672	$ 34,130	$ —	$ 42,538
Accounts receivable	—	—	9,831	79,511	—	89,342
Prepaid expenses and other current assets	324	—	5,666	9,157	—	15,147
Total current assets	7,060	—	17,169	122,798	—	147,027
INTERCOMPANY RECEIVABLES	—	227,973	557,151	55,390	(840,514)	—
INVESTMENTS IN SUBSIDIARIES	473,703	—	80,922	—	(554,625)	—
RESTRICTED CASH	—	—	253	10,185	—	10,438
PROPERTY AND EQUIPMENT—Net	—	—	10,356	137,250	—	147,606
GOODWILL	—	29,642	318	34,260	—	64,220
OTHER INTANGIBLE ASSETS—Net	—	—	83,497	95,310	—	178,807
OTHER ASSETS	—	—	4,615	6,201	—	10,816
TOTAL ASSETS	$480,763	$257,615	$ 754,281	$ 461,394	$(1,395,139)	$ 558,914
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
CURRENT LIABILITIES:						
Accounts payable	$ 57	$ —	$ 3,784	$ 41,978	$ —	$ 45,819
Accrued interconnection costs	—	—	10,427	27,134	—	37,561
Deferred revenue	—	—	1,860	12,022	—	13,882
Accrued expenses and other current liabilities	1,251	—	7,827	40,626	—	49,704
Accrued income taxes	—	2,622	78	7,929	—	10,629
Accrued interest	—	1,515	307	163	—	1,985
Current portion of long-term obligations	—	—	62	4,212	—	4,274
Total current liabilities	1,308	4,137	24,345	134,064	—	163,854
INTERCOMPANY PAYABLES	377,754	—	171,457	291,303	(840,514)	—
LONG-TERM OBLIGATIONS	—	123,472	83,874	45,896	—	253,242
DEFFERED TAX LIABILITY	—	29,642	—	6,410	—	36,052
OTHER LIABILITIES	5,362	—	495	—	—	5,857
Total liabilities	384,424	157,251	280,171	477,673	(840,514)	459,005
COMMITMENTS AND CONTINGENCIES						
STOCKHOLDERS' EQUITY (DEFICIT):						
Primus Telecommunications Group, Incorporated Stockholders' Equity (Deficit):						
Common stock	10	—	—	—	—	10
Additional paid-in capital	85,533	85,245	458,783	(35,161)	(508,867)	85,533
Accumulated deficit	6,732	15,119	11,263	11,145	(37,527)	6,732
Accumulated other comprehensive loss	4,064	—	4,064	4,167	(8,231)	4,064
Total Primus Telecommunications Group, Incorporated stockholders' equity (deficit)	96,339	100,364	474,110	(19,849)	(554,625)	96,339
Noncontrolling interest	—	—	—	3,570	—	3,570
Total stockholders' equity (deficit)	96,339	100,364	474,110	(16,279)	(554,625)	99,909
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$480,763	$257,615	$ 754,281	$ 461,394	$(1,395,139)	$ 558,914

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
(in thousands)

	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
	Successor					
	For the Six Months Ended June 30, 2010					
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$(14,037)	$ 5,735	$ (8,782)	$ (53)	$ 3,130	$ (14,007)
Adjustments to reconcile net income to net cash provided by operating activities:						
Reorganization items, net	(1)	—	—	—	—	(1)
Provision for doubtful accounts receivable	—	—	519	2,930	—	3,449
Stock compensation expense	—	—	204	—	—	204
Depreciation and amortization	—	—	2,799	35,614	—	38,413
Gain on sale or disposal of assets	—	—	(196)	(176)	—	(372)
Accretion of debt (premium) discount	—	—	57	32	—	89
Equity in net income of subsidiary	8,782	—	(5,652)	—	(3,130)	—
Change in fair value of Contingent Value Rights	2,425	—	—	—	—	2,425
Deferred income taxes	—	—	—	(4,823)	—	(4,823)
Gain on early extinguishment or restructuring of debt	—	(91)	(73)	—	—	(164)
Unrealized foreign currency transaction gain (loss) on intercompany and foreign debt	—	5,176	—	(1,028)	—	4,148
Changes in assets and liabilities, net of acquisitions:						
Decrease in accounts receivable	—	—	(754)	(2,066)	—	(2,820)
(Increase) decrease in prepaid expenses and other current assets	324	—	80	(1,518)	—	(1,114)
Decrease in other assets	(159)	—	334	167	—	342
(Increase) decrease in intercompany balance	—	10,295	2,764	(13,059)	—	—
Decrease in accounts payable	(12)	—	(598)	(1,903)	—	(2,513)
Decrease in accrued interconnection costs	—	—	(2,638)	(851)	—	(3,489)
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities and other liabilities	(615)	—	1,800	(3,169)	—	(1,984)
Increase (decrease) in accrued income taxes	(19)	81	14	(1,483)	—	(1,407)
Increase (decrease) in accrued interest	—	(161)	215	164	—	218
Net cash provided by (used in) operating activities before reorganization items	(3,312)	21,035	(9,907)	8,778	—	16,594
Cash effect of reorganization items	(137)	—	—	—	—	(137)
Net cash provided by (used in) operating activities	(3,449)	21,035	(9,907)	8,778	—	16,457
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of property and equipment	—	—	(429)	(10,308)	—	(10,737)
Sale of property and equipment and intangible assets	—	—	196	334	—	530
Cash from disposition of business, net of cash disposed	—	—	—	—	—	—
Cash used for business acquisitions, net of cash acquired	—	—	—	—	—	—
Increase in restricted cash	—	—	—	(132)	—	(132)
Proceeds from intercompany balance	(1,566)	—	20,426	—	(18,860)	—
Net cash provided by (used in) investing activities	(1,566)	—	20,193	(10,106)	(18,860)	(10,339)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Proceeds from issuance of long-term obligations	—	—	—	—	—	—
Deferred financing costs	—	—	—	—	—	—
Principal payments on other long-term obligations	—	(9,385)	(193)	(3,597)	—	(13,175)
Proceeds from (payments on) intercompany balance	—	(11,650)	(7,308)	99	18,860	—
Net cash provided by (used in) financing activities	—	(21,035)	(7,501)	(3,499)	18,860	(13,175)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	—	(944)	(561)	—	(1,505)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(5,015)	—	1,841	(5,389)	—	(8,562)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,736	—	1,672	34,130	—	42,538
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,721	$ —	$ 3,513	$ 28,742	$ —	$ 33,976

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
(in thousands)

	Predecessor					
	For the Six Months Ended June 30, 2009					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$ 39,357	$ 47,401	$ 56,932	$ 27,021	$ (131,386)	$ 39,325
Adjustments to reconcile net income to net cash provided by operating activities:						
Reorganization items, net	4,285	(22,642)	3,906	6,154	—	(8,297)
Provision for doubtful accounts receivable	—	—	937	4,203	—	5,140
Stock compensation expense	—	—	27	—	—	27
Depreciation and amortization	—	—	1,317	11,029	—	12,346
Gain on sale or disposal of assets	—	—	(177)	(117)	—	(294)
Accretion of debt (premium) discount	129	(318)	—	—	—	(189)
Equity in net income of subsidiary	(55,204)	—	(76,150)	—	131,354	—
Minority interest share of loss	—	—	(32)	—	32	—
Deferred income taxes	—	—	141	(141)	—	—
Unrealized foreign currency transaction gain (loss) on intercompany and foreign debt	(2,636)	(8,668)	778	(10,176)	—	(20,702)
Changes in assets and liabilities, net of acquisitions:			—	—		
Decrease in accounts receivable	—	—	3,628	4,170	—	7,798
(Increase) decrease in prepaid expenses and other current assets	183	—	327	(49)	—	461
Decrease in other assets	52	17	1,036	1,349	—	2,454
(Increase) decrease in intercompany balance	—	(6,885)	15,765	(8,880)	—	—
Decrease in accounts payable	(1,411)	—	(500)	(10,883)	—	(12,794)
Decrease in accrued interconnection costs	—	—	(1,768)	(3,593)	—	(5,361)
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities and other liabilities	8,885	—	(1,910)	(5,662)	—	1,313
Increase (decrease) in accrued income taxes	4	699	(649)	2,059	—	2,113
Increase (decrease) in accrued interest	397	3,314	(5,174)	(137)	—	(1,600)
Net cash provided by (used in) operating activities before reorganization items	(5,959)	12,918	(1,566)	16,347	—	21,740
Cash effect of reorganization items	(3,528)	—	(2,384)	1,317	—	(4,595)
Net cash provided by (used in) operating activities	(9,487)	12,918	(3,950)	17,664	—	17,145
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of property and equipment	—	—	(115)	(5,545)	—	(5,660)
Sale of property and equipment and intangible assets	—	—	177	2	—	179
Cash from disposition of business, net of cash disposed	—	—	—	232	—	232
Cash used for business acquisitions, net of cash acquired	—	—	—	(199)	—	(199)
Increase in restricted cash	—	—	61	(207)	—	(146)
Proceeds from intercompany balance	9,366	—	7,992	—	(17,358)	—
Net cash provided by (used in) investing activities	9,366	—	8,115	(5,717)	(17,358)	(5,594)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Principal payments on other long-term obligations	—	—	(517)	(7,775)	—	(8,292)
Proceeds from (payments on) intercompany balance	—	(12,918)	3,510	(7,950)	17,358	—
Net cash provided by (used in) financing activities	—	(12,918)	2,993	(15,725)	17,358	(8,292)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	—	—	1,202	—	1,202
NET CHANGE IN CASH AND CASH EQUIVALENTS	(121)	—	7,158	(2,576)	—	4,461
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	152	—	3,551	33,297	—	37,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 31	$ —	$ 10,709	$ 30,721	$ —	$ 41,461

15. SUBSEQUENT EVENTS

During August 2010 the Company executed an agreement to lease fiber capacity over a 15 year period with minimum future payment obligations of $11.5 million, payable over the following three and a half years. The fiber capacity lease is intended to replace existing leased fiber capacity and to allow for future growth in demand.

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

Introduction and Overview of Operations

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

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

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

In order to manage our network transmission costs, we pursue a flexible approach with respect to our network capacity. In most instances, we (1) optimize the cost of traffic by using the least expensive cost routing, (2) negotiate lower variable usage based costs with domestic and foreign service providers, (3) negotiate new agreements with foreign incumbent carriers and others which provides lower costs, and (4) continue to expand/reduce the capacity of our network when traffic volumes justify such actions.

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

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

Foreign Currency

Foreign currency can have a major impact on our financial results. Currently approximately 85% of our net revenue is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the United States dollar (USD). The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive the majority of our net revenue and incur a significant portion of our operating costs from outside the United States, and therefore changes in exchange rates have had and may continue to have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused by fluctuations in the following exchange rates: USD/Canadian dollar (CAD), USD/Australian dollar (AUD), USD/British pound (GBP), USD/Euro (EUR), and USD/Brazilian Real (BRL). Due to the large percentage of our revenue derived outside of the United States, changes in the USD relative to one or more of the foregoing currencies could have an adverse impact on our future results of operations. We have agreements with certain subsidiaries for repayment of a portion of the investments and advances made to these subsidiaries. As we anticipate repayment in the foreseeable future, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies.

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

In the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, the USD was weaker on average as compared to the CAD, AUD, and BRL and stronger on average as compared to the GBP and EUR. The following tables demonstrate the impact of currency fluctuations on our net revenue for the three months ended June 30, 2010 and 2009 (in thousands, except percentages):

Net Revenue by Location—in USD

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2010 Net Revenue	2009 Net Revenue	Variance	Variance %	2010 Net Revenue	2009 Net Revenue	Variance	Variance %
Canada	$ 58,024	$ 55,061	$ 2,963	5.4%	$ 115,500	$ 108,306	$ 7,194	6.6%
Australia	$ 67,487	$ 58,475	$ 9,012	15.4%	$ 137,385	$ 110,502	$ 26,883	24.3%
United Kingdom	$ 24,907	$ 23,932	$ 975	4.1%	$ 45,754	$ 49,232	$ (3,478)	(7.1)%
Europe*	$ 18,638	$ 18,082	$ 556	3.1%	$ 42,073	$ 35,629	$ 6,444	18.1%
Brazil	$ 7,050	$ 2,978	$ 4,072	136.7%	$ 12,320	$ 6,246	$ 6,074	97.3

Net Revenue by Location—in Local Currencies

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2010 Net Revenue	2009 Net Revenue	Variance	Variance %	2010 Net Revenue	2009 Net Revenue	Variance	Variance %
Canada	59,630	64,351	(4,721)	(7.3)%	119,475	130,534	(11,059)	(8.5)%
Australia	76,401	77,216	(815)	(1.1)%	153,744	155,641	(1,897)	(1.2)%
United Kingdom	16,699	15,489	1,210	7.8%	30,124	33,121	(2,997)	(9.0)%
Europe*	14,367	12,947	1,420	11.0%	30,882	26,102	4,780	18.3%
Brazil	12,709	6,211	6,498	104.6%	22,205	13,809	8,396	60.8%

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

Critical Accounting Policies

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Form 10-K for the year ended December 31, 2009 for a detailed discussion of our critical accounting policies. These policies include revenue recognition, determining our allowance for doubtful accounts receivable, accounting for cost of revenue, valuation of long-lived assets and goodwill and accounting for income taxes.

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

No significant changes in our critical accounting policies have occurred since December 31, 2009.

Financial Presentation Background

July 1, 2009 Emergence From Voluntary Reorganization under Chapter 11 Proceedings. On March 16, 2009, Primus Telecommunications Group, Incorporated (“Group”) and three of its subsidiaries, Primus Telecommunications Holding, Inc. (“Holding”), Primus Telecommunications International, Inc. (“PTII”) and Primus Telecommunications IHC, Inc., (“IHC” and together with Group, Holding and PTII, collectively, the “Debtors”) each filed a voluntary petition (the “Chapter 11 Cases”) in the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”) for reorganization relief (“Reorganization”). On April 27, 2009, the Bankruptcy Court approved the Debtors’ use of a disclosure statement dated April 27, 2009 (the “Disclosure Statement”) to solicit votes on the Joint Plan of Reorganization of Primus Telecommunications Group, Incorporated and its Affiliate Debtors attached thereto (the “Plan”). The Plan was confirmed by the Bankruptcy Court on June 12, 2009. On July 1, 2009 (the “Effective Date”), the Debtors consummated their reorganization under the Bankruptcy Code and the Plan became effective. As a result of this, attention should be given to the Successor and Predecessor presentations and Fresh Start Accounting principles adopted by the Company, as described below.

Successor and Predecessor Presentations. In the following presentations and narratives within this Management’s Discussion and Analysis of Financial Condition and Results of Operations, we compare, pursuant to SEC disclosure rules, Successor’s results of operations for the three and six months ended June 30, 2010 (the “Successor Period”) to the Predecessor’s results of operations for the three and six months ended June 30, 2009 (the “Predecessor Period”).

Fresh Start Accounting. 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 and six months ended June 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. See Note 3—“Fresh-Start Accounting” in the notes to these Consolidated Condensed Financial Statements for further details.

Factors That Could Impact Reported Future Results

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

- debt balances and associated interest expense;
- taxes and the potential adverse cash flow effects of our obligation to pay additional taxes compared to prior periods, given the termination of significant net operating loss carry-forward credits in connection with the Reorganization; and
- depreciation and amortization, as triggered by our requirement to institute a new capital structure and fully re-measure our tangible and identifiable intangible assets.

In light of the foregoing, past Predecessor results should not be considered comparable and are not indicative of results for corresponding future Successor periods, and material differences in results of operations and liquidity may arise in the future as a result of these factors, in addition to the factors that could affect our business, as described in “—Special Note Regarding Forward Looking Statements” and in “Part II. Item 1A, “Risk Factors.”

We also present detailed changes in results, excluding currency impacts, since a large portion of our revenues are derived outside of the U.S., and currency changes can influence or mask underlying changes in foreign operating unit performance. For purposes of calculating constant currency rates between periods in connection with presentations that describe changes in values “excluding currency effects” herein, we have taken results from foreign operations for a given year (that were computed in accordance with GAAP using local currency) and converted such amounts utilizing the same U.S. dollar to applicable local currency exchange rates that were used for purposes of calculating corresponding preceding year GAAP presentations. Future changes in currency exchange rates could have a material effect on our future results of operations and liquidity. See “Item 3. Quantitative and Qualitative Disclosure About Market Risk.”

Results of Operations

Results of operations for the three months ended June 30, 2010 as compared to the three months ended June 30, 2009

***Net revenue*:** Net revenue, exclusive of the currency effect, decreased $5.7 million, or 2.9%, to $189.9 million for the three months ended June 30, 2010 from $195.6 million for the three months ended June 30, 2009. Inclusive of the currency effect, which accounted for an increase of $15.5 million, net revenue increased $9.8 million to $205.4 million for the three months ended June 30, 2010 from $195.6 million for the three months ended June 30, 2009.

	Exclusive of Currency Effect							Inclusive of Currency Effect	
	Quarter Ended							Quarter Ended	
	June 30, 2010		June 30, 2009		Quarter-over-Quarter			June 30, 2010	
(in thousands)	Net Revenue	% of Total	Net Revenue	% of Total	Variance	Variance %	Currency Effect	Net Revenue	% of Total
Canada	51,041	26.9%	55,061	28.2%	(4,020)	(7.3)%	6,983	58,024	28.2%
Australia	57,921	30.5%	58,475	29.8%	(554)	(0.9)%	9,566	67,487	32.9%
Wholesale	50,519	26.6%	50,279	25.7%	240	0.5%	(1,327)	49,192	24.0%
United States	12,536	6.6%	16,918	8.7%	(4,382)	(25.9)%	—	12,536	6.1%
Europe	11,716	6.2%	11,847	6.1%	(131)	(1.1)%	(597)	11,119	5.4%
Brazil	6,133	3.2%	2,979	1.5%	3,154	105.9%	917	7,050	3.4%
Total Revenue	$189,866	100.0%	$195,559	100.0%	$(5,693)	(2.9)%	$15,542	$205,408	100.0%

Canada: Canada net revenue, exclusive of the currency effect, decreased $4.0 million, or 7.3%, to $51.0 million for the three months ended June 30, 2010 from $55.1 million for the three months ended June 30, 2009. The net revenue decrease is primarily attributable to a decrease of $3.5 million in retail voice services, a decrease of $1.7 million in prepaid voice services and a decrease of $0.2 million in wireless services offset, in part, by an increase of $0.6 million in local services and an increase of $0.8 million in Internet, data and hosting services. Inclusive of the currency effect, which accounted for a $7.0 million increase, net revenue increased $2.9 million to $58.0 million for the three months ended June 30, 2010 from $55.1 million for the three months ended June 30, 2009.

Australia: Australia net revenue, exclusive of the currency effect, decreased $0.6 million, or 0.9%, to $57.9 million for the three months ended June 30, 2010 from $58.5 million for the three months ended June 30, 2009. The net revenue decrease is primarily attributable to a decrease of $1.8 million in residential voice and a decrease of $0.5 million in Internet services offset, in part, by increases of $1.1 million in business voice services, $0.1 million in wireless services and an increase of $0.5 million other services. Inclusive of the currency effect, which accounted for a $9.6 million increase, net revenue increased $9.0 million to $67.5 million for the three months ended June 30, 2010 from $58.5 million for the three months ended June 30, 2009.

Wholesale: Wholesale net revenue, exclusive of the currency effect, increased $0.2 million, or 0.5%, to $50.5 million for the three months ended June 30, 2010 from $50.3 million for the three months ended June 30, 2009. The net revenue increase is a result of general traffic flow fluctuations and pricing movements. Inclusive of the currency effect, which accounted for a $1.3 million decrease, net revenue decreased $1.1 million to $49.2 million for the three months ended June 30, 2010, from $50.3 million for the three months ended June 30, 2009.

United States: United States net revenue decreased $4.4 million, or 25.9%, to $12.5 million for the three months ended June 30, 2010 from $16.9 million for the three months ended June 30, 2009. The decrease is primarily attributable to a decrease of $2.6 million in retail voice services, a decrease of $1.5 million in VoIP services and a decrease of $0.3 million in Internet services.

Europe: Europe net revenue, exclusive of the currency effect, decreased $0.1 million, or 1.1%, to $11.7 million for the three months ended June 30, 2010 from $11.8 million for the three months ended June 30, 2009. The decrease is primarily attributable to a decline in retail voice services of $0.3 million and a decline of $0.2 million in wireless services, offset, in part, by an increase in VoIP services of $0.4 million. Inclusive of the currency effect, which accounted for a $0.6 million decrease, net revenue decreased $0.7 million to $11.1 million for the three months ended June 30, 2010 from $11.8 million for the three months ended June 30, 2009.

Brazil: Brazil net revenue, exclusive of the currency effect, increased $3.2 million, or 105.9%, to $6.1 million for the three months ended June 30, 2010 from $3.0 million for the three months ended June 30, 2009. The revenue increase is due primarily to an increase in reseller voice services. Inclusive of the currency effect, which accounted for a $0.9 million increase, net revenue increased $4.1 million to $7.1 million for the three months ended June 30, 2010 from $3.0 million for the three months ended June 30, 2009.

***Cost of revenue*:** Cost of revenue, exclusive of the currency effect, decreased $1.5 million to $123.7 million, or 65.2% of net revenue, for the three months ended June 30, 2010 from $125.2 million, or 64.0% of net revenue, for the three months ended June 30, 2009. Inclusive of the currency effect, which accounted for an $8.0 million increase, cost of revenue increased $6.5 million to $131.7 million for the three months ended June 30, 2010 from $125.2 million for the three months ended June 30, 2009.

Canada: Canada cost of revenue, exclusive of the currency effect, decreased $0.7 million to $22.8 million, or 44.7% of net revenue, for the three months ended June 30, 2010 from $23.5 million, or 42.7% of net revenue, for the three months ended June 30, 2009. The decrease is primarily attributable to a decrease in net revenue of $4.0 million and product mix shift. Inclusive of the currency effect, which accounted for a $3.1 million increase, cost of revenue increased $2.4 million to $25.9 million for the three months ended June 30, 2010 from $23.5 million for the three months ended June 30, 2009.

Australia: Australia cost of revenue, exclusive of the currency effect, decreased $0.9 million to $35.5 million, or 61.2% of net revenue, for the three months ended June 30, 2010 from $36.4 million, or 62.3% of net revenue, for the three months ended June 30, 2009. The decrease is primarily attributable to cost control initiatives and a $0.6 million decrease in net revenue. Inclusive of the currency effect, which accounted for a $5.8 million increase, cost of revenue increased $4.9 million to $41.3 million for the three months ended June 30, 2010 from $36.4 million for the three months ended June 30, 2009.

Wholesale: Wholesale cost of revenue, exclusive of the currency effect, decreased $0.9 million to $47.1 million, or 93.2% of net revenue, for the three months ended June 30, 2010 from $48.0 million, or 95.4% of net revenue, for the three months ended June 30, 2009. The decrease is primarily attributable to lower costs and improved bad debt experience, as a percentage of net revenues. Inclusive of the currency effect, which accounted for a $1.3 million decrease, cost of revenues decreased $2.2 million to $45.8 million for the three months ended June 30, 2010 from $48.0 million for the three months ended June 30, 2009.

United States: United States cost of revenue decreased $1.8 million to $5.0 million, or 40.2% of net revenue, for the three months ended June 30, 2010 from $6.8 million, or 40.4% of net revenue, for the three months ended June 30, 2009. The decrease is attributable to a decrease in net revenue of $4.4 million and management cost control initiatives.

Europe: Europe cost of revenue, exclusive of the currency effect, decreased by $0.1 million to $8.3 million, or 70.7% of net revenue, for the three months ended June 30, 2010 from $8.4 million, or 71.0% of net revenue, for the three months ended June 30, 2009. The decrease is primarily due to a decrease in net revenue of $0.1 million. Inclusive of the currency effect, which accounted for a $0.5 million decrease, cost of revenue decreased $0.6 million to $7.8 million for the three months ended June 30, 2010 from $8.4 million for the three months ended June 30, 2009.

Brazil: Brazil cost of revenue, exclusive of the currency effect, increased $3.0 million to $5.1 million, or 82.4% of net revenue, for the three months ended June 30, 2010 from $2.1 million, or 69.6% of net revenue, for the three months ended June 30, 2009. The increase is primarily attributable to an increase in net revenue of $3.2 million and a shift in the revenue product mix to reseller voice products. Inclusive of the currency effect, which accounted for a $0.7 million increase, cost of revenue increased $3.7 million to $5.8 million for the three months ended June 30, 2010 from $2.1 million for the three months ended June 30, 2009.

***Selling, general and administrative expenses*:** Selling, general and administrative expenses, exclusive of the currency effect, decreased $4.3 million to $45.4 million, or 23.9% of net revenue, for the three months ended June 30, 2010 from $49.7 million, or 25.4% of net revenue, for the three months ended June 30, 2009. Inclusive of the currency effect, which accounted for a $4.8 million increase, selling, general and administrative expenses increased $0.5 million to $50.2 million for the three months ended June 30, 2010 from $49.7 million for the three months ended June 30, 2009.

Canada: Canada selling, general and administrative expense, exclusive of the currency effect, decreased $1.9 million to $17.8 million, or 34.9% of net revenue, for the three months ended June 30, 2010 from $19.7 million, or 35.7% of net revenue, for the three months ended June 30, 2009. The decrease is attributable to a decrease of $0.5 million in salaries and benefits, a decrease of $0.7 million in advertising, a decrease of $0.7 million in sales and marketing expenses, and a decrease of $0.3 million in professional fees offset, in part, by an increase of $0.3 million in all other expenses. Inclusive of the currency effect, which accounted for a $2.4 million increase, selling, general and administrative expenses increased $0.5 million to $20.2 million for the three months ended June 30, 2010 from $19.7 million for the three months ended June 30, 2009.

Australia: Australia selling, general and administrative expense, exclusive of the currency effect, increased $0.8 million to $14.6 million, or 25.3% of net revenue, for the three months ended June 30, 2010 from $13.8 million, or 23.6% of net revenue, for the three months ended June 30, 2009. The increase is attributable to an increase of $0.5 million in general and administrative expenses, an increase of $0.3 million in professional fees, an increase of $0.2 million in advertising and was offset, in part, by a decrease of $0.2 million in sales and marketing expense. Inclusive of the currency effect, which accounted for a $2.4 million increase, selling, general and administrative expense increased $3.2 million to $17.0 million for the three months ended June 30, 2010 from $13.8 million for the three months ended June 30, 2009.

Wholesale: Wholesale selling, general and administrative expense, exclusive of the currency effect, remained constant at $1.6 million, or 3.2% of net revenue, for the three months ended June 30, 2010 as compared to $1.6 million, or 3.3% of net revenue, for the three months ended June 30, 2009. Inclusive of the currency effect, which accounted for a minimal decrease, selling, general and administrative expense remained constant at $1.6 million for the three months ended June 30, 2010 from $1.6 million for the three months ended June 30, 2009.

United States: United States selling, general and administrative expense for the three months ended June 30, 2010 decreased $1.1 million to $5.3 million, or 42.1% of net revenue, for the three months ended June 30, 2010 from $6.4 million, or 38.0% of net revenue, for the three months ended June 30, 2009. The decrease is attributable to a decrease of $0.4 million in advertising expense, a decrease of $0.4 million in general and administrative expense, and a decrease of $0.3 million in professional fees.

Europe: Europe selling, general and administrative expense, exclusive of the currency effect, decreased $0.3 million to $2.6 million, or 21.9% of net revenue, for the three months ended June 30, 2010 from $2.9 million, or 24.3% of net revenue, for the three months ended June 30, 2009. The decrease is attributable to a decrease of $0.1 million in salaries and benefits, $0.1 million of occupancy expenses, and $0.1 million in professional fees. Inclusive of the currency effect, which accounted for a $0.1 million decrease, selling, general and administrative expense decreased $0.5 million to $2.4 million for the three months ended June 30, 2010 from $2.9 million for the three months ended June 30, 2009.

Brazil: Brazil selling, general and administrative, exclusive of the currency effect, remained constant at $0.7 million, or 11.3% of net revenue, for the three months ended June 30, 2010 as compared to $0.8 million, or 25.8% of net revenue, for the three months ended June 30, 2009. Inclusive of the currency effect, which accounted for a $0.1 million increase, selling, general and administrative expense remained constant at $0.8 million for the three months ended June 30, 2010 from $0.8 million for the three months ended June 30, 2009.

Corporate: Corporate selling, general and administrative expense decreased $2.1 million to $2.5 million for the three months ended June 30, 2010 from $4.6 million for the three months ended June 30, 2009. The decrease is primarily due to a reduction in salaries and benefits and severance accruals.

Depreciation and amortization expense**:** Depreciation and amortization expense increased $13.1 million to $19.3 million for the three months ended June 30, 2010 from $6.2 million for the three months ended June 30, 2009. The increase was the result of valuing tangible and intangible assets to the fair values per Fresh-Start accounting which was implemented effective July 1, 2009. See "Financial Presentation Background."

Interest expense**:** Interest expense increased $5.4 million to $8.8 million for the three months ended June 30, 2010 from $3.4 million for the three months ended June 30, 2009. The increase was due to the cessation of interest accruals, during the 2009 period, for the liabilities subject to compromise as a result of the Chapter 11 cases instituted on March 16, 2009.

Gain (loss) from contingent value rights valuation**:** The value of the contingent value rights increased $0.4 million during the three months ended June 30, 2010 due to the change of the fair market value. The Company determined these contingent value rights to be derivative instruments to be accounted for as liabilities and were marked to fair value, (and in future periods will be marked to fair value), at each balance sheet date. Upon issuance of the contingent value rights, the Company recorded a liability of $2.6 million in other liabilities as part of fresh-start accounting, and we will adjust this liability quarterly to its then estimated fair value, (which in future periods potentially could be substantially greater than the initial recorded liability balance). Estimates of fair value represent the Company's best estimates based on a Black-Scholes pricing model.

Foreign currency transaction gain (loss)**:** Foreign currency transaction gain decreased $33.9 million to a loss of $9.7 million for the three months ended June 30, 2010 from a gain of $24.2 million for the three months ended June 30, 2009. The losses are attributable to the impact of foreign currency exchange rate changes on intercompany debt balances and on receivables and payables denominated in a currency other than the subsidiaries' functional currency.

Reorganization items, net**:** Reorganization items, net were $8.7 million for the three months ended June 30, 2009 and consisted of expense related to professional fees incurred as a result of the Company's Plan of Reorganization, for the three months ended June 30, 2009. There were no reorganization items incurred during the three months ended June 30, 2010.

Income tax benefit (expense)**:** Income tax benefit was $2.0 million for the three months ended June 30, 2010 compared to a $1.1 million expense for the three months ended June 30, 2009. The benefit includes the release of deferred tax liabilities related to amortization of certain fresh-start adjustments to fixed and intangible assets and an intercompany loan. We continue to carry a full valuation allowance on net operating loss carryforwards and other deferred tax assets in jurisdictions in which the Company is in an overall net deferred tax asset position. As it relates to this conclusion, we will monitor actual results and updated projections of our subsidiaries on a quarterly basis. When and if they realize or realistically anticipate sustainable profitability, we will assess the appropriateness of releasing the valuation allowance in whole or in part.

Results of operations for the six months ended June 30, 2010 as compared to the six months ended June 30, 2009

***Net revenue*:** Net revenue, exclusive of the currency effect, decreased $26.7 million, or 6.9%, to $362.1 million for the six months ended June 30, 2010 from $388.8 million for the six months ended June 30, 2009. Inclusive of the currency effect, which accounted for an increase of $47.7 million, net revenue increased $21.0 million to $409.8 million for the six months ended June 30, 2010 from $388.8 million for the six months ended June 30, 2009.

	Exclusive of Currency Effect							Inclusive of Currency Effect	
	Six Months Ended							Six Months Ended June 30, 2010	
	June 30, 2010		June 30, 2009		Year-over-Year				
(in thousands)	Net Revenue	% of Total	Net Revenue	% of Total	Variance	Variance %	Currency Effect	Net Revenue	% of Total
Canada	99,179	27.4%	108,306	27.9%	(9,127)	(8.4)%	16,321	115,500	28.2%
Australia	109,221	30.2%	110,502	28.4%	(1,281)	(1.2)%	28,165	137,386	33.5%
Wholesale	94,772	26.2%	104,482	26.9%	(9,710)	(9.3)%	927	95,699	23.4%
United States	26,112	7.2%	35,012	9.0%	(8,900)	(25.4)%	—	26,112	6.4%
Europe	22,648	6.3%	24,292	6.2%	(1,644)	(6.8)%	136	22,785	5.6%
Brazil	10,217	2.8%	6,246	1.6%	3,971	63.6%	2,103	12,319	3.0%
Total Revenue	$362,149	100.0%	$388,840	100.0%	$(26,691)	(6.9)%	$47,652	$409,801	100.0%

Canada: Canada net revenue, exclusive of the currency effect, decreased $9.1 million, or 8.4%, to $99.2 million for the six months ended June 30, 2010 from $108.3 million for the six months ended June 30, 2009. The net revenue decrease is primarily attributable to a decrease of $7.2 million in retail voice services, a decrease of $4.1 million in prepaid voice services and a decrease of $0.5 million in wireless services offset, in part, by an increase of $1.0 million in local services, an increase of $1.3 million in Internet, data and hosting services, and a $0.3 million increase in all other services. Inclusive of the currency effect, which accounted for a $16.3 million increase, net revenue increased $7.2 million to $115.5 million for the six months ended June 30, 2010 from $108.3 million for the six months ended June 30, 2009.

Australia: Australia net revenue, exclusive of the currency effect, decreased $1.3 million, or 1.2%, to $109.2 million for the six months ended June 30, 2010 from $110.5 million for the six months ended June 30, 2009. The net revenue decrease is primarily attributable to a decrease of $3.0 million in residential voice services and a decrease of $1.1 million in Internet services offset, in part, by increases of $1.4 million in business voice services, $0.4 million in wireless services and an increase of $1.0 million all other services. Inclusive of the currency effect, which accounted for a $28.2 million increase, net revenue increased $26.9 million to $137.4 million for the six months ended June 30, 2010 from $110.5 million for the six months ended June 30, 2009.

Wholesale: Wholesale net revenue, exclusive of the currency effect, decreased $9.7 million, or 9.3%, to $94.8 million for the six months ended June 30, 2010 from $104.5 million for the six months ended June 30, 2009. The net revenue decrease is a result of general traffic flow, pricing movements and our continued focus on profitability rather than revenue. Inclusive of the currency effect, which accounted for a $0.9 million increase, net revenue decreased $8.8 million to $95.7 million for the six months ended June 30, 2010, from $104.5 million for the six months ended June 30, 2009.

United States: United States net revenue decreased $8.9 million, or 25.4%, to $26.1 million for the six months ended June 30, 2010 from $35.0 million for the six months ended June 30, 2009. The decrease is primarily attributable to a decrease of $5.2 million in retail voice services, a decrease of $3.1 million in VoIP services and a decrease of $0.6 million in Internet services.

Europe: Europe net revenue, exclusive of the currency effect, decreased $1.6 million, or 6.8%, to $22.6 million for the six months ended June 30, 2010 from $24.3 million for the six months ended June 30, 2009. The decrease is primarily attributable to a decline in retail voice services of $3.1 million, offset, in part, by an increase in wireless and VoIP services of $0.9 million and an increase of $0.6 million in all other services. Inclusive of the currency effect, which accounted for a $0.1 million increase, net revenue decreased $1.5 million to $22.8 million for the six months ended June 30, 2010 from $24.3 million for the six months ended June 30, 2009.

Brazil: Brazil net revenue, exclusive of the currency effect, increased $4.0 million, or 63.6%, to $10.2 million for the six months ended June 30, 2010 from $6.2 million for the six months ended June 30, 2009. The revenue increase is due primarily to an increase in reseller voice services. Inclusive of the currency effect, which accounted for a $2.1 million increase, net revenue increased $6.1 million to $12.3 million for the six months ended June 30, 2010 from $6.2 million for the six months ended June 30, 2009.

***Cost of revenue*:** Cost of revenue, exclusive of the currency effect, decreased $19.0 million to $234.8 million, or 64.8% of net revenue, for the six months ended June 30, 2010 from $253.8 million, or 65.3% of net revenue, for the six months ended June 30, 2009. Inclusive of the currency effect, which accounted for an $26.9 million increase, cost of revenue increased $7.9 million to $261.7 million for the six months ended June 30, 2010 from $253.8 million for the six months ended June 30, 2009.

Canada: Canada cost of revenue, exclusive of the currency effect, decreased $2.4 million to $44.8 million, or 45.2% of net revenue, for the six months ended June 30, 2010 from $47.2 million, or 43.6% of net revenue, for the six months ended June 30, 2009. The decrease is primarily attributable to a decrease in net revenue of $9.1 million. Inclusive of the currency effect, which accounted for a $7.4 million increase, cost of revenue increased $5.0 million to $52.2 million for the six months ended June 30, 2010 from $47.2 million for the six months ended June 30, 2009.

Australia: Australia cost of revenue, exclusive of the currency effect, decreased $3.4 million to $66.0 million, or 60.4% of net revenue, for the six months ended June 30, 2010 from $69.4 million, or 62.8% of net revenue, for the six months ended June 30, 2009. The decrease is primarily attributable to cost control initiatives and a $1.3 million decrease in net revenue. Inclusive of the currency effect, which accounted for a $16.9 million increase, cost of revenue increased $13.5 million to $82.9 million for the six months ended June 30, 2010 from $69.4 million for the six months ended June 30, 2009.

Wholesale: Wholesale cost of revenue, exclusive of the currency effect, decreased $10.8 million to $88.9 million, or 93.8% of net revenue, for the six months ended June 30, 2010 from $99.7 million, or 95.4% of net revenue, for the six months ended June 30, 2009. The decrease is primarily attributable to a decrease in net revenue of $9.7 million offset, in part, by lower costs and improved bad debt experience, as a percentage of net revenues. Inclusive of the currency effect, which accounted for a $0.9 million increase, cost of revenues decreased $9.9 million to $89.8 million for the six months ended June 30, 2010 from $99.7 million for the six months ended June 30, 2009.

United States: United States cost of revenue decreased $4.9 million to $10.9 million, or 42.0% of net revenue, for the six months ended June 30, 2010 from $15.8 million, or 45.3% of net revenue, for the six months ended June 30, 2009. The decrease is attributable to a decrease in net revenue of $8.9 million and management cost control initiatives.

Europe: Europe cost of revenue, exclusive of the currency effect, decreased by $1.3 million to $15.8 million, or 70.1% of net revenue, for the six months ended June 30, 2010 from $17.1 million, or 70.6% of net revenue, for the six months ended June 30, 2009. The decrease is primarily due to a decrease in net revenue of $1.6 million. Inclusive of the currency effect, which accounted for a $0.1 million increase, cost of revenue decreased $1.1 million to $16.0 million for the six months ended June 30, 2010 from $17.1 million for the six months ended June 30, 2009.

Brazil: Brazil cost of revenue, exclusive of the currency effect, increased $3.7 million to $8.2 million, or 80.6% of net revenue, for the six months ended June 30, 2010 from $4.5 million, or 71.9% of net revenue, for the six months ended June 30, 2009. The increase is primarily attributable to an increase in net revenue of $4.0 million and a shift in the revenue product mix to reseller voice products. Inclusive of the currency effect, which accounted for a $1.7 million increase, cost of revenue increased $5.4 million to $9.9 million for the six months ended June 30, 2010 from $4.5 million for the six months ended June 30, 2009.

***Selling, general and administrative expenses*:** Selling, general and administrative expenses, exclusive of the currency effect, decreased $4.4 million to $90.2 million, or 24.9% of net revenue, for the six months ended June 30, 2010 from $94.7 million, or 24.3% of net revenue, for the six months ended June 30, 2009. Inclusive of the currency effect, which accounted for an $12.9 million increase, selling, general and administrative expenses increased $8.4 million to $103.1 million for the six months ended June 30, 2010 from $94.7 million for the six months ended June 30, 2009.

Canada: Canada selling, general and administrative expense, exclusive of the currency effect, decreased $3.2 million to $34.2 million, or 34.5% of net revenue, for the six months ended June 30, 2010 from $37.4 million, or 34.5% of net revenue, for the six months ended June 30, 2009. The decrease is attributable to a decrease of $1.5 million in salaries and benefits, a decrease of $1.4 million in sales and marketing expenses and a decrease of $0.2 million in advertising expense. Inclusive of the currency effect, which accounted for a $5.6 million increase, selling, general and administrative expenses increased $2.4 million to $39.8 million for the six months ended June 30, 2010 from $37.4 million for the six months ended June 30, 2009.

Australia: Australia selling, general and administrative expense, exclusive of the currency effect, increased $0.4 million to $26.8 million, or 24.6% of net revenue, for the six months ended June 30, 2010 from $26.4 million, or 23.9% of net revenue, for the six months ended June 30, 2009. The increase is attributable to an increase of $0.7 million in advertising expense and a $0.1 million increase in all other expenses, offset, in part, by a decrease of $0.4 million in sales and marketing expense. Inclusive of the currency effect, which accounted for a $6.8 million increase, selling, general and administrative expense increased $7.3 million to $33.7 million for the six months ended June 30, 2010 from $26.4 million for the six months ended June 30, 2009.

Wholesale: Wholesale selling, general and administrative expense, exclusive of the currency effect, remained constant at $3.2 million, or 3.4% of net revenue, for the six months ended June 30, 2010 as compared to $3.4 million, or 3.2% of net revenue, for the six months ended June 30, 2009. Inclusive of the currency effect, which accounted for a minimal increase, selling, general and administrative expense decreased $0.1 million to $3.3 million for the six months ended June 30, 2010 from $3.4 million for the six months ended June 30, 2009.

United States: United States selling, general and administrative expense decreased $1.0 million to $12.1 million, or 46.5% of net revenue, for the six months ended June 30, 2010 from $13.1 million, or 37.5% of net revenue for the six months ended June 30, 2009. The decrease applies to virtually all categories of the selling, general and administrative expenses.

Europe: Europe selling, general and administrative expense, exclusive of the currency effect, decreased $1.1 million to $5.2 million, or 23.1% of net revenue, for the six months ended June 30, 2010 from $6.3 million, or 26.1% of net revenue, for the six months ended June 30, 2009. The decrease applies to virtually all categories of selling, general and administrative expenses and is primarily attributable to the disposition of certain European operations and management cost control initiatives. Inclusive of the currency effect, which accounted for a $0.1 million increase, selling, general and administrative expense decreased $1.0 million to $5.3 million for the six months ended June 30, 2010 from $6.3 million for the six months ended June 30, 2009.

Brazil: Brazil selling, general and administrative, exclusive of the currency effect, remained constant at $1.3 million, or 12.6% of net revenue, for the six months ended June 30, 2010 as compared to $1.5 million, or 23.2% of net revenue, for the six months ended June 30, 2009. Inclusive of the currency effect, which accounted for a

$0.3 million increase, selling, general and administrative expense increased $0.1 million to $1.6 million for the six months ended June 30, 2010 from $1.5 million for the six months ended June 30, 2009.

Corporate: Corporate selling, general and administrative expense decreased $0.1 million to $6.6 million, for the six months ended June 30, 2010 from $6.7 million for the six months ended June 30, 2009. The decrease is primarily due to a reduction in salaries and benefits.

***Depreciation and amortization expense*:** Depreciation and amortization expense increased $26.0 million to $38.3 million for the six months ended June 30, 2010 from $12.3 million for the six months ended June 30, 2009. The increase was the result of valuing tangible and intangible assets to the fair values per Fresh-Start accounting which was implemented effective July 1, 2009. See “Financial Presentation Background.”

***Interest expense*:** Interest expense and accretion (amortization) on debt discount/premium, net increased $4.2 million to $18.1 million for the six months ended June 30, 2010 from $13.9 million for the six months ended June 30, 2009. The increase was due to the cessation of interest accruals, during the 2009 period, for the liabilities subject to compromise as a result of the Chapter 11 cases instituted on March 16, 2009.

***Gain (loss) from contingent value rights valuation*:** The value of the contingent value rights increased $2.4 million during the six months ended June 30, 2010 due to the change of the fair market value. The Company determined these contingent value rights to be derivative instruments to be accounted for as liabilities and were marked to fair value, (and in future periods will be marked to fair value), at each balance sheet date. Upon issuance of the contingent value rights, the Company recorded a liability of $2.6 million in other liabilities as part of fresh-start accounting, and we will adjust this liability quarterly to its then estimated fair value, (which in future periods potentially could be substantially greater than the initial recorded liability balance). Estimates of fair value represent the Company’s best estimates based on a Black-Scholes pricing model.

***Foreign currency transaction gain (loss)*:** Foreign currency transaction gain decreased $24.8 million to a loss of $3.7 million for the six months ended June 30, 2010 from a gain of $21.1 million for the six months ended June 30, 2009. The losses are attributable to the impact of foreign currency exchange rate changes on intercompany debt balances and on receivables and payables denominated in a currency other than the subsidiaries’ functional currency.

***Reorganization items, net*:** Reorganization items, net were $1.0 thousand of expense for the six months ended June 30, 2010, as compared to a $7.9 million gain for the six months ended June 30, 2009. In accordance with ASC No. 852, the Company ceased amortization of debt premiums, discounts and deferred financing costs related to the liabilities subject to compromise on the petition date of the Reorganization. The $3.5 million of unamortized debt premiums and discounts has been written off and recorded as a gain, offset by the expensing of $3.6 million of unamortized deferred financing costs, as an adjustment to the net carrying value of the pre-petition debt. Long term debt was further reduced by $20.5 million of future interest payable that previously had been recorded as a portion of long-term obligations for the 14 1/4% Senior Subordinated Secured Notes and 5% Exchangeable Senior Notes as the issuance of these notes had been deemed troubled debt restructurings.

***Income tax benefit (expense)*:** Income tax benefit was $4.0 million for the six months ended June 30, 2010 compared to a $3.9 million expense for the six months ended June 30, 2009. The benefit includes the release of deferred tax liabilities related to amortization of certain fresh-start adjustments to fixed and intangible assets and an intercompany loan. We continue to carry a full valuation allowance on net operating loss carryforwards and other deferred tax assets in jurisdictions in which the Company is in an overall net deferred tax asset position. As it relates to this conclusion, we will monitor actual results and updated projections of our subsidiaries on a quarterly basis. When and if they realize or realistically anticipate sustainable profitability, we will assess the appropriateness of releasing the valuation allowance in whole or in part.

Liquidity and Capital Resources

Changes in Cash Flows

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

Net cash provided by operating activities was $16.5 million for the six months ended June 30, 2010. For the six months ended June 30, 2010, net income, net of non-cash operating activity, provided $29.4 million of cash. In addition, cash was increased by a reduction in other assets of $0.3 million, and an increase in accrued interest of $0.2 million.

For the six months ended June 30, 2010, $3.5 million was used to reduce accrued interconnection costs, $2.8 million was used as accounts receivable grew, $2.5 million was used to decrease our accounts payable, $2.0 million was used to reduce our accrued expenses, deferred revenue, other current liabilities and other liabilities, net, $1.4 million was used to reduce our accrued income taxes, $1.1 million was used to increase prepaid expenses and other current assets, and the cash used for reorganization items was $0.1 million.

Net cash used in investing activities was $10.3 million for the six months ended June 30, 2010, which included $10.7 million for capital expenditures and $0.1 million for restricted cash, partially offset by $0.5 million of asset dispositions.

Net cash used in financing activities was $13.2 million for the six months ended June 30, 2010 and reflects the retirement of $9.5 million of 14 1/4% Senior Subordinated Secured Notes and the $3.7 million repayment of capital leases.

Short- and Long-Term Liquidity Considerations and Risks

As of June 30, 2010, we had $34.0 million of unrestricted cash and cash equivalents. We believe that our existing cash and cash equivalents will be sufficient to fund our debt service requirements, other fixed obligations (such as capital leases), and other cash needs for our operations for at least the next twelve months. The Company will evaluate and determine on a continuing basis the most efficient use of the Company’s capital and resources, including investment in the Company’s network, systems and product initiatives and to strengthen its balance sheet through debt repurchases or other means.

As of June 30, 2010, we have $45.8 million in future minimum purchase obligations, $61.1 million in future operating lease payments and $246.2 million of indebtedness. At June 30, 2010, approximately $89.9 million of unrecognized tax benefits have been recorded as liabilities in accordance with ASC No. 740; however, we are uncertain as to if or when such amounts may be settled, so we have not included these amounts in the table below. Included in the unrecognized tax benefits not included in the table below, we have recorded a liability for potential penalties and interest of $0.1 million for the quarter ended June 30, 2010.

The obligations reflected in the table below reflect the contractual payments of principal and interest that existed as of June 30, 2010:

Year Ending December 31,	Capital Leases and Other	13% Senior Secured Notes	14 1/4% Senior Subordinated Secured Notes	Purchase Obligations	Operating Leases	Total
2010 (as of June 30, 2010)	$ 731	$ 8,450	$ 8,124	$ 14,518	$ 11,264	$ 43,087
2011	1,262	16,900	16,247	27,767	13,995	76,170
2012	314	16,900	16,247	3,142	11,908	48,511
2013	86	16,900	122,139	162	8,941	148,228
2014	3	16,900	—	162	3,986	21,051
Thereafter	—	163,847	—	54	10,973	174,874
Total Minimum Principal & Interest Payments	2,396	239,897	162,757	45,805	61,067	511,921
Less: Amount Representing Interest	(158)	(109,897)	(48,742)	—	—	(158,797)
Total Long-Term Obligations	$ 2,238	$ 130,000	$ 114,015	$ 45,805	$ 61,067	$ 353,124

The foregoing table assumes that the 14 1/4% Senior Subordinated Secured Notes are refinanced before January 21, 2013. In the event the 14.25% 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. See Item 1A. “Risks Associated with our Liquidity Needs and Debt Securities,” for certain risks and uncertainties related thereto.

We have contractual obligations to utilize network facilities from certain carriers with terms greater than one year. We generally do not purchase or commit to purchase quantities in excess of normal usage or amounts that cannot be used within the contract term. We have minimum annual purchase obligations of $14.5 million, $27.8 million, $3.1 million, $0.2 million, $0.2 million and $0.1 million remaining in 2010, 2011, 2012, 2013, 2014 and thereafter, respectively.

New Accounting Pronouncements

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.

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

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

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

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

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

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

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

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

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

Special Note Regarding Forward Looking Statements

Certain statements in this Quarterly Report on Form 10-Q and elsewhere concerning strategic objectives, prospects, future liquidity, cost savings initiatives and related matters constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based on current expectations, and are not strictly historical statements. In some cases, you can identify forward-looking statements by terminology such as "if," "may," "should," "believe," "anticipate," "future," "forward," "potential," "estimate," "reinstate," "opportunity," "goal," "objective," "exchange," "growth," "outcome," "could," "expect," "intend," "plan," "strategy," "provide," "commitment," "result," "seek," "pursue," "ongoing," "include" or in the negative of such terms or comparable terminology. These forward-looking statements inherently involve certain risks and uncertainties, although they are based on our current plans or assessments which are believed to be reasonable as of the date of this filing. Forward-looking statements include, without limitation, statements set forth in this document and elsewhere regarding, among other things:

- our financial condition, financing requirements, prospects and cash flow;
- expectations of future growth, creation of shareholder value, revenue, foreign revenue contributions and net income, as well as income from operations, margins, earnings per share, cash flow and cash sufficiency levels, working capital, network development, customer migration and related costs, spending on and success with growth products, including broadband Internet, VOIP, wireless, local, data and hosting services, traffic development, capital expenditures, selling, general and administrative expenses, income tax and withholding tax expense, fixed asset and goodwill impairment charges, service introductions, cash requirements and potential asset sales;
- increased competitive pressures, declining usage patterns, and our growth products, bundled service offerings, the pace and cost of customer migration onto our networks, the effectiveness and profitability of the growth products;
- financing, refinancing, debt extension, de-leveraging, restructuring, exchange or tender plans or initiatives, and potential dilution of existing equity holders from such initiatives;
- liquidity and debt service forecast;
- assumptions regarding currency exchange rates;
- the potential prospective additive revenues and income from operations associated with new Primus Canada Specified Customers;
- timing, extent and effectiveness of cost reduction initiatives and management's ability to moderate or control discretionary spending;
- management's plans, goals, expectations, guidance, objectives, strategies, and timing for future operations, acquisitions, asset dispositions, product plans, performance and results;
- management's assessment of market factors and competitive developments, including pricing actions and regulatory rulings; and
- ability to generate net cash proceeds from the disposition of selective assets without material impairment to profitability.

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

- the occurrence of a default or event of default under our indentures or other financing agreements;
- an inability to fully fund and repurchase holder acceptances of offers to repurchase 13% Notes that we are obligated to make annually, subject to certain limitations, in connection with Excess Cash Flow Offers;

- an inability to fully fund and repurchase holder acceptances of offers to repurchase debt securities that we may be obligated to make following certain change in control developments affecting the Company and certain of its subsidiaries;
- customer, vendor, carrier and third-party responses to our completed Reorganization;
- changes in business conditions causing changes in the business direction and strategy by management;
- heightened competitive pricing and bundling pressures in the markets in which we operate;
- the ability to service substantial indebtedness;
- accelerated decrease in minutes of use on wireline phones;
- fluctuations in the exchange rates of currencies, particularly of the USD relative to foreign currencies of the countries where we conduct our foreign operations;
- difficulty in maintaining or increasing customer revenues and margins through our product initiatives and bundled service offerings, and difficulties in migrating and provisioning broadband and local customers to digital subscriber line (DSL) networks;
- inadequate financial resources to promote and to market product initiatives, whether due to acceptance of Excess Cash Flow Offers or otherwise;
- fluctuations in prevailing trade credit terms or revenues due to the adverse impact of, among other things, further telecommunications carrier bankruptcies or adverse bankruptcy related developments affecting our large carrier customers;
- the possible inability to raise additional capital when needed, on attractive terms, or at all;
- possible claims under our existing debt instruments which could impose constraints and limit our flexibility;
- the inability to service substantial indebtedness and to reduce, refinance, extend, exchange, tender for or restructure debt significantly, or in amounts sufficient to conduct regular ongoing operations;
- further changes in the telecommunications or Internet industry, including rapid technological changes, regulatory and pricing changes in our principal markets and the nature and degree of competitive pressure that we may face;
- adverse tax or regulatory rulings from applicable authorities;
- enhanced broadband, DSL, Internet, wireless, VOIP, date and hosting and local and long distance voice telecommunications competition;
- changes in financial, capital market and economic conditions;
- changes in service offerings or business strategies, including the need to modify business models if performance is below expectations;
- difficulty in retaining existing long distance wireline and dial-up ISP customers;
- difficulty in migrating or retaining customers associated with acquisitions of customer bases, or integrating other assets;
- difficulty in selling new services in the marketplace;
- difficulty in providing broadband, DSL, local, VOIP, data and hosting or wireless services;
- changes in the regulatory schemes or requirements and regulatory enforcement in the markets in which we operate;
- restrictions on our ability to execute certain strategies or complete certain transactions as a result of our inexperience with new products, or limitations imposed by available cash resources, our capital structure or debt covenants;

- risks associated with our limited DSL, Internet, VOIP, data and hosting and wireless experience and expertise, including effectively utilizing new marketing channels such as interactive marketing employing the Internet;
- entry into developing markets;
- aggregate margin contribution from the new products is not sufficient in amount or timing to offset the margin decline in our legacy long distance voice and dial-up ISP businesses;
- the possible inability to hire and/or retain qualified executive management, sales, technical and other personnel;
- risks and costs associated with our effort to locate certain activities and functions off-shore;
- risks associated with international operations;
- dependence on effective information and billing systems;
- possible claims for patent infringement on products or processes employed in providing our services;
- dependence on third parties for access to their networks to enable us to expand and manage our global network and operations and to offer broadband, DSL, local, VOIP and wireless services, including dependence upon the cooperation of incumbent carriers relating to the migration of customers;
- dependence on the performance of our global standard asynchronous transfer mode and Internet-based protocol (ATM+IP) communications network; risks associated with maintaining and upgrading networks; and
- adverse regulatory rulings or actions affecting our operations, including the imposition of taxes and fees, the imposition of obligations upon VOIP providers to provide enhanced 911 (E911) services and restricting access to broadband networks owned and operated by others, including the development of a national broadband network in Australia.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign currency can have a major impact on our financial results. Approximately 85% of our net revenue is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the USD. The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive the majority of our net revenue and incur a significant portion of our operating costs from outside the United States, and therefore changes in exchange rates have had and may continue to have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the following exchange rates: USD/CAD, USD/AUD, USD/GBP, USD/EUR and USD/BRL. Due to the large percentage of our revenue derived outside of the United States, changes in the USD relative to one or more of the foregoing currencies could have an adverse impact on our future results of operations. We have agreements with certain subsidiaries for repayment of a portion of the investments and advances made to these subsidiaries. As we anticipate repayment in the foreseeable future, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations. We historically have not engaged in hedging transactions.

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

In the three and six months ended June 30, 2010, as compared to the three and six months ended June 30, 2009, the USD was weaker on average as compared to the GBP, EUR and was stronger on average as compared to the AUD, CAD and BRL. As a result, our revenue of the subsidiaries whose local currency is GBP, EUR, AUD, CAD and BRL, increased (decreased) 7.8%, 11.0%, (1.1)%, (7.3) % and 104.6 % in local currency compared to the three months ended June 30, 2009, but increased (decreased) 4.1%, 3.1%, 15.4%, 5.4 % and 136.7% in USD, respectively. Our revenue of the subsidiaries whose local currency is GBP, EUR, AUD, CAD and BRL, increased (decreased) (9.0)%, 18.3%, (1.2)%, (8.5) % and 60.8 % in local currency compared to the six months ended June 30, 2009, but increased (decreased) (7.1)%, 18.1%, 24.3%, 6.6 % and 97.2% in USD, respectively.

Interest rates—Our Senior Secured Notes and Senior Subordinated Secured Notes are at a fixed interest rate of 13.00% and 14.25%, respectively. We are exposed to interest rate risk as debt refinancing may be required. Our primary exposure to market risk stems from fluctuations in interest rates.

The interest rate sensitivity table below summarizes our market risks associated with fluctuations in interest rates for the six months ended June 30, 2010 in USD, which is our reporting currency. The table presents principal cash flows and related weighted average interest rates by year of expected maturity for our 13% Senior Secured Notes, 14 1/4% Senior Subordinated Secured Notes, and other long-term obligations in effect at June 30, 2010.

	Year of Maturity							
	2010	2011	2012	2013	2014	Thereafter	Total	Fair Value
	(in thousands, except percentages)							
Fixed Rate	$ 663	$1,182	$306	$114,099	$ 3	$130,000	$246,253	$242,036
Average Interest Rate	13.0%	11.0%	9.3%	14.2%	9.9%	13.0%	13.6%	

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, as a result of the material weakness described below, our Principal Executive Officer and our Principal Financial Officer have concluded that, as of December 31, 2009 and as of the end of the period covered by this report, our disclosure controls and procedures were not effective. Disclosure controls and procedures mean our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

As part of our compliance efforts relative to Section 404 of Sarbanes-Oxley Act of 2002, management assessed the effectiveness of internal control over financial reporting as of December 31, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control-Integrated Framework. Based on the assessment, management identified a material weakness in our internal control over accounting for foreign currency transaction gain (loss) on inter-company balances.

In March 2010, the Company determined that an error existed relating to accounting for foreign currency transaction gain (loss) on certain intercompany balances. Specifically, this error related to activity in the third quarter 2009 resulting in the Company amending its form 10-Q for the quarter ended September 30, 2009. As a result of the error described above, management concluded that as of December 31, 2009 and June 30, 2010, a material weakness existed with respect to its determination of the completeness and accuracy and monitoring of foreign currency transaction gain (loss) related to certain intercompany balances and therefore our internal controls over financial reporting were not effective based upon the criteria set forth by COSO. A material weakness is a control deficiency or combination of control deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Additionally, this material weakness could result in a misstatement of net income (loss) that could result in a material misstatement of the interim or annual consolidated financial statements that would not be prevented or detected if not remediated.

Changes in Internal Control.

Our Principal Executive Officer and our Principal Financial Officer have concluded that there have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2010, that have materially affected or is reasonably likely to affect materially, our internal control over financial reporting, except for the items noted below.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

Continuing global economic conditions could adversely affect our business.

The global economy and capital and credit markets have been experiencing exceptional turmoil and upheaval. Many major economies worldwide entered significant economic recessions in 2007 and continue to experience economic weakness even though economies have begun to show signs of recovery. Ongoing concerns about the systemic impact of potential long-term and widespread recession and potentially prolonged economic recovery, volatile energy costs, geopolitical issues, the availability, cost and terms of credit, consumer and business confidence, substantially increased and increasing unemployment rates and the crisis in the global housing and mortgage markets have all contributed to increased market volatility and diminished expectations for both established and emerging economies, including those in which we operate. In the second half of 2008, added concerns fueled by government interventions in financial systems led to increased market uncertainty and instability in both U.S. and international capital and credit markets. These conditions have contributed to economic uncertainty of unprecedented levels. The availability, cost and terms of credit also have been and may continue to be adversely affected by illiquid markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in many cases cease to provide, credit to businesses and consumers. These factors have led to a substantial and continuing decrease in spending by businesses and consumers over the past two years, and a corresponding decrease in global infrastructure spending. Continued turbulence in the U.S. and international markets and economies and prolonged declines in business and consumer spending may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers, including our ability to refinance maturing debt instruments and to access the capital markets and obtain capital lease financing to meet liquidity needs. This financial crisis may have an impact on our business and financial condition in the following ways as well as in other ways that we currently cannot predict.

- *Potential risk in refinancing outstanding debts*: Although none of our major debt instruments are scheduled to mature before 2013, at the earliest, if the volatility in the global capital markets were to continue, our ability to refinance our existing indebtedness when due could be severely constrained. See "—Risks Associated with Our Liquidity Needs and Debt Securities." Any such refinancing could require significantly more expensive interest rates and covenants that restrict our operations to a significantly greater extent.
- *Negative impacts from increased financial pressures on customers*: Uncertainty about current and future global economic conditions and credit markets may cause consumers, business and governments

to defer purchases in response to tighter credit, decreased availability of cash and credit, and declining business and consumer confidence, any of which may affect the usage of our services by the customers and the ability of those customers to pay for our services. Accordingly, future demand for our products and services could differ from our current expectations. Similarly, our customers may experience liquidity issues of their own that adversely affect our ability to collect amounts due from them in a timely fashion or at all. In addition, if the global economy and credit markets continue to deteriorate or cease to recover and our future net revenues decline, our financial condition and results of operations would be adversely impacted.

Strengthening of the United States Dollar ("USD") against certain foreign currencies reduces the amount of USDs generated from foreign currency payments from our foreign operating subsidiaries and may adversely affect our results of operations and our ability to service our debt.

A significant portion of our net revenue (approximately 85% for the quarter ended June 30, 2010) is derived from sales and operations outside the U.S. The reporting currency for our consolidated financial statements is the USD. Our foreign operating subsidiaries, including our largest operating subsidiaries in Canada and Australia, generates cash in their respective local currencies and fluctuations in exchange rates can have a material adverse impact on amounts of USDs transferred to U.S. parent entities. In the future, we expect to continue to derive a significant portion of our net revenue (which is a substantial source for servicing our significant debt obligations at the parent entity level, as well as a source for making principal payments) and incur a significant portion of our operating costs outside the U.S.

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

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

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

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

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

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

- Australia: Telstra Corporation Limited ("Telstra"), SingTel Optus Pty Limited, Telecom New Zealand Limited, iiNet Limited, SP Telemedia Limited (known as TPG), Macquarie Telecom Group Ltd. and other smaller national and regional service providers and resellers.; and
- Canada: TELUS Corporation ("TELUS"), BCE Inc. ("Bell Canada"), MTS Allstream, Inc., Saskatchewan Telecommunications, wireless providers, including Rogers Communications Inc. ("Rogers"), TELUS, Bell Canada, Bragg Communications Inc., COGECO Inc., Quebecor Inc. and Shaw Communications, Inc., cable companies, and other service providers and resellers including Globalive Communications Corp. in Canada.

Customers frequently change local, long-distance, wireless, broadband providers, and ISPs in response to the offering of lower rates or promotional incentives, increasingly as a result of bundling of various services by competitors. Moreover, competitors' VoIP and broadband product rollouts have added further customer choice and pricing pressure. As a result, customers generally can switch carriers and service offerings at their discretion with little notice to us. Competition in all of our markets is likely to remain intense, or increase in intensity and, as deregulatory influences affect markets outside the U.S., competition in non-U.S. markets is increasing to a level similar to the intense competition in the U.S.

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

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

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

We have accelerated initiatives to become an integrated wireline, wireless and broadband service provider in order to counter competitive pricing pressures initiated by large incumbent providers in certain of the principal markets where we operate and to stem the loss of certain of our wireline voice and dial-up ISP customers to our competitors' bundled wireline, wireless and broadband service offerings. Our primary competitors include incumbent telecommunications providers, cable companies and other ISPs that have a significant national or international presence. Many of these operators have substantially greater resources, capital and operational experience than we do. We are experiencing increased competition from traditional telecommunications carriers, cable companies and other new entrants that have expanded into the market for broadband, VoIP, Internet services, data and hosting and traditional voice services. In addition, regulatory developments may impair our ability to compete. Therefore, future operations involving these individual or bundled services may not succeed in the competitive environment, and we (1) may not be able to expand successfully; (2) may experience margin pressure; (3) may face quarterly revenue and operating results variability; (4) may have limited resources to develop and to market the new services; and (5) have heightened difficulty in establishing future revenues or results. As a result, there can be no assurance that we will reverse revenue declines in our traditional long-distance voice and dial-up ISP services or maintain or increase revenues or be able to generate sufficient income from operations or net income in the future or on any predictable or timely basis.

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

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

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

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

As of July 1, 2009, Predecessor had an accumulated deficit of $1.06 billion. Predecessor incurred net losses of $10.6 million in 2004, $149.2 million in 2005, $238.0 million in 2006 and $25.0 million in 2008. During the year ended December 31, 2007, Predecessor recognized net income of $15.7 million, of which $32.7 million of revenue was related to the positive impact of foreign currency transaction gains, and during the Successor’s six-month period ended December 31 2009, Successor recognized net income of $6.7 million, of which $18.3 million was related to the positive impact of foreign currency transaction gains. For the first six months of 2010, Successor incurred net losses of $14.0 million. Even with the elimination of our significant accumulated deficit and the reduction in indebtedness through our recent reorganization under Chapter 11, future losses may continue. We cannot make assurances that we will recognize net income in future periods. If we cannot generate net income or sufficient operating profitability, we may not be able to meet our debt service or working capital requirements.

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

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

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

We have significant international operations and, for the three months ended June 30, 2010, derived approximately 85% of our net revenues by providing services outside of the U.S. In international markets, we are smaller than the principal or incumbent telecommunications carrier that operates in each of the foreign jurisdictions where we operate. In these markets, incumbent carriers: (1) are likely to modify and/or control access to, and pricing of, the local networks; (2) enjoy better brand recognition and brand and customer loyalty; (3) generally offer a wider range of product and services; and (4) have significant operational economies of scale, including a larger backbone network and longer term customer and supplier agreements on preferred and better terms. Moreover, the incumbent carrier may take many months to allow competitors, including us, to interconnect to their switches within our territory, and we are dependent upon their cooperation in migrating customers onto our network. There can be no assurance that we will be able to: (1) obtain the permits and operating licenses required for us to operate in the new service areas; (2) obtain access to local transmission facilities on economically acceptable terms; or (3) market services in international markets.

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

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

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

The rapid enhancement of VoIP and Internet technology may result in increasing levels of traditional domestic and international voice long-distance traffic being transmitted over the Internet, as opposed to traditional telecommunication networks. Currently, there are significant capital investment savings and cost savings associated with carrying voice traffic employing VoIP technology, as compared to carrying calls over traditional networks. Thus, there exists the possibility that the price of traditional long-distance voice services will decrease in order to be competitive with VoIP. Additionally, competition is expected to be intense to switch customers to VoIP product offerings, as is evidenced by numerous recent market announcements in the U.S. and internationally from industry leaders and competitive carriers concerning significant VoIP initiatives. Our ability effectively to retain our existing customer base and generate new customers, either through our traditional network or our own VoIP offerings, may be adversely affected by accelerated competition arising as a result of VoIP initiatives, as well as regulatory developments that may impede our ability to compete, such as restrictions on access to broadband networks owned and operated by others and the requirements to provide enhanced 911 emergency services ("E911"). As competition intensifies as a result of deregulatory, market or technological developments, our results of operations and financial condition could be adversely affected.

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

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

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

Our ability to compete depends, in part, on our ability to use intellectual property in the U.S. and internationally. We rely on a combination of trade secrets, trademarks and licenses to protect our intellectual property. We are also subject to the risks of claims and litigation alleging infringement of the intellectual property rights of others. The telecommunications industry is subject to frequent litigation regarding patent and other intellectual property rights. We rely upon certain technology, including hardware and software, licensed from third parties. There can be no assurance that the technology licensed by us will continue to provide competitive features and functionality or that licenses for technology currently used by us or other technology that we may seek to license in the future will be available to us on commercially reasonable terms or at all. Although our existing intellectual property licenses are on standard commercial terms made generally available by the companies providing the licenses and, individually, their costs and terms are not material to our business, the loss of, or our inability to maintain existing licenses, could result in shipment delays or reductions until equivalent technology or suitable alternative products could be developed, identified, licensed and integrated and could cause service disruption to our customers. Such delays or reductions in the aggregate could harm our business. We also generally rely on indemnification provisions in licensing contracts to protect against claims of infringement regarding the licensed technology, which indemnification could be affected by, among other things, the financial strength of the licensor.

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

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

RISKS ASSOCIATED WITH OUR FINANCIAL STATEMENTS

Our disclosure controls and procedures and internal control over financial reporting were determined not to be effective as of December 31, 2006, 2007 and 2008 (due to a material weakness that existed in our internal control over accounting for income taxes) and, as of December 31, 2009 and June 30, 2010, (due to a material weakness that existed in our internal control over accounting for foreign currency transaction gain (loss)). If we fail to maintain effective internal control over financial reporting at a reasonable assurance level, we may not be able to accurately report our financial results, which could have a material adverse effect on our operations, investor confidence in our business and the trading prices of our securities.

Effective internal controls are necessary for us to provide reliable financial reports. In evaluating the effectiveness of our internal control over financial reporting, our management identified as of December 31, 2006, 2007 and 2008 a control deficiency in our controls and procedures over accounting for income taxes and, as of December 31, 2009 and June 30, 2010, a control deficiency over accounting for foreign currency transaction gain (loss), and management concluded in each case that the control deficiency in our internal controls over financial reporting constituted a material weakness. These deficiencies represented a material weakness in internal control over financial reporting on the basis that there is more than a remote likelihood that a material misstatement in our interim or annual financial statements could occur and would not be prevented or detected by our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis.

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

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

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

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

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

RISKS ASSOCIATED WITH OUR LIQUIDITY NEEDS AND DEBT SECURITIES

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

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

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

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

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

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

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

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

The scheduled maturity of the 14 1/4% Notes is earlier than the scheduled maturity of the 13% Notes. While we expect to refinance the 14 1/4% Notes, we may not be able to do so or refinancing may not be available on commercially reasonable terms. Our ability to complete a refinancing of the 14 1/4% Notes prior to their maturity is subject to a number of conditions beyond our control. For example, if disruption in the financial markets were to occur at the time that we intended to refinance the 14 1/4% Notes, we might be restricted in our ability to refinance that indebtedness. If we are unable to refinance the 14 1/4% Notes our alternatives would consist of negotiating an extension of such indebtedness with the holders and seeking or raising new capital. If we were unsuccessful, the holders of the 14 1/4% Notes could demand repayment of the indebtedness owed to them on May 20, 2013. As a result, our ability to pay the principal of and interest on such indebtedness would be adversely affected.

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

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

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

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

- incur additional indebtedness or issue certain preferred shares;
- create liens on certain assets to secure debt;
- pay dividends or make other equity distributions;
- purchase or redeem capital stock;
- make certain investments;
- transfer or sell assets;
- agree to restrictions on the ability of restricted subsidiaries to make payments to us or the issuers;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our or an issuer’s assets; and
- engage in transactions with affiliates.

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

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

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

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

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

ADDITIONAL RISKS RELATED TO REGULATION

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

Our operations are subject to constantly changing regulation. There can be no assurance that future regulatory changes will not have a material adverse effect on us, or that domestic, foreign or international regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations, any of which could have a material adverse effect upon our competitive position, growth and financial performance. As a multinational telecommunications company, we are subject to varying degrees of regulation in each of the jurisdictions in which we provide our services. Local laws and regulations, and the interpretation of such laws and regulations, differ significantly among the jurisdictions in which we operate. Enforcement and interpretations of these laws and regulations can be unpredictable and are often subject to the informal views of government officials. Potential future regulatory, judicial, legislative, and government policy changes in jurisdictions where we operate could have a material adverse effect on us. Many regulatory actions are underway or are being contemplated by governmental agencies. For example, in connection with the promulgation of the "National Broadband Plan" announced in March 2010, in April 2010 the Federal Communications Commission ("FCC") stated its intention to initiate dozens of new proceedings to impose new requirements, or modify existing requirements, affecting essentially all entities involved in the provision of communications services. It is impossible to predict at this time what specific rules or requirements the FCC will propose or adopt, or how any such rules or requirements would affect our business or financial results.

In the U.S., the Communications Act of 1934, as amended (the "Communications Act"), and associated FCC regulations, require that every provider of interstate telecommunications carrier contribute, on an equitable and non-discriminatory basis, to federal universal service mechanisms established by the FCC, which affects our cost of providing services. At present, these contributions are calculated based on contributors' interstate and international revenue derived from U.S. end users for telecommunications or telecommunications services, as those terms are defined under FCC regulations. On April 21, 2010, the FCC issued certain specific new proposals regarding contributions to the universal service fund that, if adopted, could materially affect our own contributions to the fund. These new proposals would affect most of our competitors, but not all of our competitors would be affected in the same way or to the same degree as we would be. The FCC has also announced its intention to propose new rules regarding the universal service program during the fourth quarter of calendar year 2010. It is impossible to predict the impact of these new proposals, if adopted, on our operations and financial results. In addition, AT&T Inc. filed a “Petition for Immediate Commission Action” on July 10, 2009, requesting that the FCC adopt a new mechanism for calculating federal universal service fund contribution that would be applicable to all contributors, including us. The specific proposal, which has been pending at the FCC for some time, is to determine contributions to the Universal Service Fund (“USF”) based on “assessable telephone numbers” rather than interstate and international revenues. This AT&T proposal remains pending. We cannot predict whether the FCC will adopt this or some other contribution methodology, nor can we predict the potential impact on our business at this time. But a revised contribution methodology could increase our contribution obligation, including increasing our contribution disproportionately compared to some of our competitors. In such event, we may need to either raise the total amount of our consumer’s bills, potentially making us less competitive with other providers of communications services, or reduce our profit margins.

In June 2010, the FCC adopted a Notice of Inquiry in which it proposed to assert regulatory authority over wired broadband Internet connectivity and to treat such service as a telecommunications service under Title II of the Communications Act. Such action, if taken by the Commission, might have regulatory implications for VoIP services, although we cannot predict what those implications might be at this time.

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

- Rules with respect to the use of customer proprietary network information (“CPNI”) requiring VoIP providers to adhere to particular customer approval processes when using CPNI outside of pre-defined limits and when using CPNI for marketing purposes, and requiring VoIP providers to take certain steps to verify a customer’s identity before releasing any CPNI over the telephone or the Internet, and to report unauthorized disclosures of CPNI. In April 2010, the FCC adopted a Notice of Inquiry regarding the possible establishment of a voluntary “cyber security” certification program. At present it is not possible to predict whether any new formal or informal requirements will arise from this proceeding or how any such requirements might affect our business.
- The disability access requirements of Sections 225 and 255 of the Communications Act, which have been interpreted by the FCC to require interconnected VoIP providers to contribute to the telecommunications relay services fund and offer 711 abbreviated dialing access to relay services, and to ensure that VoIP services are accessible to persons with disabilities, if reasonably achievable. In April 2010 the FCC announced plans to adopt, during the third quarter of 2010, a further order with respect to hearing aid compatibility requirements applicable to various services. We cannot predict at this time what new requirements the FCC will establish, if any, or how any such new requirements may affect us.
- Rules requiring VoIP providers to configure VoIP networks in a manner that facilitates lawful surveillance under CALEA.

- Rules requiring VoIP providers to permit customers to retain their assigned telephone numbers when changing carriers including newly established requirements to process customer carrier changes on an expedited basis.
- Rules requiring VoIP providers to provide access to E911 emergency services on terms generally similar to those provided by traditional landline carriers. In April 2010 the FCC adopted a Notice of Inquiry regarding the survivability of broadband infrastructure, including in the case of damage due to natural or human-caused disasters or public emergencies. In addition, also in April 2010 the FCC announced its intention to initiate, during the fourth quarter of calendar year 2010, a Notice of Inquiry regarding “Next Generation 911” service. It is uncertain whether the FCC will adopt specific requirements arising from these proceedings or, if it does, how and whether any such requirements will affect us.
- Rules requiring VoIP providers to pay regulatory fees based on reported interstate and international revenues, including universal service fees.

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

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

Proposed future U.S. federal income tax legislation could impact the Company’s effective tax rate.

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

The applicability of changes in tax policy to our services will increase their cost to consumers thereby decreasing our competitive price advantage over the competing alternatives available to the customer. Further, we may be subject to liabilities for past taxes, surcharges, fees, penalties and interest.

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

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

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

- ongoing regulatory proceedings regarding efforts by Telstra in Australia to increase prices and charges and to deny access to essential facilities and services needed by us to compete;
- the ultimate outcome of the process launched by the Australian government to help fund the construction of a new national broadband network, including whether and the terms upon which (a) we will have access to such network, and (b) the duration for which the copper wire based last mile infrastructure we use to furnish broadband services using our DSLAM network infrastructure will be continued;
- a regulatory reform package recently announced by the Australian government that, if enacted, will (a) separate Telstra's retail arm from its wholesale business (via either functional or structural separation); and (b) provide the ACCC with greater powers to set access prices;
- general changes in access charges and contribution payments could adversely affect our cost of providing long-distance, wireless, broadband, VoIP, local and other services; and
- regulatory proceedings in Canada determining whether and the extent to which regulation should mandate access to networks and interconnection including intra-exchange transport services which we use to interconnect our DSLAM collocation sites and high speed access to residential and business services.

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

We may be exposed to significant liability resulting from our noncompliance with FCC orders regarding E911 services.

FCC rules require VoIP providers interconnected to the public switched telephone network to provide E911 service in a manner similar to traditional wireline carriers. This requirement took effect as of November 2005. Like many interconnected VoIP providers, Lingo, Inc. ("Lingo"), a subsidiary of ours which sells such services, was able to meet this deadline for some but not all of its customers. We sought a waiver from the FCC asking for additional time to complete deploying our E911 service. The FCC has not yet addressed our waiver petition. As of June 30, 2010, approximately 99% of our Lingo customers were equipped with E911 service as required by the FCC's rules. If and to the extent that we are determined to be out of compliance with the FCC order regarding E911 services we may be subject to fines, penalties, cease and desist orders prohibiting Lingo from providing service on the federal and state levels or any combination of the foregoing.

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

Lingo's current E911 services are more limited than the 911 services offered by traditional wireline telephone companies. These limitations may cause significant delays, or even failures, in callers' receipt of emergency assistance. Despite the fact that we have notified our customers and received affirmative acknowledgement from substantially all of our customers that they understand the differences between the access Lingo provides to emergency services as compared to those available through traditional wireline telephony providers, affected parties may attempt to hold us responsible for any loss, damage, personal injury or death suffered as a result of certain failures to comply with the FCC mandated E911 service for interconnected VoIP providers. Our resulting liability could be significant.

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

In July 2008, the "New and Emerging Technologies 911 Improvement Act of 2008" was signed into law. Previously, interconnected VoIP providers, like us, did not have the same protection from potential liability as applied wireline or wireless 911 emergency calling services. This law provides public safety entities, interconnected VoIP providers and others involved in handling 911 calls the same liability protections when handling 911 calls from interconnected VoIP users as from mobile or wired telephone service users. In October 2008, the FCC issued regulations implementing the provisions of the new law that require other entities involved in the provision of E911 services to make the technical capabilities used in such services available to VoIP providers, like us, on reasonable terms. The applicability of the liability protection to 911 calling services that do not conform to the FCC's rules is unclear. Additionally, any liability associated with 911 call placement and handling prior to the enactment of this new law would not be covered. Therefore, while this law provides significant liability protection to interconnected VoIP providers such as us, we may still face significant and material liability with respect to any past, present or future failures of our E911 service to function properly.

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

The rates we pay to interconnected telecommunications carriers in the U.S. may increase, which may reduce our profitability or increase the retail price of our service.

The FCC is considering reform of the methodology that regulated telecommunications carriers use to determine the appropriate payments for the exchange of traffic that is necessary to complete telephone calls to the traditional telephone network. In April 2010 the FCC announced its intention to issue a ruling, during the third quarter of calendar year 2010, clarifying network operators' interconnection obligations. The FCC also announced its intention to issue, during the fourth quarter of calendar year 2010, proposed new rules governing the payments carriers make and receive in connection with the exchange of telecommunications traffic. The result of these actions, as well as any action the FCC may take in currently pending proceedings bearing on these issues, may be an increase in the rates we pay to such carriers to send traffic to or receive traffic from the traditional telephone network, which would increase our costs. Such a cost increase may result in us increasing the retail price of our service, which may make us less competitive in the communications marketplace, or may reduce our profitability. We cannot predict the outcome of this proceeding.

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

In 2008, the FCC clarified that interconnected VoIP providers, such as us, are subject to its rules regarding transferring the telephone numbers of customers that choose to obtain service from other providers, including both interconnected VoIP providers and traditional carriers. In 2009, the FCC released an order that reduces the amount of time within which voice service providers must transfer a telephone number to a new provider. To comply with these new rules, we will likely have to implement new procedures and may have to increase staffing levels. Should this occur, we may need to increase the price of our retail service offering, which may make us less competitive with other providers of communications services or reduce our profitability. Should we not be able to comply with the order, we may be subject to fines, penalties, or cease and desist orders. At this time, we cannot accurately predict the full impact of this order on our business, as the industry is still developing the technical standards that will govern the new expedited number transfer procedures.

The FCC or federal courts may allow states in the U.S. to subject our service to state universal service fund obligations.

Several states have attempted to require nomadic interconnected VoIP providers to contribute to state universal service funds. One state, Nebraska, engaged in litigation with a provider of interconnected VoIP services similar to ours. The U.S. District Court for Nebraska issued a preliminary injunction on March 3, 2008, finding that the Nebraska Public Service Commission did not have jurisdiction to require universal service fund contributions from nomadic interconnected VoIP providers. A panel of the U.S. Circuit Court of Appeals for the Eighth Circuit affirmed the U.S. District court ruling on May 1, 2009. Subsequently, the Nebraska Public Service Commission requested a rehearing that the Court denied on June 5, 2009. On the basis of this litigation, we do not believe that existing law allows states to subject us to state universal service fund contribution obligations.

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

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

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

We must comply with Section 114 of the Fair and Accurate Credit Transactions Act of 2003 ("FACTA") and rules of the Federal Trade Commission ("FTC") that require "creditors" to develop and effectuate written internal programs to detect, prevent, and mitigate identity theft in connection with their accounts. The rules are scheduled to become effective on December 31, 2010, and we likely would be deemed to be a "creditor" as defined in the FACTA. We are taking steps to ensure compliance with the FTC's rules, but if and to the extent that we are determined to be out of compliance with the rules we may be subject to fines, penalties, compliance orders or any combination of the foregoing.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits (see index)

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SIGNATURES

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

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

Date: August 16, 2010	By:	/S/ THOMAS R. KLOSTER **Thomas R. Kloster** **Chief Financial Officer (Principal Financial Officer)**
Date: August 16, 2010	By:	/S/ JAMES C. KEELEY **James C. Keeley** **Vice President – Corporate Controller (Principal Accounting Officer)**

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EXHIBIT INDEX

Exhibit Number	Description
31	Certifications.
32*	Certifications.
99.1	Corporate Governance Guidelines of Primus Telecommunications Group, Incorporated
99.2	Nominating and Governance Committee Charter of Primus Telecommunications Group, Incorporated

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

Exhibit 31

CERTIFICATIONS

I, K. Paul Singh, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Primus Telecommunications Group, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15f) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: August 16, 2010	By:	/s/ K. PAUL SINGH
	Name:	**K. Paul Singh**
	Title:	**Chairman, President and Chief Executive Officer (Principal Executive Officer) and Director**

CERTIFICATIONS

I, Thomas R. Kloster, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Primus Telecommunications Group, Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15f) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: August 16, 2010	By:	/S/ THOMAS R. KLOSTER
	Name:	**Thomas R. Kloster**
	Title:	**Chief Financial Officer** **(Principal Financial Officer)**

Exhibit 32

CERTIFICATION

Pursuant to Section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002 (18 U.S.C. § 1350, as adopted), K. Paul Singh, the Chief Executive Officer of Primus Telecommunications Group, Incorporated (the "Company"), and Thomas R. Kloster, the Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2010, to which this Certification is attached as Exhibit 32 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Periodic Report and results of operations of the Company for the period covered by the Periodic Report.

Dated: August 16, 2010

/S/ K. PAUL SINGH	/S/ THOMAS R. KLOSTER
K. Paul Singh	**Thomas R. Kloster**
Chairman, President and Chief Executive Officer	**Chief Financial Officer**
(Principal Executive Officer) and Director	**(Principal Financial Officer)**

Exhibit 99.1

CORPORATE GOVERNANCE GUIDELINES OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

BOARD MISSION AND OBJECTIVES

Board Mission Statement. The primary mission of the Board of Directors of Primus Telecommunications Group, Incorporated (the "Company") is to enable the Company to provide superior telecommunications and customer services, adhere to the laws of the jurisdictions where it operates, maintain high ethical standards, and thereby build long-term value for its stockholders. Upon recommendation of the Nominating and Governance Committee, the Board of Directors has adopted these Corporate Governance Guidelines.

Corporate Authority and Responsibility. The business and affairs of the Company shall be managed under the direction of the Board of Directors. The Board of Directors may exercise that authority through delegation to committees of the Board of Directors and through the delegation of authority to the Company's management, all in accordance with applicable law and the Certificate of Incorporation and By-laws of the Company. The Board of Directors shall provide advice and counsel to management of the Company in carrying out management's delegated responsibilities.

GENERAL PRINCIPLES

Expectations for Directors. Each member of the Board of Directors of the Company shall:

- Dedicate sufficient time, energy and attention to ensure the diligent performance of his or her duties;
- Comply with the duties and responsibilities set forth herein and in the By-laws of the Company;
- Exercise business judgment and act with loyalty and care and in conformity with governing law in such manner that each Director believes to be in the best interests of the Company and its stockholders; and
- Adhere to the Company's Code of Business Conduct and policies adopted by the Board, including, but not limited to, the policies on conflicts of interest expressed therein.

Financial Literacy. Members of the Board of Directors should know how to read and understand fundamental financial statements and understand the use of financial information in evaluating the financial and operating performance of the Company.

Character of the Members of the Board of Directors. Members of the Board of Directors should be persons of good character and thus should possess all of the following personal characteristics:

- Integrity: Directors should demonstrate high ethical standards and integrity in their personal and professional dealings;
- Accountability: Directors should be willing to be accountable for their decisions as Directors;
- Judgment: Directors should possess the ability to provide wise and thoughtful counsel on a broad range of issues;
- Responsibility: Directors should interact with each other in a manner which encourages responsible, open, challenging and inspired discussion; and
- High Performance Standards: Directors should have a history of achievements which reflects high standards for themselves and others.

BOARD OF DIRECTORS COMPOSITION AND SELECTION; INDEPENDENT DIRECTORS

Board of Directors Size. The Board of Directors of the Company shall, in accordance with the By-laws of the Company, determine the size of the Board of Directors which is optimal to allow the Board of Directors to operate effectively, to accomplish its goals and to fulfill its responsibilities. The Board of Directors of the Company believes that, under current circumstances, the size of the Board of Directors should generally be between three (3) and seven (7) members.

Selection of Members of the Board of Directors. The Board of Directors shall be elected in the manner provided in the By-laws of the Company. The Nominating and Governance Committee shall identify, and recommend to the Board of Directors, candidates who are qualified to become members of the Board of Directors in accordance with the policies and principles set forth in the Committee's Charter, the By-laws of the Company, the Certificate of Incorporation of the Company and these guidelines.

Annual Meeting of Stockholders. The Board of Directors shall select, from among the candidates identified and recommended by the Nominating and Governance Committee, the slate of nominees as candidates for election to the Board of Directors at each annual meeting of the Company's stockholders in accordance with the By-laws. In accordance with the provisions of its Charter, the Nominating and Governance Committee shall consider candidates recommended by stockholders in accordance with applicable law, rule or regulation. Candidate nominations may be sent to the Company, to the attention of the Corporate Secretary.

Vacancies/New Positions. The Board of Directors may fill vacancies on the Board of Directors and newly-created positions on the Board of Directors resulting from any increase in the authorized number of Directors in the manner provided in the By-laws of the Company. Should the Board of Directors choose to fill such vacancies or newly-created positions, the Board of Directors shall select such Directors from among the candidates identified and recommended by the Nominating and Governance Committee.

BOARD OF DIRECTORS MEMBERSHIP CRITERIA

(a) The Nominating and Governance Committee shall assist the Board of Directors in determining the appropriate characteristics, skills and experience for the individual members of the Board of Directors and the Board of Directors as a whole.

(b) In evaluating the suitability of individual candidates and nominees, the Nominating Committee and the Board of Directors shall consider relevant factors, including, but not limited to:

- A general understanding of marketing, finance, corporate strategy and other elements relevant to the operation of a publicly-traded company in today's business environment;
- An understanding of the Company's business;
- Educational and professional background and experience; and
- Character.

(c) The Nominating and Governance Committee and the Board of Directors shall evaluate each individual candidate and nominee in the context of the Board of Directors as a whole, with the objective of recommending a slate of nominees who can best oversee the management of the business and represent stockholder interests through the exercise of sound judgment using their diversity of experience in these relevant areas.

(d) In determining whether to recommend a member of the Board of Directors for re-election, the

Nominating and Governance Committee and the Board of Directors also shall consider such member's past attendance at meetings and participation in, and contributions to, the activities and deliberations of the Board of Directors.

Board of Directors Composition. The majority of the members of the Board of Directors must be "independent," as determined by the Board of Directors, which shall include an affirmative determination that each "independent" member of the Board of Directors has no material relationship with the Company (either directly or as a partner, significant shareholder or officer of an organization that has a relationship with the Company). This will not, however, prevent the Board of Directors from taking valid actions if, in accordance with the By-laws of the Company, there are fewer than the intended proportion of "independent" members of the Board of Directors. For purposes of these guidelines, a member of the Board of Directors may be considered independent if such member has not been employed by the Company or a subsidiary within the last three (3) years (other than as interim Chairman of the Board of Directors or interim Chief Executive Officer) and:

- Does not have an immediate family member that has been employed by the Company as an executive officer within the last three (3) years;
- Has not received more than $60,000 in direct compensation from the Company within the last fiscal year other than for services as a member of the Board of Directors, interim Chairman of the Board of Directors or interim Chief Executive Officer;
- Is not, and has not been within the last three (3) years, an executive officer or an employee of a significant customer or supplier of the Company;
- Is not, and has not been within the last three (3) years, affiliated with or employed by the Company's present or former internal or external auditor;
- Is not affiliated with any not-for-profit entity which, in the business judgment of the Board of Directors, receives significant contributions from the Company;
- Is not employed as an executive officer of a public company at which an executive officer of the Company serves as a member of such public company's board of directors;
- Has not had any of the relationships described above with any affiliate of the Company;
- Is not a member of the immediate family of any individual, or have an immediate family member, with any of the relationships described in the bulleted paragraphs above; and
- Has no other material relationship which, in the business judgment of the Board of Directors, would impair his or her ability to exercise independent judgment.

For the purposes of these guidelines, an "immediate family member" shall include a person's spouse, parents, children, siblings, mother-in-law, father-in-law, brother-in-law, sister-in-law, son-in-law, daughter-in-law, and anyone who resides in such person's home.

Notwithstanding the foregoing, each member of the Board of Directors must meet any mandatory qualifications for membership on the Board of Directors, and the Board of Directors, as a whole, must meet the minimum "independence" requirements, imposed by any exchange or market on which the Company's common stock is listed (the "Exchange") and any other laws and regulations applicable to the Company. Each member of the Board of Directors shall promptly advise the Chairman of the Board and the Chairman of the Nominating and Governance Committee of any matters which, at any time, may affect such member's qualifications for membership under the criteria imposed by the Exchange, any other laws and regulations or these guidelines, including, but not limited to, such member's "independence."

Impairment of Independence. Each "independent" member of the Board of Directors shall promptly notify the Chairman of the Board of Directors and the Chairman of the Nominating and Governance Committee if any actual or potential conflict of interest arises between such member and the Company which may impair such member's independence. If a conflict exists and cannot be resolved such member should submit to the Board of Directors written notification of such conflict of interest and an offer of resignation from the Board of Directors and each of the committees on which such member serves. The Board of Directors need not accept such offer of resignation; however, the submission of such offer of resignation provides the opportunity for the Board of Directors to review the appropriateness of the continuation of such individual's membership on the Board of Directors. In some cases, it may be appropriate for such member to be replaced as a member of one or more of the committees on which he or she serves but be retained as a member of the Board of Directors.

Related-Party Transactions. The Board of Directors shall consider, in consultation with the Nominating and Governance Committee, whether a transaction between a member of the Board of Directors and the Company presents any inappropriate conflict of interest and/or impairs the "independence" of any member of the Board of Directors.

New Directors and Continuing Education. Within a reasonable period after election or appointment to the Board of Directors, each new member of the Board of Directors shall commence participation in an orientation program in which such new member will visit facilities representing the Company's business lines and will have the opportunity to meet with corporate department heads, which orientation program shall be completed within a reasonable period of time after election or appointment. In addition, the management of the Company shall provide new members of the Board of Directors with materials, briefings and educational opportunities to permit them to become familiar with the Company and to enable them to better perform their duties. In addition, from time to time on a continuing basis, all members of the Board of Directors shall receive additional materials, briefings and educational opportunities to enable them to remain current with matters within their purview.

Limitations on Service.

(a) The Board of Directors acknowledges that significant time is required to be a fully participating and effective member of the Board of Directors; therefore, the Board of Directors believes that:

- Members of the Company's management (other than the Chief Executive Officer) should not hold more than one (1) directorships of a public company other than the Company unless approved by the Nominating and Corporate Governance Committee of the Board of Directors of the Company;
- The Chief Executive Officer should not hold more than one (1) directorship of a for-profit company other than the Company unless approved by the Nominating and Governance Committee of the Board of Directors of the Company;
- No member of the Board of Directors who is employed by a public company other than the Company on a full-time basis should hold more than two (2) directorships of public companies other than the Company;
- No member of the Board of Directors should hold more than five (5) directorships of public companies (not including subsidiaries of such public companies) other than the Company; and
- No member of the Audit Committee should serve on the audit committee of more than two (2) public companies unless approved by the Nominating and Governance Committee of the Board of Directors of the Company.

(b) The Board of Directors does not believe that its members should be prohibited from serving on boards of directors and/or committees of not-for-profit entities or organizations, and the Board of Directors has not adopted any guidelines limiting such activities; provided, however, that each member of the Board of Directors is responsible for ensuring that the time required by such activities is not detrimental to such member's ability to fulfill the duties and responsibilities of membership on the Board of Directors. The Nominating and Governance Committee and the Board of Directors, however, will take into account the nature of, and time involved in, the service of a member of the Board of Directors to other entities and organizations in evaluating the suitability of individual members for service on the Board of Directors.

Notwithstanding the foregoing, any service to other entities and organizations shall be consistent with the Company's conflict of interest policies, as expressed in the Code of Business Conduct, and all laws, rules and regulations applicable to the Company, including those of the Exchange and the Securities and Exchange Commission.

(c) Members of the Company's management should obtain the approval of the Board of Directors, in consultation with the Nominating and Governance Committee, prior to accepting a new directorship of a public company. In considering whether to grant such approval, the Board of Directors and the Nominating and Governance Committee shall examine the proposed relationship for potential conflicts of interest and adherence to these Guidelines.

(d) Members of the Board of Directors should notify the Nominating and Governance Committee prior to accepting a new directorship of a public company in order that the Nominating and Governance Committee, together with the Board of Directors, may examine the proposed relationship for potential conflicts of interest and adherence to these Guidelines.

(e) The Board of Directors believes it is in the best interest of the Company to create an annual review process for the Board of Directors and its committees. Such annual review process will provide individual members with an opportunity to assess the current performance of the Board of Directors and committees and areas for potential improvement. Individual members of the Board of Directors are expected to use these reviews to assess their continuing roles on the Board of Directors.

(f) Subject to the Company's By-laws for exceptions, going forward, members of the Company's management serving on the Board of Directors who cease to serve as a member of the Company's management shall offer his or her resignation from the Board of Directors effective with the last date of employment. The Board of Directors need not accept such offer of resignation; however, generally, a member of the Company's management shall not continue to serve as a member of the Board of Directors following such cessation of employment.

(g) A member of the Board of Directors may not stand for election after age seventy-five (75) but need not resign until the end of his or her current term; however, the Board of Directors may, in its discretion, ask such a member of the Board of Directors, if willing, to stand for election if the Board of Directors believes that such member of the Board of Directors will make significant contributions to the work of the Board of Directors.

(h) A member of the Board of Directors may not stand for election after serving on the Board of Directors for ten (10) years; however, the Board of Directors may, in its discretion, ask such member of the Board of Directors, if willing, to stand for election if the Board of Directors believes that such member of the Board of Directors will make significant contributions to the work of the Board of Directors.

<u>Removal of Directors</u>. Members of the Board of Directors will resign from the Board of Directors upon the occurrence of any of the following events:

a) Being indicted for, pleading guilty to or being found guilty of any felony or violating any state or federal securities laws;

b) Admitting liability, or being found to have liability, for committing an act of fraud, embezzlement, misappropriation or breach of fiduciary duty.

The Board of Directors may, in its discretion, refuse to accept such resignation if the Board of Directors believes that such member of the Board of Directors will make significant contributions to the work of the Board of Directors.

<u>Conflicts of Interest</u>. Members of the Board of Directors must recuse themselves from any discussion or

decision that affects their personal, business or professional interest. The non-interested members of the Board of Directors shall consider and resolve any issues involving conflicts of interest of members of the Board of Directors.

Equity Ownership by Directors. Members of the Board of Directors are strongly encouraged to have equity ownership in the Company. In general, it is expected that within three (3) years after initial election or appointment to the Board of Directors, each member of the Board of Directors should own a minimum of $100,000 in common stock of the Company as of December 31st of each year (with such value to be determined as the higher of (i) the market value on December 31st of each year or (ii) the cost of the common stock at the time of purchase or vesting.) The Company shall take all necessary steps to facilitate such ownership.

CHAIRMAN OF THE BOARD OF DIRECTORS

The Board of Directors shall, on at least an annual basis, select the Chairman of the Board of Directors from among the members of the Board of Directors. Such selection shall occur immediately following the annual meeting of stockholders. The Chairman of the Board of Directors shall be responsible for

- Setting the agenda for, and presiding over, meetings of the Board of Directors at which the Chairman of the Board is present;
- Coordinating the work of the committees of the Board of Directors;
- Overseeing the distribution of materials to the members of the Board of Directors; and
- Performing such other duties as the Board of Directors may from time to time delegate to assist the Board of Directors in the fulfillment of its duties.

In the event the Chairman of the Board of Directors is neither a non-executive nor “independent” director, the Board of Directors shall select another Director to serve as “Lead Independent Director” from among the members of the Board of Directors that are determined at that time by the Board of Directors to be “independent.” The Chairman of the Board of Directors may be removed as Chairman of the Board of Directors at any time by a majority of the members of the Board of Directors.

Resources of the Chairman of the Board. The Chairman of the Board of Directors will be provided adequate staff and resources, as determined by the Board of Directors, to discharge his or her duties.

Compensation of the Chairman of the Board and/or Lead Independent Executive. The Compensation Committee shall recommend, and the Board of Directors shall have the authority to approve, the compensation for an “independent” Chairman of the Board of Directors and/or Lead Independent Director, which compensation should reflect the commitment of time and energies necessary to discharge properly the duties of the Chairman of the Board of Directors and/or Lead Independent Director.

BOARD OF DIRECTORS MEETINGS

Board of Directors Meetings — Agenda. The Chairman of the Board of Directors will set the agenda for each meeting of the Board of Directors. In the event the Chairman of the Board of Directors is not present at a meeting, the “independent” members of the Board of Directors may select a member of the Board of Directors to preside at such meeting. In such event, such presiding member of the Board of Directors shall set the agenda for such meeting.

Each member of the Board of Directors is encouraged to suggest for inclusion on the agenda any items which such members feels bears consideration by the Board of Directors.

Number of Meetings. It is the objective of the Board of Directors to have at least four (4) regularly scheduled meetings each year. Additional unscheduled meetings of the Board of Directors may be called by the Chairman of the Board or a majority of the other members of the Board of Directors upon the giving of the notice required under the By-laws of the Company to address specific requirements or needs of the Company. The Board of Directors is encouraged to plan meetings such that the members of the Board of Directors may conveniently visit facilities of the Company in conjunction with such meetings.

Annual Planning Session. The Board of Directors will review the Company's long-term strategic plan and the principal issues facing the Company at a minimum of at least one (1) meeting per year.

Advance Distribution of Materials. All materials, information and data that is relevant to the understanding by the members of the Board of Directors of matters to be discussed at its meetings, where feasible, should be distributed, either electronically or in writing, to all members of the Board of Directors at least three (3) business days or five (5) calendar days in advance of the regularly scheduled meeting. Such materials, information and data shall be distributed in a manner that, considering the complexity of the materials, information and data, will provide each member of the Board of Directors with a reasonable opportunity to review the materials, information and data. It is acknowledged that, in some situations, exigent circumstances or the need to protect confidential and proprietary information may make it impracticable to provide information in advance of a meeting, in which case adequate time shall be provided at such meeting for review and discussion of information not provided in advance.

Access to Management and Independent Advisors.

(a) The Board of Directors, its committees and its members shall have access to any member of the management of the Company to discuss any subject that the Board of Directors, its committees or its members desires. Any meetings or contacts which the Board of Directors, its committees or its members desire to initiate with any member of the Company's management may be arranged through the Chief Executive Officer or notified for other arrangements by the CEO, its committees or its members. Any such contact should not be disruptive to the operations of the Company. The General Counsel will advise the Board of Directors on appropriate procedures for the conduct of meetings and on corporate governance matters, and all members of the Board of Directors shall have access to his or her advice and services. The members of the Board of Directors are encouraged to visit facilities of the Company in connection with meetings of the Board of Directors and otherwise.

(b)The Board of Directors and its committees may rely upon the advice of outside advisors and shall be protected in so relying to the extent provided by applicable law. The Board of Directors and each of its committees shall have the power and authority to engage outside advisers (including counsel) as they deem necessary or appropriate, without consulting, or obtaining the approval of, any members of the Company's management. The Company will be informed of the commitments entered into by the Board of Directors.

(c) Hiring of senior executives (officers or direct reports of the CEO) recommended by the CEO should have prior Board approvals before the position is offered.

(d) The Board of Directors must assess the qualifications of, and the processes employed by, those upon whom it relies and should hold such advisors accountable for their decisions and recommendations.

RESPONSIBILITIES OF BOARD OF DIRECTORS.

(a) Directors are expected to attend all regularly scheduled meetings and other meetings for which three calendar days advance notice is given, unless prevented by exigent circumstances, and to have, prior to the meetings, reviewed all materials, information and data distributed to them in advance. With respect to meetings for which three calendar days is not given, Directors are expected to use reasonable efforts to attend and participate in such meetings.

(b) Directors are expected to understand, and comply with, all the duties of care, loyalty and confidentiality applicable to Directors.

EXECUTIVE SESSIONS OF INDEPENDENT DIRECTORS

Meetings of Independent Directors. At each regularly scheduled meeting of the Board of Directors, the members of the Board of Directors that are independent shall meet in scheduled executive sessions without the participation of the members of the Board of Directors who are also members of the Company's management (the "management Directors"). The independent Directors also may hold such executive sessions which are not scheduled in conjunction with regularly scheduled meetings of the full Board of Directors. At such meetings, the independent Directors shall review matters concerning the relationship of the Board of Directors with the Company's management, including the management Directors, and such other matters as the independent Directors may deem appropriate. The Board of Directors shall not take formal action at such settings, but the participating directors may make recommendations for consideration by the full Board of Directors.

PERFORMANCE EVALUATION;
SUCCESSION PLANNING

Annual Evaluation of the Chief Executive Officer. The Compensation Committee of the Board of Directors shall review and approve corporate goals and objectives relevant to compensation of the Chief Executive Officer, conduct an annual review and evaluation of the performance of the Chief Executive Officer in light of those goals and objectives, with input from the other members of the Board of Directors, and propose to the Board of Directors the compensation level of the Chief Executive Officer based on such evaluation. The Compensation Committee shall take into account any recommendations of the Board of Directors regarding such review and evaluation process and the specific criteria on which the performance of the Chief Executive Officer is evaluated.

Succession Planning. As part of the annual Chief Executive Officer evaluation process, the Board of Directors, or a committee of the Board of Directors, shall work with the Chairman of the Board and the Chief Executive Officer to plan for Chief Executive Officer succession, as well as to develop plans for interim succession for the Chief Executive Officer in the event of an unexpected occurrence.

Evaluation of the Board of Directors. The Board of Directors, in consultation with the Nominating and Governance Committee, shall conduct an annual evaluation of the Board of Directors to determine whether it and its committees are composed appropriately and functioning effectively. This evaluation shall include an assessment of such factors as experience, integrity, competence, diversity, skills, dedication and equity ownership in the context of the Board of Directors as a whole.

COMPENSATION

Compensation Review.

(a) The Compensation Committee will annually review and, when it deems appropriate, recommend to the Board of Directors changes in compensation and benefits of the members of the Board of Directors. In making its recommendations, the Compensation Committee may seek the advice of outside advisors to assure that its Director compensation is reasonable and enables the Company to attract and to retain qualified members to its Board of Directors.

(b) Compensation paid to independent Directors for service to the Board of Directors shall be fixed annually by the Board of Directors and shall be competitive and recognize the significant commitment required for service as a member of the Board of Directors.

(c) The Board of Directors may establish additional compensation for independent Directors who serve on specific committees of the Board of Directors, where the Board of Directors determines that such additional compensation is appropriate to reflect the additional responsibilities associated with service on such committees.

(d) As compensation for their services on the Board of Directors, members of the Board of Directors shall be paid an annual base retainer which shall be in a combination of cash and equity-based compensation, as determined by the Board of Directors, in consultation with the Compensation Committee. The balance of the compensation paid to members of the Board of Directors, which may include compensation for service on committees and for performing other specified duties, as determined by the Board of Directors in consultation with the Compensation Committee, may be paid in cash or equity-based compensation, at the direction of the individual members of the Board of Directors.

(e) No independent Director shall be entitled to any pension or similar benefit solely as a result of his or her service as a member of the Board of Directors.

COMMITTEES

Board Committees. The Board of Directors currently has three (3) standing committees, each of which is to be chaired by a member of the Board of Directors that is "independent." The standing committees are as follows:

- The Audit Committee, which is, among other things, responsible for reviewing all reports made by auditors and monitoring internal controls;
- The Compensation Committee, which is, among other things, responsible for reviewing compensation programs and administering equity based compensation plans; and
- The Nominating and Governance Committee, which is, among other things, responsible for proposing and recommending to the Board of Directors potential candidates for membership on the Board of Directors.

The Board of Directors may establish new committees or, except as otherwise required by law, regulation or listing standards of the Exchange, eliminate or combine existing committees or modify their duties and responsibilities as it deems advisable for purposes of fulfilling its duties and responsibilities. To the extent required by law or the Exchange listing standards, such committees will be chaired by and entirely composed of members of the Board of Directors who are "independent" and, unless otherwise determined by the Board of Directors, all such committees will include a majority of members of the Board of Directors who are "independent."

Charters. Each of the standing committees of the Board of Directors shall have its own charter setting forth the purposes, goals and responsibilities of the committee as well as qualifications for committee membership, procedures for committee member appointment and removal and committee structure and operation. Such charters shall be approved by the Board of Directors and shall comply with all applicable laws, rules and regulations and, as appropriate, Exchange listing standards.

Composition of Committees; Committee Chairpersons. The Board of Directors shall select the members of each committee and a chairperson for each committee, upon the recommendation of the Nominating and Governance Committee, taking into account specific committee duties and responsibilities and the experience and qualifications of the proposed members and giving due consideration to recommendations by the Chairman of the Board with respect to such selections. The members of each of the committees must meet the qualifications for membership on such committees as set forth in the charter for such committees and as may be required under any laws, rules, regulations, or standards applicable to the Company. The committee chairperson, in consultation with the members of the committee, will determine the frequency and length of the committee meetings, consistent with any requirements set forth in the committee's charter. The chairperson, in consultation with the members of the committee, will develop the agenda for the committee meetings and will report to the full Board of Directors on the committee's deliberations, as appropriate.

CODE OF BUSINESS CONDUCT

Code of Business Conduct. The Board of Directors is responsible for establishing and maintaining the Company's Code of Business Conduct (also known as Code of Ethics), which currently covers, among other things, the Company's policies concerning:

- Conflicts of interest;
- Corporate opportunities;
- Fair dealing;
- Compliance with laws, rules and regulations; and
- Encouraging the reporting of any illegal or unethical behavior.

The Board of Directors, with advice and recommendations from the Nominating and Governance Committee, will periodically review and evaluate the Code of Business Conduct and make such changes therein as it finds to be necessary or appropriate.

Waivers of Code of Business Conduct. Any waivers of any provisions of the Code of Business Conduct for members of the Board of Directors or executive officers may be made only by the Board of Directors or a committee to which the Board of Directors has delegated such authority, and any such waivers shall be timely reported or disclosed in such manner as may be required by the Securities and Exchange Commission or the Exchange.

Certain Particular Matters. Without limiting the generality of the foregoing, the following are prohibited unless expressly approved in advance by the Board of Directors (with any interested member of the Board of Directors abstaining):

(a) Any commercial transaction between the Company and any entity in which a member of the Board of Directors or executive officer or any immediate family member of a member of the Board of Director or executive officer has a material direct or indirect interest.

(b) Employment by the Company of any sibling, spouse or child of a member of the Board of Directors or executive officer, other than as expressly permitted by the Company's then-current employment policies and procedures.

(c) Any direct or indirect investment or other economic participation by any member of the Board of Directors or executive officer or any immediate family member of a member of the Board of Directors or executive officer in any entity (other than a publicly traded entity) in which the Company has any direct or indirect investment or other economic interest.

Any situation which would not be permitted under this section but which is in existence on the effective date of these guidelines shall be reviewed by the Board of Directors (with any interested Director abstaining) and shall be discontinued within a reasonable time period if so determined by the Board of Directors.

COMMUNICATIONS WITH THE MEDIA

The Board of Directors believes that the Company's management and the Chairman of the Board speak for the Company. In order to ensure compliance with applicable securities laws and to avoid potential detriment to the interests of the Company and its stockholders and other constituencies that could result from inconsistent communications, the members of the Board of Directors will not respond to media inquiries or make statements to the media regarding the Company and its business without consultation with, and approval by, the Chairman of the Board or the Board of Directors.

Primus Telecommunications Group, Incorporated

CHARTER OF THE NOMINATING AND GOVERNANCE COMMITTEE
OF
THE BOARD OF DIRECTORS
(Revised)

Adopted as of May 24, 2010

PURPOSE

The purpose of the Nominating and Governance Committee (the "Committee") of the Board of Directors (the "Board") of Primus Telecommunications Group, Incorporated, a Delaware corporation (the "Company"), shall be to (i) identify, review and evaluate candidates to serve as Directors of the Company, (ii) serve as a focal point for communication between such candidates, non-Committee directors and the Company's senior management, (iii) recommend such candidates to the Board, and (iv) make such other recommendations to the Board regarding affairs relating to the directors of the Company (excluding Director compensation which is the responsibility of the Compensation Committee) and to advise the Board with respect to Board composition, procedures and committees.

COMPOSITION

The Committee shall be comprised of two (2) or more members of the Board, as determined from time to time by the Board. Each member of the Committee shall be "independent" as defined by the rules of the Nasdaq Stock Market (or such securities exchange on which the Company's securities are listed for trading).

The members of the Committee will be appointed by and serve at the discretion of the Board. The chairperson of the Committee shall be designated by the Board; *provided*, that if the Board does not so designate a chairperson, the members of the Committee, by a majority vote, may designate a chairperson. Any vacancy on the Committee shall be filled by majority vote of the Board. No member of the Committee shall be removed except by majority vote of the Board.

OPERATING PRINCIPLES

In fulfilling its function and responsibilities, the Committee should give due consideration to the following principles:

- *Committee Expectations and Information Needs* – The Committee should communicate to the Chief Executive Officer or his designee the expectations of the Committee, and the nature, timing, and extent of any specific information or other supporting materials requested by the Committee for its meetings and deliberations.
- *Communication* – Regular and meaningful contact throughout the year with the Chairman of the Board, the Chief Executive Officer or his designee, other committee

chairpersons and independent professional advisors to the Board and its various committees, as applicable, to strengthen the Committee's knowledge of relevant current and prospective issues for its meetings and deliberations.

- *Resources* – The Committee shall be authorized to access such internal and external resources as the Committee deems necessary or appropriate to fulfill its defined responsibilities. Expenditures for external resources that are expected to be material and outside the ordinary course of the Committee's practices shall be recommended by the Committee for the approval of the full Board. The Committee shall have the authority to perform such other functions, and shall have such powers, as may be necessary or appropriate in the efficient and lawful discharge of its responsibilities hereunder.
- *Committee Meeting Attendees* – The Committee shall be authorized to request members of senior management, outside counsel and other advisors to participate in Committee meetings.
- *Reporting to the Board of Directors* – The Committee, through the Committee chairperson, shall report all material activities of the Committee to the Board from time to time, or whenever so requested by the Board. The Committee shall report annually to the Board on the independence of Directors as determined by the Board from time to time.

FUNCTIONS AND AUTHORITY

The operation of the Committee will be subject to the Bylaws of the Company, as in effect from time to time, and Section 141 of the Delaware General Corporation Law, and such guidelines as may be adopted by the full Board and disclosed in the Company's proxy statement for its most recent annual meeting, or as amended and disclosed in the Company's periodic reports filed under the Securities Exchange Act of 1934. The Committee will have the full power and authority to carry out the following responsibilities:

- *Director Nominations* – The Committee has the primary responsibility for identifying, evaluating, reviewing and recommending qualified candidates to serve on the Board. The selection of nominees for Director to be presented to the stockholders for election or reelection, and the selection of new Directors to fill vacancies and newly created directorships on the Board, shall be made by the full Board following receipt of recommendations of the Committee. Among the qualifications considered in the selection of candidates, the Committee shall look at the following criteria: experience, skills, expertise, diversity, personal and professional integrity, character, business judgment, time availability in light of other commitments, dedication, conflicts of interest and other relevant factors that the Committee considers appropriate in the context of the needs of the Board.
- *Board Committee Nominations* – The committee, in consultation with the Chairman of the Board, and after considering the wishes of the individual Directors, will

recommend to the entire Board annually the membership of each committee of the Board.

- *Director Change of Position* – The Committee is responsible for reviewing and making a recommendation to the Board regarding the continued service of a Director (i) based upon service to the Company during the Director's term, attendance, participation, quality of performance and actual or potential conflicts of interest, and (ii) in the event an employee Director's employment with the Company is terminated for any reason or a non-employee Director changes his/her primary job responsibility since the time such Director was most recently elected to the Board.
- *Board Assessment* – The Committee shall periodically review, discuss and assess the performance of the Board, including Board committees seeking appropriate input when necessary. The assessment includes evaluation of the Board's contribution as a whole, specific areas in which the Board believes better contributions could be made, and overall Board composition and makeup, including the reelection of current Board members. The results of such reviews shall be provided to the Board for further discussion as appropriate.
- *Committee Self Assessment* – The Committee shall periodically review, discuss and assess its own performance as well as the Committee's role and responsibilities, seeking input from the Chief Executive Officer or his designee, the full Board and others. Changes in the role and/or responsibilities of the Committee as outlined in this Charter, if any, shall be recommended to the full Board for their consideration.

MEETINGS

The Committee shall meet as often as it determines necessary to carry out its duties and responsibilities, but in any event the Committee shall hold at least one regular meeting per year. The Chairman of the Board and the Chief Executive Officer of the Company may attend any meeting of the Committee, except for portions of the meetings where his, her or their presence would be inappropriate, as determined by the Committee.

A majority of the members of the Committee present in person or by means of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other shall constitute a quorum.

MINUTES AND REPORTS

Minutes of each meeting will be kept and distributed to each member of the Committee, members of the Board who are not members of the Committee and the Secretary of the Company. The Chairman of the Committee will report to the Board from time to time, or whenever so requested by the Board.

* * *

While the members of the Committee have the duties and responsibilities set forth in this Charter, nothing contained in this Charter is intended to create, or should be construed as creating, any responsibility or liability of members of the Committee, except to the extent otherwise provided under applicable federal or state law.