UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 1, 2009

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
(Exact name of registrant as specified in its charter)

Delaware	0-29092	54-1708481
(State or other jurisdiction of incorporation)	(Commission File No.)	(IRS Employer Identification No.)

7901 Jones Branch Drive, Suite 900, McLean, VA 22102
(Address of principal executive offices and zip code)

(703) 902-2800
(Registrant’s telephone number, including area code)

Not applicable
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communication pursuant to Rule 425 under Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communication pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events.

Effective January 1, 2009, Primus Telecommunications Group, Incorporated, a Delaware corporation (the "Company") adopted SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" (ASC No. 810, "Consolidation"). This statement changes the presentation of outstanding noncontrolling interests in one or more subsidiaries or the deconsolidation of those subsidiaries. Amounts previously recorded in other liabilities and other income/expense are being reclassified to noncontrolling interest. Specifically, the principal effect on the balance sheets related to the adoption of SFAS No. 160 is to present $2.8 million as noncontrolling interest in the Equity portion of the consolidated balance sheet as of December 31, 2008. Additionally, the adoption of SFAS 160 had the effect of reclassifying earnings attributable to noncontrolling interest in the consolidated statement of operations from other income and expense to separate line items. SFAS 160 also requires that net income be adjusted to include the net income attributable to the noncontrolling interest, and a new separate caption for net income attributable to common shareholder be presented in the consolidated statement of earnings. Thus, after adoption of SFAS 160, net income will increase by $3.2 million, zero million and $1.1 million for the years ended December 31, 2008, 2007 and 2006, respectively, and net income attributable to common shareholders will be equal to net income as previously reported prior to the adoption of SFAS 160. We are therefore recasting our previously issued financial statements and certain other financial information originally reported within our Annual Report on Form 10-K for the year ended December 31, 2008 ("2008 Form 10-K").

During the quarter ended June 30, 2009, management identified its Brazil operating segment as a reportable segment due to management's increased focus on it as a separate market and operations. We are therefore recasting our previously issued financial statements and certain other financial information originally reported within our 2008 Form 10-K.

This Current Report on Form 8-K updates Items 6, 7, and 8 of our 2008 Form 10-K to recast the activities of the aforementioned noncontrolling interest and the Brazil segment.

Items 6, 7, and 8 of our 2008 Form 10-K are set forth in Exhibit 99.1 and are incorporated by reference herein.

Item 9.01. Financial Statements and Exhibits.

(a) and (b) Not applicable.

(c) Exhibits.

Exhibit No.	Description
23.1	Consent of Independent Registered Public Accounting Firm.
99.1	Selected items of 2008 Form 10-K, as revised.

SIGNATURE

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 hereunto duly authorized.

PRIMUS TELECOMMUNICATION GROUP, INCORPORATED

Dated: December 1, 2009

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

Exhibit Index

Exhibit No.	Description
23.1	Consent of Independent Registered Public Accounting Firm.
99.1	Selected items of 2008 Form 10-K, as revised.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-160406 on Form S-8 of our report dated April 15, 2009, except for Note 21, paragraphs six and seven as to which the date is November 30, 2009, relating to the consolidated financial statements and financial statement schedule of Primus Telecommunications Group, Incorporated and subsidiaries (which report expresses an unqualified opinion, includes emphasis of matter paragraphs relating to the Company's filing for reorganization under Chapter 11 of the U.S. Bankruptcy Code, and the Company's ability to continue as a going concern, and includes an explanatory paragraph regarding the Company's adoption of a new accounting standard), appearing in this Current Report on Form 8-K of Primus Telecommunications Group, Incorporated and subsidiaries for the year ended December 31, 2008.

/s/ Deloitte & Touche LLP

McLean, Virginia
November 30, 2009

Selected Items of 2008 Form 10-K, As Revised

ITEM 6. SELECTED FINANCIAL DATA

The following sets forth our selected consolidated financial data for the years ended December 31, 2008, 2007, 2006, 2005 and 2004 as derived from our historical financial statements:

Statement of Operations Data:

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(in thousands, except per share amounts)				
NET REVENUE	$895,863	$896,029	$ 993,034	$1,153,253	$1,312,666
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)	569,865	551,303	653,905	766,963	802,391
Selling, general and administrative	260,430	281,010	278,951	369,666	382,106
Depreciation and amortization	32,791	30,529	47,002	85,952	90,416
(Gain) loss on sale or disposal of assets	(6,028)	1,463	14,158	13,364	1,941
Asset impairment write-down	—	—	206,139	—	1,624
Total operating expenses	857,058	864,305	1,200,155	1,235,945	1,278,478
INCOME (LOSS) FROM OPERATIONS	38,805	31,724	(207,121)	(82,692)	34,188
INTEREST EXPENSE	(53,888)	(61,347)	(54,128)	(53,394)	(50,449)
ACCRETION ON DEBT PREMIUM (DISCOUNT), NET	583	(449)	(1,732)	—	—
CHANGE IN FAIR VALUE OF DERIVATIVES EMBEDDED WITHIN CONVERTIBLE DEBT	—	—	5,373	—	—
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	36,872	(7,652)	7,409	(1,693)	(10,982)
INTEREST AND OTHER INCOME	3,279	5,665	2,584	2,098	10,953
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	(47,563)	32,699	10,668	(12,285)	6,611
INCOME (LOSS) BEFORE INCOME TAXES	(21,912)	640	(236,947)	(147,966)	(9,679)
INCOME TAX BENEFIT (EXPENSE)	366	9,232	(4,863)	(3,809)	(5,682)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(21,546)	9,872	(241,810)	(151,775)	(15,361)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(326)	(268)	(4,673)	2,157	4,328
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax	—	6,132	7,415		
NET INCOME (LOSS)	(21,872)	15,736	(239,068)	(149,618)	(11,033)
Less: Net (income) loss attributable to the noncontrolling interest	(3,159)	—	1,110	381	452
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (25,031)	$ 15,736	$ (237,958)	(149,237)	(10,581)
BASIC INCOME (LOSS) PER COMMON SHARE:					
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (0.17)	$ 0.07	$ (2.14)	$ (1.59)	$ (0.17)
Income (loss) from discontinued operations	(0.01)	(0.00)	(0.05)	0.03	0.05
Gain from sale of discontinued operations	—	0.05	0.07	—	—
Net income (loss)	$ (0.18)	$ 0.12	$ (2.12)	$ (1.56)	$ (0.12)
DILUTED INCOME (LOSS) PER COMMON SHARE:					
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (0.17)	$ 0.06	$ (2.14)	$ (1.59)	$ (0.17)
Income (loss) from discontinued operations	(0.01)	(0.00)	(0.05)	0.03	0.05
Gain from sale of discontinued operations	—	0.03	0.07	—	—
Net income (loss)	$ (0.18)	$ 0.09	$ (2.12)	$ (1.56)	$ (0.12)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:					
Basic	142,643	128,771	112,366	95,384	89,537
Diluted	142,643	196,470	112,366	95,384	89,537
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED					
Income (loss) from continuing operations, net of tax	$ (24,705)	$ 9,872	$ (240,700)	(151,394)	(14,909)
Loss from discontinued operations	(326)	(268)	(4,673)	2,157	4,328
Loss from sale of discontinued operations	—	6,132	7,415	—	—
Net income (loss)	$ (25,031)	$ 15,736	$ (237,958)	(149,237)	(10,581)

* Refer to discussion in Notes 16, 17 and 18 of the Notes to Consolidated Financial Statements for more information.

Balance Sheet Data:

	December 31,				
	2008	2007	2006	2005	2004
			(in thousands)		
Total assets	$ 330,444	$ 460,403	$ 392,250	$ 641,089	$ 758,600
Total long-term obligations (including current portion)	$ 604,837	$ 673,903	$ 644,074	$ 635,212	$ 559,352
Total stockholders' deficit	$(461,539)	$(447,540)	$(468,255)	$(236,334)	$(108,756)

Discontinued Operations Data:

	Year Ended December 31,				
	2008	2007	2006	2005	2004
			(in thousands)		
Net revenue	$3,851	$ 9,961	$24,086	$34,143	$38,206
Operating expenses	4,610	10,233	28,640	31,372	33,336
Income (loss) from operations	(759)	(272)	(4,554)	2,771	4,870
Interest expense	—	(26)	(47)	(47)	(77)
Interest income and other income (expense)	60	39	(2)	(120)	(198)
Foreign currency transaction gain (loss)	376	(6)	10	(258)	(51)
Income (loss) before income tax	(323)	(265)	(4,593)	2,346	4,544
Income tax expense	(3)	(3)	(80)	(189)	(216)
Income (loss) from discontinued operations	$ (326)	$ (268)	$ (4,673)	$ 2,157	$ 4,328

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OVERVIEW

Introduction and Overview of Operations

We are an integrated facilities based telecommunications services provider offering a portfolio of international and domestic voice, wireless, Internet, voice-over-Internet protocol (VOIP), data and hosting services to customers located primarily in the United States, Australia, Canada, the United Kingdom and western Europe. Our focus is to service the demand for high quality, competitively priced communications services that is being driven by the globalization of the world's economies, the worldwide trend toward telecommunications deregulation and the growth of broadband, Internet, VOIP, wireless and data traffic.

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-sized enterprises (SMEs), multinational corporations, residential customers, and other telecommunications carriers and resellers and through acquisitions.

Our challenge to growing 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; broadband for dial-up Internet service provider (ISP) services) has resulted in revenue declines in our legacy long distance voice and dial-up ISP businesses. Additionally, we believe that because deregulatory influences have begun to affect telecommunications markets outside the United States, the deregulatory trend is resulting in greater competition from the existing wireline and wireless competitors and from more recent entrants, such as cable companies and VOIP companies, which could continue to affect adversely our net revenue per minute, as well as minutes of use.

In order to manage our traffic network transmission costs, we pursue a flexible approach with respect to the management of our network capacity. In most instances, we optimize the cost of traffic by using the least expensive cost routing; negotiate lower variable usage based costs with domestic and foreign service providers and negotiate additional and lower cost foreign carrier agreements with the foreign incumbent carriers and others; and 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 DSL and local customers. However, installing and migrating customers to our own networks, such as the local and DSL networks in Australia and Canada, enable us to increase our margin on such services as compared to resale of services using other carriers' networks.

SG&A expenses are comprised primarily of salaries and benefits, commissions, occupancy costs, sales and marketing expenses, advertising, professional fees, and administrative costs. All SG&A expenses are expensed when incurred. Emphasis on cost containment or 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 significant pressure.

Going Concern and Voluntary Reorganization Under Chapter 11

On March 16, 2009, Group, and three of its subsidiaries and affiliates, Holding, PTII and IHC, each filed a voluntary petition in the United States Bankruptcy Court for the District of Delaware for Reorganization under chapter 11 of title 11 of the United States Bankruptcy Code. A creditors' committee has not been appointed in these cases by the United States Trustee. On April 8, 2009, the Debtors filed an amended plan of reorganization and disclosure statement. The Debtors will continue to operate their businesses and manage their properties as debtors in possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court.

As part of the relief sought or to be sought in the chapter 11 cases, the Debtors have entered into agreements or understandings with its creditors in an effort to advance Bankruptcy Court confirmation of this Reorganization. See Item 3, “Legal Proceedings: Legal Proceedings Related to the Chapter 11 Cases”. Certain of these agreements or understandings are not definitive and/or are subject to certain creditors’ consent. The Reorganization remains subject to Bankruptcy Court confirmation.

The consolidated financial statements have been prepared assuming that we will continue as a going concern. The factors described herein, including within Item 1, Item 1A, Item 3 and this Item 7, raise substantial doubt about our ability to continue as a going concern, and therefore, we may be unable to realize our assets and discharge our liabilities in the normal course of business. These financial statements do not include any adjustments that might result from this uncertainty, including those relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should we be unable to continue as a going concern.

2008 Results and First Quarter 2009 Plans

The recent upheaval in the global capital markets has spawned recessionary forces and caused a volatile disruption in currency exchange rates, and we have not been spared. More than 81% of our revenue is generated outside of the United States. When the United States (US) dollar was declining, our reported consolidated revenues and income were favorably impacted. The decline of the United States dollar also had the effect of increasing in US dollar terms the funds available to be up-streamed from our foreign operating subsidiaries. These funds are utilized, among other things, to service our predominantly US dollar denominated debt. Since mid-year 2008, there has been a volatile shift in currencies as the US dollar strengthened markedly against the local currencies in our major operating regions. In particular, from June 30, 2008 to December 31, 2008 the Canadian dollar declined by 17%, the Australian dollar by 28%, the Euro by 11%, and the British Pound by 27%. While the movement of these exchange rates remains volatile, the near term impact has been to reduce substantially the amount in US dollars that we report in consolidated revenues and income and the amount of US dollars available to the parent entities from its foreign operating subsidiaries.

This material adverse currency development also, in effect, dramatically reduced the impact of significant cost reductions that were implemented in late September and early October 2008. After reporting results for the second quarter 2008, management defined and began to implement a plan to attain free cash flow in 2009. We instituted cost reductions that included a reduction of 13% in total headcount which, together with additional savings in other sales, general and administrative expenses, were expected to generate approximately $15 million in annual savings. With the recent adverse change in currency exchange rates, these factors dramatically reduced or offset the benefits that these cost reductions would have otherwise had on our future operating results. Therefore, additional cost reductions have been implemented, which include further headcount reductions and salary reductions or freezes.

The combined impact of the recent global financial turmoil and the strengthening US dollar have, thus, put strains on our liquidity. The global revaluation of assets, combined with the contraction of credit, has also frustrated our efforts to generate $50 million in cash proceeds from selective asset sales. We had planned to use those proceeds, among other things, to retire $23 million of debt maturing in the latter half of 2009.

As a result, as discussed in Note 2 to the Consolidated Financial Statements and in this item under the heading, Going Concern and Voluntary Reorganization Under Chapter 11, the Debtors have sought reorganization relief under chapter 11 of the bankruptcy code. Under the current circumstances, our immediate priorities are focused on the following actions:

- complete the reorganization in the most expeditious time-frame; and
- manage our business with a focus on cash flow and growth.

Foreign Currency

Foreign currency can have a major impact on our financial results. Currently in excess of 81% of our net revenue is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the United States dollar (USD). The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive the majority of our net revenue and incur a significant portion of our operating costs from outside the United States, and therefore changes in exchange rates have had and may continue to have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the following exchange rates: USD/Canadian dollar (CAD), USD/Australian dollar (AUD), USD/British pound (GBP), and USD/Euro (EUR). 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. However, during the fourth quarter 2007, we completed a forward currency contract required by the Canadian Financing Facility and an interest rate swap. Despite the counterparty to the interest rate swap agreement entering bankruptcy in October 2008, management believed no breach or event of default had occurred in relation to the Canadian Credit Agreement. As of March 10, 2009, under the Waiver and Amendment Agreement described above, the Lenders under the Canadian Financing Facility waived any such possible breach or event of default. 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 year ended December 31, 2008, as compared to the year ended December 31, 2007, the USD was weaker on average as compared to the CAD, AUD and EUR, notwithstanding a significant strengthening of the USD relative to such currencies between June 30, 2008 and December 31, 2008 (see "—2008 Results and First Quarter 2009 Plans"), and stronger on average as compared to the GBP. The following tables demonstrate the impact of currency fluctuations on our net revenue for the year ended December 31, 2008 and 2007 (in thousands, except percentages):

Net Revenue by Location—in USD

	2008 Net Revenue	2007 Net Revenue	Variance	Variance %
Canada	$ 260,834	$ 262,412	$(1,578)	(1)%
Australia	$ 276,414	$ 284,935	$(8,521)	(3)%
United Kingdom	$ 87,706	$ 89,363	$(1,657)	(2)%
Europe *	$ 87,623	$ 81,891	$ 5,732	7%

Revenue by Country—in Local Currencies

	2008 Net Revenue	2007 Net Revenue	Variance	Variance %
Canada (in CAD)	276,294	281,419	(5,125)	(2)%
Australia (in AUD)	324,724	340,579	(15,855)	(5)%
United Kingdom (in GBP)	48,331	44,759	3,572	8%
Europe * (in EUR)	59,640	59,771	(131)	(0)%

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

Recent Operating Highlights and Other Events

In order to better understand our discussion of results of operations, financial condition and liquidity presented herein, we refer you to "Item 1—Business—Operating Highlights and Accomplishments" concerning certain operating highlights and other events.

Critical Accounting Policies

To aid in the understanding of our financial reporting, our most critical accounting policies are described below. These policies have the potential to have a more significant impact on our financial statements, either because of the significance of the financial statement item to which they relate, or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature.

Revenue Recognition and Deferred Revenue—Net revenue is derived from carrying a mix of business, residential and carrier long distance traffic, data and Internet traffic, and also from the provision of local, hosting and wireless services.

For voice and wholesale VOIP, net revenue is earned based on the number of minutes during a call and is recorded upon completion of a call, adjusted for allowance for doubtful accounts receivable, service credits and service adjustments. Revenue for a period is calculated from information received through our network switches. Customized software has been designed to track the information from the switch and analyze the call detail records against stored detailed information about revenue rates. This software provides us the ability to do a timely and accurate analysis of revenue earned in a period. Separate prepaid services software is used to track additional information related to prepaid service usage such as activation date, monthly usage amounts, fees and charges, and expiration date. Revenue on these prepaid services is recognized as service is provided until expiration when all unused minutes, which are no longer available to the customers, are recognized as revenue.

Net revenue is also earned on a fixed monthly fee basis for unlimited local and long distance plans and for the provision of data/Internet (including retail VOIP) and hosting services. Data/Internet and hosting services include monthly fees collected for the provision of dedicated and dial-up access at various speeds and bandwidths and collocation services. These fees are recognized as access and collocation is provided on a monthly basis. Additionally, service activation and installation fees are deferred and amortized over the longer of the average customer life or the contract term. We record payments received in advance for prepaid services and services to be provided under contractual agreements, such as Internet broadband and dial-up access, as deferred revenue until such related services are provided.

A portion of revenue, representing less than 1% of total revenue, is earned from the sale of wireless handsets and VOIP routers. We apply the provisions of Emerging Issues Task Force (EITF) Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," which provides guidance on when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. We have concluded that EITF No. 00-21 requires us to account for the sale of wireless handsets and VOIP routers and the related cost of handset and router revenues as a separate unit of accounting when title to the handset or router passes to the customer. Revenue recognized is the portion of the activation fees allocated to the router or handset unit of accounting in the statement of operations when title to the router or handset passes to the customer. We defer the portion of the activation fees allocated to the service unit of accounting, and recognize such deferred fees on a straight-line basis over the contract life in the statement of operations.

Net revenue represents gross revenue, net of allowance for doubtful accounts receivable, service credits and service adjustments.

Allowance for doubtful accounts receivable—Determining our allowance for doubtful accounts receivable requires significant estimates. Due to the large number of customers that we serve, it is impractical to review the creditworthiness of each of our customers, although a credit review is performed for larger carrier and retail business customers. We consider a number of factors in determining the proper level of the allowance, including historical collection experience, current economic trends, the aging of the accounts receivable portfolio and changes in the creditworthiness of our customers. Systems to detect fraudulent call activity are in place within our network, but if these systems fail to identify such activity, we may realize a higher degree of uncollectible accounts. If the estimate of uncollectible revenue was 10% higher than our current estimates, net revenue would have been reduced by approximately $1.2 million for the year ended December 31, 2008.

Cost of revenue—Cost of revenue is comprised primarily of costs incurred from other domestic and foreign telecommunications carriers to originate, transport and terminate calls. The majority of our cost of revenue is variable, based upon the number of minutes of use, with transmission and termination costs being the most significant expense. Call activity is tracked and analyzed with customized software that analyzes the traffic flowing through our network switches and calculates the variable cost of revenue with predetermined contractual rates. If the domestic or foreign telecommunications carriers have tracked and invoiced the volume of minutes at levels different than what our activity shows or have invoiced at different rates, we will dispute the charges invoiced. There is no guarantee that we will prevail in such disputes. We use significant estimates to determine the level of success in dispute resolution and consider past historical experience, basis of dispute, financial status and current relationship with vendor, and aging of prior disputes in quantifying our estimates.

Valuation of long-lived assets—We review intangible and other long-lived assets whenever events or changes indicate that the carrying amount of an asset may not be recoverable. In making such evaluations, we compare the expected undiscounted future cash flows to the carrying amount of the assets. If the total of the expected undiscounted future cash flows is less than the carrying amount of the assets, we are required to make estimates of the fair value of the long-lived assets in order to calculate the impairment loss equal to the difference between the fair value and carrying value of the assets.

We make significant assumptions and estimates in this process regarding matters that are inherently uncertain, such as determining asset groups and estimating future cash flows, remaining useful lives, discount rates and growth rates. The resulting undiscounted cash flows are projected over an extended period of time, which subjects those assumptions and estimates to an even larger degree of uncertainty. While we believe that our estimates are reasonable, different assumptions could materially affect the valuation of the long-lived assets. During 2006, we completed an evaluation of our expected future cash flows compared to the carrying value of our assets based on estimates of our expected results of operations. As part of that evaluation, we derived future cash flow estimates from our historical experience and our internal business plans, which included consideration of industry trends, competitive actions, technology changes, regulatory actions, available financial resources for marketing and capital expenditures and changes in our underlying cost structure. Although we believe our estimates to be reasonable, if future cash flow estimates used in our 2006 impairment evaluation were reduced 5%, then our estimated fair value of the long-lived assets and the indefinite lived intangible assets, in aggregate, would have been reduced by approximately $7 million.

We have concluded that we have one asset group; the network. This is due to the nature of our telecommunications network which utilizes all of the POPs, switches, cables and various other components throughout the network to form seamlessly the telecommunications gateway over which our products and services are carried for any given customer’s phone call or data or Internet transmission. Furthermore, outflows to many of the external network providers are not separately assignable to revenue inflows for any phone call or service plan.

We make assumptions about the remaining useful life of our long-lived assets. The assumptions are based on the average life of our historical capital asset additions, our historical asset purchase trend and that our primary assets, our network switches, have an 8-year life. Because of the nature of our industry, we also assume that the technology changes in the industry render all equipment obsolete with no salvage value after their useful lives. In certain circumstances in which the underlying assets could be leased for an additional period of time, we have included such estimated cash flows in our estimate. In 2006, if we had projected that the remaining useful lives of our long-lived assets were one-half year shorter, then our estimated fair value of the long-lived assets and the indefinite lived intangible assets, in aggregate, would have been reduced by approximately $12 million.

The estimate of the appropriate discount rate to be used to apply the present value technique in determining fair value was our weighted average cost of capital which is based on the effective rate of our long-term debt obligations at the current market values as well as the current volatility and trading value of our common stock. In 2006, if we had projected the discount rate to be 500 basis points higher, then our estimated fair value of the long-lived assets and the indefinite lived intangible assets, in aggregate, would have been approximately $15 million less.

Valuation of goodwill—Under Statement of Financial Accounting Standards (SFAS) No. 142, “Goodwill and Other Intangible Assets,” goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually (October 1 for Primus) for impairment, or more frequently, if impairment indicators arise. Such indication occurred as of December 31, 2008 when the fair value of the Company’s publicly traded debt dropped significantly since October 1, 2008; however, after performing Step 1 of the impairment test under SFAS No. 142, no impairment was identified as the fair value was greater than the book value of each reporting unit. Intangible assets that have finite lives will be amortized over their useful lives and are subject to the provisions of SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” Impairment analysis for goodwill and other indefinite lived intangible assets is also triggered by the performance of a SFAS No. 144 analysis.

Our reporting units are the same as our operating segments as each segment’s components have been aggregated and deemed a single reporting unit because they have similar economic characteristics. Each component is similar in that they each provide telecommunications services for which all of the resources and costs are drawn from the same pool, and are evaluated using the same business factors by management.

Furthermore, segment management measures results and allocates resources for the segment as a whole and utilizes country by country financials for statutory reporting purposes.

Goodwill impairment is tested using a two-step process that begins with an estimation of the fair value of each reporting unit. The first step is a screen for potential impairment by comparing the fair value of a reporting unit with its carrying amount. The second step measures the amount of impairment loss, if any, by comparing the implied fair value of the reporting unit goodwill with its carrying amount.

In estimating fair value of our reporting units, we compare market capitalization of our common stock, distributed between the reporting units based on adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) projections, to the equivalent carrying value (total assets less total liabilities) of such reporting unit. When our carrying value of a reporting unit is a negative value, we proceed to use alternative valuation techniques. These techniques include comparing total fair value of invested capital, distributed between the reporting units based on adjusted EBITDA projections, to the equivalent carrying value (book equity plus book long-term obligations). The carrying value of each reporting unit includes an allocation of the corporate invested capital based on relative size of the reporting units' intercompany payables and invested capital. Using our adjusted EBITDA projections is a judgment item that can significantly affect the outcome of the analysis, both in basing the allocation on the most relevant time period as well as in allocating fair value between reporting units. For the interim test performed as of December 31, 2008 as discussed above, we used other methods that indicated a control premium on the value of the Company, as opposed to an allocation of the market capitalization. To develop the fair value used for the December 31, 2008 evaluation, we used an average value calculated under the discounted cash flow method and the comparative transaction method. We derive future cash flow estimates from our historical experience and our internal business plans, which include consideration of industry trends, competitive actions, technology changes, regulatory actions, available financial resources for marketing and capital expenditures and changes in our underlying cost structure.

Accounting for income taxes—We recognize deferred tax assets and liabilities for the expected future tax consequences of transactions and events. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement bases and the tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. If necessary, deferred tax assets are reduced by a valuation allowance to an amount that is determined to be more likely than not recoverable. We must make significant estimates and assumptions about future taxable income and future tax consequences when determining the amount of the valuation allowance. The additional guidance provided by FIN No. 48, "Accounting for Uncertainty in Income Taxes" clarifies the accounting for uncertainty in income taxes recognized in the financial statements. At January 1, 2007, its implementation resulted in adjustments to increase our total unrecognized tax benefits by $106.4 million. Expected outcomes of current or anticipated tax examinations, refund claims and/or tax related litigation and estimates regarding additional tax liability (including interest and penalties thereon) or refunds resulting therefrom will be recorded based on the guidance provided by FIN No. 48.

At present, our subsidiaries in the major jurisdictions in which we operate have significant deferred tax assets resulting from tax loss carryforwards. With the exception of our Canadian companies, these deferred tax assets are fully offset with valuation allowances. The appropriateness and amount of these valuation allowances are based on our assumptions about the future taxable income of each affiliate or available tax planning strategies. Except in the case of our Canadian companies, if our assumptions have significantly underestimated future taxable income with respect to a particular affiliate, all or part of the valuation allowance for the affiliate would be reversed and additional income may result. With the exception of our Canadian affiliates, if our assumptions have significantly overestimated future taxable income with respect to a particular affiliate, there would be no change in the net value of the deferred tax asset and no additional income or tax expense would result. If our assumptions with respect to our Canadian affiliates have significantly overestimated future taxable income, a full or partial valuation allowance would be applied to the corresponding deferred tax assets and additional tax expense would result.

Discontinued Operations

In the second and fourth quarter 2008, we determined to sell our German retail operations and Japan retail operations, respectively, and therefore, are reporting these units as discontinued operations.

In August 2007, we sold our 51% interest in our German telephone installation system subsidiaries. The sale price was $0.8 million (0.6 million Euros), which included $0.5 million (0.4 million Euros) in cash and $0.3 million (0.2 million Euros) for payment of outstanding intercompany debt. For the intercompany debt payment, we received $0.1 million (0.1 million Euros) in cash at closing. The balance owing is represented by a note receivable and is paid in fifteen equal monthly installment payments. As a result, we recorded a $0.2 million gain from sale of assets. Net assets held for sale were $0.6 million at the closing date.

In February 2007, we sold our Australian domain name registry and web hosting subsidiary, Planet Domain. The sale price was $6.5 million ($8.3 million AUD). We received $5.5 million in net cash proceeds from the transaction after closing adjustments. As a result, we recorded a $6.0 million gain from sale of assets. The net assets of Planet Domain were $0.2 million at the closing date.

In May 2006, we entered into a Share Purchase Agreement (SPA) with Videsh Sanchar Nigam Limited (VSNL), a leading international telecommunications company and member of the TATA Group, whereby VSNL purchased 100% of the stock of Direct Internet Limited (DIL), whose wholly-owned subsidiary, Primus Telecommunications India Limited (PTIL), was primarily engaged in providing fixed broadband wireless Internet services to enterprise and retail customers in India. We owned approximately 85% of the stock of DIL through an indirect wholly-owned subsidiary. The remaining approximately 15% of the stock of DIL was owned by the manager of DIL and PTIL, who had founded the predecessor companies. The total purchase consideration was $17.5 million. We received $13.0 million in net cash proceeds from the transaction at closing on June 23, 2006, after closing adjustments. Under the SPA, we agreed to certain non-compete provisions regarding the business of DIL and PTIL and the party to the SPA for the purpose of guaranteeing indemnity obligations of our subsidiary selling the stock of DIL. The net assets of DIL were $8.9 million at June 23, 2006.

As a result of these events, our consolidated financial statements reflect the Germany retail operations, Japan retail operations, discontinued German subsidiary, Planet Domain and the India operations as discontinued operations for the years ended December 31, 2008, 2007 and 2006. 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 income from discontinued operations.

Summarized operating results of the discontinued operations for the year ended December 31, 2008, 2007 and 2006 are as follows (in thousands):

	Year Ended December 31,		
	2008	2007	2006
Net revenue	$3,851	$ 9,961	$24,086
Operating expenses	4,610	10,233	28,640
Loss from operations	(759)	(272)	(4,554)
Interest expense	—	(26)	(47)
Interest income and other income (expense)	60	39	(2)
Foreign currency transaction gain (loss)	376	(6)	10
Loss before income tax	(323)	(265)	(4,593)
Income tax expense	(3)	(3)	(80)
Loss from discontinued operations	$ (326)	$ (268)	$ (4,673)

Results of Operations

The following information for the years ended December 31, 2008, 2007 and 2006 reflects all the items included in consolidated statements of operations as a percentage of net revenue:

	Year Ended December 31,		
	2008	2007	2006
NET REVENUE	100.0%	100.0%	100.0%
OPERATING EXPENSES			
Cost of revenue (exclusive of depreciation included below)	63.6%	61.5%	65.8%
Selling, general and administrative	29.1%	31.4%	28.1%
Depreciation and amortization	3.7%	3.4%	4.7%
(Gain) loss on sale or disposal of assets	(0.7)%	0.2%	1.4%
Asset impairment write-down	0.0%	0.0%	20.8%
Total operating expenses	95.7%	96.5%	120.8%
INCOME (LOSS) FROM OPERATIONS	4.3%	3.5%	(20.8)%
INTEREST EXPENSE	(6.0)%	(6.8)%	(5.5)%
ACCRETION ON DEBT PREMIUM (DISCOUNT), NET	0.1%	(0.1)%	(0.0)%
CHANGE IN FAIR VALUE OF DERIVATIVES EMBEDDED WITHIN CONVERTIBLE DEBT	0.0%	0.0%	0.5%
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	4.1%	(0.9)%	0.7%
INTEREST AND OTHER INCOME	0.0%	0.8%	0.3%
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	(5.3)%	3.6%	1.1%
INCOME (LOSS) BEFORE INCOME TAXES	(2.8)%	0.1%	(23.7)%
INCOME TAX BENEFIT (EXPENSE)	0.0%	1.0%	(0.5)%
INCOME (LOSS) FROM CONTINUING OPERATIONS	(2.8)%	1.1%	(24.2)%
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(0.0)%	(0.0)%	(0.5)%
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax	0.0%	0.7%	0.7%
NET INCOME (LOSS)	(2.8)%	1.8%	(24.0)%

The following information reflects net revenue by product line for the years ended December 31, 2008, 2007 and 2006 (in thousands, except percentages) and is provided for informational purposes and should be read in conjunction with the Consolidated Financial Statements and Notes.

	2008	%	2007	%	2006	%
Voice	$566,791	63%	$597,404	67%	$704,971	71%
Data/Internet	180,308	20%	179,809	20%	166,520	17%
VOIP	148,764	17%	118,816	13%	121,543	12%
Total	$895,863	100%	$896,029	100%	$993,034	100%

Results of operations for the year ended December 31, 2008 as compared to the year ended December 31, 2007

Net revenue: Net revenue decreased $0.1 million to $895.9 million for the year ended December 31, 2008 from $896.0 million for the year ended December 31, 2007. Our revenue from broadband, VoIP, local, wireless, data and hosting services contributed $231.1 million for the year ended December 31, 2008, as compared to $216.1 million for the year ended December 31, 2007. Our wholesale carrier and prepaid services contributed $197.3 million and $39.4 million, respectively, for the year ended December 31, 2008, as compared to $170.4 million and $42.2 million, respectively, for the year ended December 31, 2007.

United States: United States retail net revenue decreased $15.0 million or 14.8% to $86.6 million for the year ended December 31, 2008 from $101.6 million for the year ended December 31, 2007. The decrease is primarily attributed to a decrease of $13.4 million in retail voice services (for residential and small businesses) a decrease of $1.5 million in Internet services, and a decrease in VoIP of $0.1 million.

Canada: Canada net revenue decreased $1.4 million or 0.5% to $260.8 million for the year ended December 31, 2008 from $262.2 million for the year ended December 31, 2007. The decrease is primarily attributed to a decrease of $8.7 million in voice, a decrease of $1.1 million in prepaid card, which was partially offset by an increase of $7.4 million from growth products, which include $3.7 million in local service, $3.7 million in Internet, data and hosting services and $0.8 million in VoIP services. The strengthening of the CAD against the USD accounted for a $3.6 million increase to revenue, which is included in the services explanation above, and which reflects changes in the exchange rates for the year ended December 31, 2008 as compared to the year ended December 31, 2007. This overall strengthening of the CAD for 2008 occurred notwithstanding a significant weakening of the CAD relative to the USD between June 30, 2008 and December 31, 2008.

The following table reflects net revenue for each major country in the America:

Revenue by Country (Excluding Wholesale) — in USD

	For the year ended		Year-over-Year	
	December 31, 2008 Net Revenue	December 31, 2007 Net Revenue	Variance	Variance %
United States	$ 86,579	$ 101,583	$(15,004)	(15)%
Canada	$ 260,834	$ 262,200	$ (1,366)	(1)%
Brazil	$ 10,129	$ 7,918	$ 2,211	28%

(Dollars in thousands, except percentages)

Europe: Europe net revenue decreased $4.3 million or 6.3% to $64.6 million for the year ended December 31, 2008 from $68.9 million for the year ended December 31, 2007. The decrease is primarily attributable to a $1.7 million decrease in low margin prepaid services, a $4.3 million decrease in retail voice, and a $1.6 million decrease in wireless service, partially offset by an increase of $1.9 million in VoIP. The strengthening of the European currencies against the USD accounted for a $1.4 million increase to revenue, which is included in the above explanation, and which reflects changes in the exchange rates for the year ended December 31, 2008 as compared to the year ended December 31, 2007. This overall strengthening of the European currencies for 2008 occurred notwithstanding a significant weakening of the European currencies relative to the USD between June 30, 2008 and December 31, 2008.

The following table reflects net revenue for each major country in Europe:

Revenue by Country (Excluding Wholesale) — in USD

	For the year ended December 31, 2008		For the year ended December 31, 2007		Year-over-Year	
	Net Revenue	% of Europe	Net Revenue	% of Europe	Variance	Variance %
United Kingdom	$ 26,092	40%	$ 39,037	56%	$(12,945)	(33)%
Netherlands	2,765	4%	139	0%	2,626	1,889%
Spain	3,966	6%	4,613	7%	(647)	(14)%
France	19,202	30%	11,038	16%	8,164	74%
Italy	2,599	4%	2,022	3%	577	29%
Belgium	7,936	12%	9,383	14%	(1,447)	(15)%
Other	2,069	4%	2,711	4%	(642)	(24)%
Europe Total	$ 64,629	100%	$ 68,943	100%	$ (4,314)	(6)%

(Dollars in thousands, except percentages)

Asia-Pacific: Asia-Pacific net revenue decreased $8.5 million or 3.0% to $276.4 million for the year ended December 31, 2008 from $284.9 million for the year ended December 31, 2007. The decrease is primarily attributable to a $9.1 million decrease in residential voice services and a $7.7 million decrease in dial-up Internet services, partially offset by a $6.0 million increase in business voice services, a $0.5 million increase in Australia DSL services and a $0.9 million increase in wireless service. The strengthening of the AUD against the USD accounted for a $6.5 million increase to revenue, which is included in the above explanation, and which reflects changes in the exchange rates for the year ended December 31, 2008 as compared to the year ended December 31, 2007. This overall strengthening of the AUD for 2008 occurred notwithstanding a significant weakening of the AUD relative to the USD between June 30, 2008 and December 31, 2008. The following table reflects net revenue for each major country in Asia-Pacific:

Revenue by Country (Excluding Wholesale) — in USD

	For the year ended December 31, 2008		For the year ended December 31, 2007		Year-over-Year	
	Net Revenue	% of Asia-Pacific	Net Revenue	% of Asia-Pacific	Variance	Variance %
Australia	$ 276,414	100%	$ 284,935	100%	$(8,521)	(3)%

(Dollars in thousands, except percentages)

Wholesale: Wholesale net revenue increased $26.9 million or 15.7% to $197.3 million for the year ended December 31, 2008 from $170.4 million for the year ended December 31, 2007. Total network capacity has increased with the installation of the new soft switches, allowing the wholesale segment more flexibility to sell more profitable wholesale traffic. The strengthening of the European currencies against the USD accounted for a $0.9 million increase to revenue, which is included in the above explanation, and which reflects changes in the exchange rates for the year ended December 31, 2008 as compared to the year ended December 31, 2007. The following table reflects net revenue for each major country:

Wholesale Revenue by Country — in USD

	For the year ended December 31, 2008		For the year ended December 31, 2007		Year-over-Year	
	Net Revenue	% of Total Wholesale	Net Revenue	% of Total Wholesale	Variance	Variance %
United States	$ 83,974	43%	$ 65,216	38%	$18,758	29%
United Kingdom	61,614	31%	50,326	30%	11,288	22%
Germany	18,254	9%	21,003	12%	(2,749)	(13)%
France	7,081	4%	8,395	5%	(1,314)	(16)%
Spain	7,462	4%	11,218	6%	(3,756)	(33)%
Italy	18,719	9%	13,053	8%	5,666	43%
Other	174	0%	1,239	1%	(1,065)	(86)%
Total	$ 197,278	100%	$ 170,450	100%	$26,828	16%

(Dollars in thousands, except percentages)

Brazil: Brazil net revenue increased $2.2 million or 27.9% to $10.1 million for the year ended December 31, 2008 from $7.9 million for the year ended December 31, 2007. The increase is primarily attributed to an increase of $2.2 million in retail VoIP.

Cost of revenue: Cost of revenue increased $18.6 million to $569.9 million, or 63.6% of net revenue, for the year ended December 31, 2008 from $551.3 million, or 61.5% of net revenue, for the year ended December 31, 2007. Our mix of revenue has moved towards a greater proportion of wholesale services revenue. We also received a benefit of $6.3 million in 2008 from the 2008 Australian Competition and Consumer Commission (the “ACCC”) ruling (the “ACCC Ruling”) which reduced our cost of revenue and partially offset the increase experienced in line with the revenue growth.

United States: United States cost of revenue decreased $1.1 million primarily due to a $1.9 million decrease in retail voice services and a $0.5 million decrease in Internet services partially offset by a $1.3 million increase in retail VoIP services.

Canada: Canada cost of revenue decreased $1.7 million primarily due to a decrease of $1.2 million in retail voice services, and a decrease of $1.4 million in local services. The decreases were partially offset by increases of $1.1 million in prepaid card services. The strengthening of the CAD against the USD accounted for a $1.7 million increase to cost of revenue, which is included in the services explanation above, and which reflects changes in the exchange rates for the year ended December 31, 2008 as compared to the year ended December 31, 2007.

Europe: Europe cost of revenue decreased by $1.3 million. The decrease is primarily attributable to a $2.7 million decrease in low margin prepaid services and a $1.4 million decrease in wireless services, offset by a $1.3 million increase in retail voice and a $1.6 million increase in VoIP services. The strengthening of the European currencies against the USD accounted for a $1.1 million increase to cost of revenue, which is included in the services explanation above, and which reflects changes in the exchange rates for the year ended December 31, 2008 as compared to the year ended December 31, 2007.

Asia-Pacific: Asia-Pacific cost of revenue decreased $5.8 million primarily due to a decrease of $10.4 million in residential voice services, a decrease of $4.3 million in dial-up Internet services, and a decrease of $1.5 million in DSL services, partially offset by an increase of $4.4 million in business services. We realized a $6.3 million reduction to cost of revenue in 2008 from the 2008 ACCC Ruling and a $7.5 million reduction to the cost of revenue in 2007 from the 2007 ACCC Ruling and related settlement. The strengthening of the AUD against the USD accounted for a $5.2 million increase to cost of revenue, which is included in the services explanation above, and which reflects changes in the exchange rates for the year ended December 31, 2008 as compared to the year ended December 31, 2007.

Wholesale: Wholesale cost of revenue increased $26.1 million or 15.9% to $190.2 million for the year ended December 31, 2008 from $164.1 million for the year ended December 31, 2007 in line with the revenue increase. The strengthening of the European currencies against the USD accounted for a $0.8 million increase to cost of revenue, which is included in the above variance, and which reflects changes in the exchange rates for the year ended December 31, 2007 as compared to the year ended December 31, 2006.

Brazil: Brazil cost of revenue increased $2.3 million due primarily to the increase of $2.2 million in retail VoIP revenue and higher costs as a percentage of net revenue.

Selling, general and administrative expense: Selling, general and administrative expense decreased $20.6 million to $260.4 million, or 29.1% of net revenue, for the year ended December 31, 2008 from $281.0 million, or 31.4% of net revenue, for the year ended December 31, 2007. The decrease in selling, general and administrative expense is mainly attributable to a decrease of $7.6 million in salaries and benefits, a decrease of $3.4 million in advertising expenses, a decrease of $6.7 million in professional fees (described below), and a decrease of $2.7 million for general and administrative expenses.

United States: United States selling, general and administrative expense decreased $8.7 million to $46.3 million for the year ended December 31, 2008 from $55.0 million for the year ended December 31, 2007. The decrease is attributable to a decrease of $3.1 million in salaries and benefits expense due to staff reduction efforts, a decrease of $4.5 million professional fees as the first quarter 2007 included significant expenses for litigation defense and the FIN No. 48 implementation, a decrease of $0.9 million in sales and marketing expenses and a decrease of $1.2 million in general and administrative expense offset, in part, by an increase of $1.0 million in advertising.

Canada: Canada selling, general and administrative expense decreased $2.3 million to $97.9 million for the year ended December 31, 2008 from $100.2 million for the year ended December 31, 2007. The decrease is attributable to a decrease of $5.9 million in advertising, and a decrease of $0.9 million in professional fees, partially offset by an increase of $2.7 million in sales and marketing expenses, an increase of $0.6 million in salaries and benefits and an increase of $1.0 million in occupancy expense.

Europe: Europe selling, general and administrative expense decreased $10.4 million to $21.8 million for the year ended December 31, 2008 from $32.2 million for the year ended December 31, 2007. The decrease is mainly attributable to a decrease of $4.5 in salaries and benefits, a decrease of $2.1 million in sales and marketing expense, a decrease of $1.5 million in occupancy, and a decrease of $2.3 million in general and administrative expenses.

Asia-Pacific: Asia-Pacific selling, general and administrative expense was stable at $82.0 million for the year ended December 31, 2008 as compared to $81.8 million for the year ended December 31, 2007. The change included an increase of $1.4 million advertising, an increase of $0.6 million in sales and marketing expense an increase of $0.5 million in occupancy expense, offset by a decrease of $1.2 million in salaries and benefits and a decrease of $1.2 million in professional fees.

Wholesale: Wholesale selling, general and administrative expense decreased $0.5 million or 5.6% to $8.4 million for the year ended December 31, 2008 from $8.9 million for the year ended December 31, 2007.

Brazil: Brazil selling, general and administrative expense increased $1.0 million to $4.0 million for the year ended December 31, 2008 from $3.0 million for the year ended December 31, 2007. The increase is attributable to an increase of $0.9 million in salaries and benefits expense and an increase of $0.2 million professional fees offset, in part, by a decrease of $0.1 million in other expenses.

Depreciation and amortization expense: Depreciation and amortization expense increased $2.3 million to $32.8 million for the year ended December 31, 2008 from $30.5 million for the year ended December 31, 2007. The increase consists of an increase in depreciation expense of $2.9 million for assets placed in service as we enhanced our network infrastructure and expanded our data centers.

(Gain) loss on sale or disposal of assets: (Gain) loss on sale or disposal of assets was a $6.0 million gain for the year ended December 31, 2008 compared to a $1.5 million loss for the year ended December 31, 2007. In the year ended December 31, 2008, we recognized a gain of $0.8 million associated with the sale of certain surplus fiber assets in the U.S., a gain of $1.7 million associated with a sale of a minority equity investment in a Japanese entity, and a gain of $4.6 million associated with the sale of primarily WiMAX spectrum assets, offset by a loss of $0.9 million associated with disposal of equipment owned by a minority equity investment in Canada.

Interest expense and accretion on debt premium (discount): Interest expense and accretion on debt premium (discount), net decreased $8.5 million to $53.3 million for the year ended December 31, 2008 from $61.8 million for the year ended December 31, 2007. There was an increase of $3.4 million mainly resulting from issuance and exchange of our Original Second Lien Notes, offset by a $10.9 million decrease mainly resulting from reductions in principal outstanding balances of Group’s 12 3/4% senior notes due 2009 (the “12 3/4% Senior Notes”), Group’s step up convertible subordinated debentures due 2009 (the “Debentures”), the U.S. issuer’s 8% senior notes due 2014 (the “8% Senior Notes”), the 5% Exchangeable Senior Notes, and Group’s 3 3/4% convertible senior notes due 2010 (the “3 3/4% Convertible Senior Notes”) and from a decreased interest rate on our variable rate Term Loan Facility.

Gain (loss) on early extinguishment or restructuring of debt: Gain (loss) on early extinguishment or restructuring of debt was a $36.9 million gain for the year ended December 31, 2008 compared to a $7.7 million loss for the year ended December 31, 2007. In the second quarter of 2008, we exchanged $49.0 million principal amount of our 8% Senior Notes, $33.0 million principal amount of our 5% Exchangeable Senior Notes, $43.1 million principal amount of our 3 3/4% Convertible Senior Notes, $5.3 million principal amount of our 12 3/4% Senior Notes for $67.1 million principal amount of our newly issued Original Second Lien Notes and $4.7 million of cash, resulting in a gain on restructuring of debt of $32.3 million including the expensing of related financing costs. We made open market purchases of $0.8 million principal amount of our 12 3/4% Senior Notes, $13.8 million principal amount of our Debentures, and $2.1 million principal amount of our Original Second Lien Notes, resulting in a $4.2 million gain on early extinguishment of debt including the write-off of related deferred financing costs.

In 2007, we converted $5.0 million principal amount of our Debentures to 6.0 million shares of our common stock, resulting in an induced debt conversion expense of $2.3 million, which includes deferred financing cost and discount write-offs. In first quarter of 2007, we issued in a private transaction $57.2 million principal amount of the Original Second Lien Notes in exchange for $40.7 million principal amount of the outstanding 12 3/4% Senior Notes and $23.6 million in cash. This exchange was deemed a debt modification, resulting in a $5.1 million loss on restructuring of debt for financing costs incurred. The remaining $0.9 million of expense in the three months ended June 30, 2007, resulted from costs related to the early retirement of a Canadian credit facility. The losses were offset by our open market purchases of $10.5 million principal amount of our 12 3/4% Senior Notes resulting in a $0.3 million gain on early extinguishment of debt including the write-off of related deferred financing costs and a $0.5 million gain on forgiveness of equipment financing in Brazil.

Interest and other income: Interest and other income of $0.1 million for the year ended December 31, 2008 was mainly interest income, offset by minority interest expense recognized for the gain from the sale of the Canadian WiMAX spectrum assets.

Foreign currency transaction gain (loss): Foreign currency transaction gain (loss) was $47.6 million loss for the year ended December 31, 2008 as compared to $32.7 million gain for the year ended December 31, 2007. The gain and loss 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.

Income tax benefit (expense): Income tax benefit (expense) was a benefit of $0.4 million for year ended December 31, 2008 as compared to a benefit of $9.2 million for the year ended December 31, 2007. In 2008, we closed certain federal and provincial income tax examinations in Canada for the years 2000 through 2005 (federal) and 2001 through 2005 (provincial) with all assessments being received. We also concluded an examination in the Netherlands for the years 2002, 2003, 2004, 2005 and 2006. Based on the final settlement, we reversed our remaining liability in the fourth quarter of 2008.

Results of operations for the year ended December 31, 2007 as compared to the year ended December 31, 2006

Net revenue: Net revenue decreased $97.0 million or 9.8% to $896.0 million for the year ended December 31, 2007 from $993.0 million for the year ended December 31, 2006. Our revenue from broadband, VoIP, local, wireless, data and hosting services contributed $216.1 million for the year ended December 31, 2007, as compared to $182.2 million for the year ended December 31, 2006. Our wholesale carrier and prepaid services contributed $170.5 million and $42.2 million, respectively, for the year ended December 31, 2007, as compared to $207.7 million and $86.6 million, respectively, for the year ended December 31, 2006, causing most of the year over year decline.

United States: United States net revenue decreased $9.7 million or 8.7% to $101.6 million for the year ended December 31, 2007 from $111.3 million for the year ended December 31, 2006. The decrease is primarily attributed to a decrease of $8.9 million in retail voice services (for residential and small businesses and from prepaid services) and a decrease of $2.2 million in Internet services offset, in part, by an increase of $1.4 million in retail VoIP.

Canada: Canada net revenue decreased $12.1 million or 4.4% to $262.2 million for the year ended December 31, 2007 from $274.3 million for the year ended December 31, 2006. The decrease is primarily attributed to a decrease of $9.1 million in voice, a decrease of $16.0 million in prepaid card, which was partially offset by an increase of $12.9 million from growth products, which include local, VoIP, broadband Internet, data and hosting and wireless services. The strengthening of the CAD against the USD accounted for a $16.0 million increase to revenue, which is included in the services explanation above, and which reflects changes in the exchange rates for the year ended December 31, 2007 as compared to the year ended December 31, 2006.

The following table reflects net revenue for each major country in the Americas:

Revenue by Country (Excluding Wholesale)—in USD

	For the year ended		Year-over-Year	
	December 31, 2007 Net Revenue	December 31, 2006 Net Revenue	Variance	Variance %
United States	$ 101,583	$ 111,320	$ (9,737)	(9)%
Canada	$ 262,200	$ 274,318	$(12,118)	(4)%
Brazil	$ 7,918	$ 4,086	$ 3,832	94%

(Dollars in thousands, except percentages)

Europe: European net revenue decreased $25.2 million or 26.7% to $68.9 million for the year ended December 31, 2007 from $94.1 million for the year ended December 31, 2006. The decrease is primarily attributable to a decrease in low margin prepaid services of $29.2 million, partially offset by an increase of $3.7 million in retail voice services and $1.5 million in VoIP. The European prepaid services business declined primarily in Netherlands and the business has ceased operations as of December 31, 2007. The strengthening of the European currencies against the USD accounted for an $8.6 million increase to revenue, which is included in the above explanation, and which reflects changes in the exchange rates for the year ended December 31, 2007 as compared to the year ended December 31, 2006. The following table reflects net revenue for each major country in Europe:

Revenue by Country (Excluding Wholesale) — in USD

	For the year ended December 31, 2007		For the year ended December 31, 2006		Year-over-Year	
	Net Revenue	% of Europe	Net Revenue	% of Europe	Variance	Variance %
United Kingdom	$ 39,037	56%	$ 28,145	30%	$ 10,892	39%
Netherlands	139	0%	34,457	37%	(34,318)	(100)%
Spain	4,613	7%	9,648	10%	(5,035)	(52)%
France	11,038	16%	6,352	7%	4,686	74%
Italy	2,022	3%	2,839	3%	(817)	(29)%
Belgium	9,383	14%	8,635	9%	748	9%
Other	2,711	4%	4,038	4%	(1,327)	(33)%
Europe Total	$ 68,943	100%	$ 94,114	100%	$(25,171)	(27)%

(Dollars in thousands, except percentages)

Asia-Pacific: Asia-Pacific net revenue decreased $16.6 million or 5.5% to $284.9 million for the year ended December 31, 2007 from $301.5 million for the year ended December 31, 2006. The decrease is primarily attributable to a $15.2 million decrease in residential voice services, a $6.0 million decrease in dial-up Internet services, an $8.0 million decrease in business voice services, partially offset by a $12.2 million increase in Australia DSL services. The strengthening of the AUD against the USD accounted for a $34.3 million increase to revenue, which is included in the above explanation, and which reflects changes in the exchange rates for the year ended December 31, 2007 as compared to the year ended December 31, 2006. The following table reflects net revenue for each major country in Asia-Pacific:

Revenue by Country (Excluding Wholesale) — in USD

	For the year ended December 31, 2007		For the year ended December 31, 2006		Year-over-Year	
	Net Revenue	% of Asia-Pacific	Net Revenue	% of Asia-Pacific	Variance	Variance %
Australia	$ 284,935	100%	$ 301,506	100%	$(16,571)	(5)%

(Dollars in thousands, except percentages)

Wholesale: Wholesale net revenue decreased $37.2 million or 17.9% to $170.5 million for the year ended December 31, 2007 from $207.7 million for the year ended December 31, 2006 caused by our de-emphasis on lower-margin revenue streams. The strengthening of the European currencies against the USD accounted for an $11.4 million increase to revenue, which is included in the above explanation, and which reflects changes in the exchange rates for the year ended December 31, 2007 as compared to the year ended December 31, 2006. The following table reflects net revenue for each major country:

Wholesale Revenue by Country — in USD

	For the year ended December 31, 2007		For the year ended December 31, 2006		Year-over-Year	
	Net Revenue	% of Total Wholesale	Net Revenue	% of Total Wholesale	Variance	Variance %
United States	$ 65,216	38%	$ 80,915	39%	$(15,699)	(19)%
United Kingdom	50,326	30%	56,251	27%	(5,925)	(11)%
Germany	21,003	12%	34,607	17%	(13,604)	(39)%
France	8,395	5%	10,481	5%	(2,086)	(20)%
Spain	11,218	6%	8,795	4%	2,423	28%
Italy	13,053	8%	11,569	6%	1,484	13%
Other	1,239	1%	5,073	2%	(3,834)	(76)%
Total	$ 170,450	100%	$ 207,691	100%	$(37,241)	(18)%

(Dollars in thousands, except percentages)

Brazil: Brazil net revenue increased $3.8 million or 93.8% to $7.9 million for the year ended December 31, 2007 from $4.1 million for the year ended December 31, 2006. The increase is primarily attributed to an increase of $3.8 million in retail VoIP services.

Cost of revenue: Cost of revenue decreased $102.6 million to $551.3 million, or 61.5% of net revenue, for the year ended December 31, 2007 from $653.9 million, or 65.8% of net revenue, for the year ended December 31, 2006. We continued to shed certain low margin revenue while growing revenue from our higher margin services. We also received certain regulatory benefits with retro-active treatment in Australia which reduced our cost of revenue.

United States: United States cost of revenue decreased $16.5 million primarily due to a decrease of $10.3 million in retail voice services, a decrease of $1.8 million in Internet services, a decrease of $3.9 million in retail VoIP services and a $0.5 million decreases in wireless services.

Canada: Canada cost of revenue decreased $9.8 million primarily due to a decrease of $6.8 million in retail voice services and a decrease of $8.6 million in prepaid services. The decreases were partially offset by increases of $3.4 million in growth products, which include local, VoIP, data and hosting and wireless services and $3.0 million in Internet services. The strengthening of the CAD against the USD accounted for a $7.3 million increase to cost of revenue, which is included in the services explanation above, and which reflects changes in the exchange rates for the year ended December 31, 2007 as compared to the year ended December 31, 2006.

Europe: European cost of revenue decreased by $20.4 million. The decrease is primarily attributable to a $23.1 million decrease in low margin prepaid services, offset by a $1.2 million increase in VoIP services. The strengthening of the European currencies against the USD accounted for a $5.8 million increase to cost of revenue, which is included in the services explanation above, and which reflects changes in the exchange rates for the year ended December 31, 2007 as compared to the year ended December 31, 2006.

Asia-Pacific: Asia-Pacific cost of revenue decreased $23.4 million primarily due to a decrease of $11.0 million in residential voice services, a decrease of $1.8 million in dial-up Internet services, and a decrease of $5.4 million in business services. We also realized $7.5 million reduction to cost of revenue in the third and fourth quarter of 2007 from the 2007 ACCC ruling and related settlement reflecting recovery of payments related to retroactive price reductions. These decreases were partially offset by an increase of $6.1 million for new DSL services. The strengthening of the AUD against the USD accounted for a $22.6 million increase to cost of revenue, which is included in the services explanation above, and which reflects changes in the exchange rates for the year ended December 31, 2007 as compared to the year ended December 31, 2006.

Wholesale: Wholesale cost of revenue decreased $35.3 million or 17.7% to $164.1 million for the year ended December 31, 2007 from $199.4 million for the year ended December 31, 2006. The strengthening of the European currencies against the USD accounted for an $11.0 million increase to cost of revenue, which is included in the above variance, and which reflects changes in the exchange rates for the year ended December 31, 2007 as compared to the year ended December 31, 2006.

Brazil: Brazil cost of revenue increased $2.7 million primarily due to the increase of $3.8 million in retail VoIP services revenue and higher costs as a percentage of net revenue.

Selling, general and administrative expense: Selling, general and administrative expense increased $2.0 million to $281.0 million, or 31.4% of net revenue, for the year ended December 31, 2007 from $279.0 million, or 28.1% of net revenue, for the year ended December 31, 2006. The increase in selling, general and administrative expense is attributable to an increase of $2.4 million contingency tax accrual related to the European prepaid services business, an increase of $7.6 million for salaries and benefits, an increase of $4.0 million in sales and marketing, an increase of $2.7 million in professional fees, and an increase of $2.2 million in occupancy expenses, partially offset by a decrease of $12.9 million for agent commissions related to prepaid services, a decrease of $1.1 million in advertising expenses, and a decrease of $1.0 million for general and administrative expenses.

United States: United States selling, general and administrative expense was stable at $55.0 million for the year ended December 31, 2007 as compared to $55.1 million for the year ended December 31, 2006. The increase of $1.2 million in advertising expenses primarily attributable to Lingo and an increase of $0.8 million in professional fees was offset by a decrease of $1.4 million in salaries and benefits expense due to cost cutting/staff reduction efforts which is net of $0.5 million of related severance expense in 2007 and a decrease of $0.7 million in sales and marketing expense primarily for agent commissions related to prepaid services.

Canada: Canada selling, general and administrative expense increased $1.9 million to $100.2 million for the year ended December 31, 2007 from $98.3 million for the year ended December 31, 2006. The increase is attributable to an increase of $2.6 million in salaries and benefits which reflects $1.4 million of severance expense on eliminated positions in 2007, an increase of $0.9 million in professional fees, an increase of $0.8 million in occupancy, an increase of $0.6 million in sales and marketing expense, and an increase of $0.6 million in general and administrative expenses. These increases were partially offset by a decrease of $3.8 million in agent commissions related to prepaid services. Canada's 2007 spending reflected an increased shift to direct sales personnel and telemarketing expenses.

Europe: Europe selling, general and administrative expense decreased $7.5 million to $31.8 million for the year ended December 31, 2007 from $39.3 million for the year ended December 31, 2006. The decrease is mainly attributable to a decrease of $8.2 million in sales and marketing expense primarily for agent commissions related to prepaid services, offset by an increase of $0.4 million in salaries and benefits expense which is net of $0.7 million of severance expense in 2007, and a increase of $0.7 million in advertising and a $2.4 million contingency tax accrual related to the European prepaid services business.

Asia-Pacific: Asia-Pacific selling, general and administrative expense increased $6.5 million to $81.8 million for the year ended December 31, 2007 from $75.3 million for the year ended December 31, 2006. The increase is attributable to an increase of $9.3 million in salaries and benefits expense primarily for increased direct sales, sales support, telemarketing and customer care personnel, which includes $0.5 million of severance expense in 2007 and an increase of $1.7 million in occupancy, offset by a decrease of $3.0 million in advertising and a decrease of $1.9 million in general and administrative expenses.

Wholesale: Wholesale selling, general and administrative expense increased $0.8 million or 10.0% to $8.9 million for the year ended December 31, 2007 from $8.1 million for the year ended December 31, 2006.

Brazil: Brazil selling, general and administrative expense was stable at $3.0 million for the year ended December 31, 2007 as compared to $2.8 million for the year ended December 31, 2006.

Depreciation and amortization expense. Depreciation and amortization expense decreased $16.5 million to $30.5 million for the year ended December 31, 2007 from $47.0 million for the year ended December 31, 2006. The decrease consisted of a decrease in depreciation expense of $14.2 million and a decrease in amortization expense of $2.3 million. The decrease is primarily due to the asset impairment recognized in the second quarter of 2006.

Loss on sale or disposal of assets: Loss on sale or disposal of assets decreased $12.7 million to $1.5 million for the year ended December 31, 2007 from $14.2 million for the year ended December 31, 2006. In 2006, we recognized a charge associated with the sale or disposal of specific long-lived assets which were taken out of service. The charge included $8.9 million in the U.S., $2.2 million in the United Kingdom, $1.8 million in Canada and $1.2 million in various other countries and is comprised of network fiber, peripheral switch equipment, software development costs and other network equipment.

Asset impairment write-down: Asset impairment write-down was $206.1 million for 2006 . During the second quarter of 2006, the Company adjusted the carrying value of its long-lived assets and indefinite lived intangible assets to their estimated fair value of $108.7 million and $34.9 million, respectively. The $206.1 million write-down consists of a write-down of $149.3 million in property and equipment, $5.3 million in customer lists and other intangible assets, and $51.6 million in goodwill under the provisions of SFAS No. 144 and SFAS No. 142.

Interest expense: Interest expense, including accretion of debt discount, increased $5.9 million to $61.8 million for the year ended December 31, 2007 from $55.9 million for the year ended December 31, 2006. The increase is the result of $14.0 million from issuance of our Original Second Lien Notes, offset by an $8.1 million decrease mainly resulting from reductions in the outstanding principal amount of our 12 3/4% Senior Notes and the retirement in full in early 2007 of our 2000 convertible subordinated debentures with a stated interest rate of 5 3/4%.

Change in fair value of derivatives embedded within convertible debt: Change in fair value of derivatives embedded within convertible debt was a gain of $5.4 million for the year ended 2006. Our Debentures, 2000 convertible subordinated debentures and 3 3/4% Convertible Senior Notes contained embedded derivatives that required bifurcation from the debt host from February 27 to June 20, 2006. We recognized these embedded derivatives as a current liability in our balance sheet, measured them at their estimated fair value and recognized changes in the fair value of the derivative instruments in earnings. We estimated the fair value of these embedded derivatives using a theoretical model based on the historical volatility of our common stock of 100% as of June 20, 2006. On June 20, 2006, the embedded derivatives no longer qualified for bifurcation. We estimated that the embedded derivatives had a June 20, 2006 (the final valuation date) fair value of $10.3 million. The embedded derivatives derived their value primarily based on changes in the price and volatility of our common stock. The estimated fair value of the embedded derivatives decreased as the price of our common stock decreased. The closing price of our common stock decreased to $0.64 on June 20, 2006 from $0.88 on February 27, 2006, causing the overall value of the derivative instrument to decline. As a result, during the year ended December 31, 2006, we recognized a gain of $5.4 million from the change in estimated fair value of the embedded derivatives.

Gain (loss) on early extinguishment or restructuring of debt: Gain (loss) on early extinguishment or restructuring of debt was a $7.7 million loss for the year ended December 31, 2007 comparing to $7.4 million gain for the year ended December 31, 2006. In 2007, we converted $5.0 million principal amount of our Debentures to 6.0 million shares of our common stock resulting in an induced debt conversion expense of $2.3 million, which included deferred financing cost and discount write-offs. We also issued in a private transaction $57.2 million principal amount of the Original Second Lien Notes, in exchange for $40.7 million principal amount of the our outstanding 12 3/4% Senior Notes and $23.6 million in cash . This exchange was deemed a debt modification, resulting in a $5.1 million loss on restructuring of debt for financing costs incurred. The remaining $0.9 million of expense resulted from costs related to the early retirement of the Canadian credit facility. The losses were offset by our open market purchases of $10.5 million principal amount of our 12 3/4% Senior Notes resulting in a $0.3 million gain on early extinguishment of debt including the write-off of related deferred financing costs and a $0.5 million gain on forgiveness of equipment financing in Brazil.

In June 2006, we exchanged $54.8 million principal amount of the our 3 3/4% Convertible Senior Notes and $20.5 million of cash for $56.3 million principal amount of the 5% Exchangeable Senior Notes and $11.3 million of future cash payments resulting in a gain on restructuring of debt of $4.8 million including the expensing of related financing costs. In March 2006, we exchanged $27.4 million principal amount of our 2000 convertible subordinated debentures for $27.5 million principal amount of our Debentures resulting in a gain on early extinguishment of debt of $1.5 million including the write-off of related deferred financing costs. In January 2006, we exchanged 1,825,000 shares of our common stock for the extinguishment of $2.5 million in principal amount of the 12 3/4% Senior Notes resulting in a $1.2 million gain on early extinguishment of debt including the write-off of related deferred financing costs.

Foreign currency transaction gain: Foreign currency transaction gain increased by $22.0 million to $32.7 million for the year ended December 31, 2007 from $10.7 million for the year ended December 31, 2006. The gain is 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.

Income tax benefit (expense): Income tax benefit (expense) decreased to a benefit of $9.2 million for the year ended December 31, 2007 from $4.9 million expense for the year ended December 31, 2006. The expense for both periods includes foreign withholding tax on intercompany interest and royalty fees owed to our U.S. subsidiaries by our Canadian and Australian subsidiaries. Income tax expense for 2007 also includes a $5.6 million increase of unrecognized tax benefits relating to an ongoing foreign audit and reassessment of foreign tax positions, offset by a $1.7 million release of unrecognized tax benefits as a foreign statutory audit period expired and an $11.1 million release of the Canadian deferred tax valuation allowance.

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, taxes and acquisitions. We have financed our 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 $8.8 million for the year ended December 31, 2008 as compared to net cash provided by operating activities of $11.5 million for the year ended December 31, 2007. For the year ended December 31, 2008, net loss, net of non-cash operating activity, provided $34.1 million of cash. In addition, cash was increased by a reduction in prepaid expenses and other current assets of $10.2 million, a reduction in other assets of $1.9 million, and an increase in accrued interconnection costs of $2.2 million. In 2008, $15.7 million was used with an increase to accounts receivable. We used $5.9 million to reduce accounts payable, $10.6 to reduce our accrued income tax, $5.6 million to reduce our deferred revenue, accrued expenses, and other liabilities and $1.8 million to reduce our accrued interest. For the year ended December 31, 2007, net cash provided by operating activities was $11.5 million for the year ended December 31, 2007 as compared to net cash provided by operating activities of $12.9 million for the year ended December 31, 2006. For the year ended December 31, 2007, net income, net of non-cash operating activity, provided $13.2 million of cash. In addition, cash was increased by a reduction in accounts receivable of $5.3 million, a reduction in other assets of $2.3 million and an increase in accrued income tax for $4.4 million. In 2007, we used $1.6 million to increase prepaid expenses and other current assets, $2.7 million to reduce accounts payable, $6.2 million to reduce accrued interconnection costs, $2.0 million to reduce our deferred revenue, accrued expenses, and other liabilities and $1.2 million to reduce our accrued interest.

Net cash used in investing activities was $18.7 million for the year ended December 31, 2008 compared to $39.5 million for the year ended December 31, 2007. Net cash used in investing activities during the year ended December 31, 2008 included $25.4 million of capital expenditures and $0.6 million for a customer list acquisition in Australia, offset by $4.9 million from the sale of certain primarily rural Canadian WIMAX spectrum assets (the cash proceeds from which can be used for operations within the variable interest entity but requires unanimous shareholder consent for a dividend distribution), $1.7 million net cash proceeds from the disposition of a minority equity investment in Japan and $0.8 million from the disposition of surplus fiber assets. Net cash used in investing activities during the year ended December 31, 2007 included $44.7 million of capital expenditures, $0.7 million to increase restricted cash, and $0.2 million to acquire an additional 39% of a subsidiary, offset by $6.1 million net cash proceeds from the disposition of our Australian Planet Domain subsidiary and a German subsidiary.

Net cash used in financing activities was $28.1 million for the year ended December 31, 2008 as compared to $41.5 million provided by financing activities for the year ended December 31, 2007. During the year ended December 31, 2008, $11.5 million was used to purchase and retire $0.8 million principal amount of our 12 3/4% Senior Notes, $13.8 million principal amount of our Step Up Convertible Subordinated Debentures and $2.1 million principal amount of our 14 1/4% Senior Secured Notes. We also used $16.5 million for payments on capital leases, leased fiber capacity, financing facilities and other long-term obligations. During the year ended December 31, 2007, net cash provided by financing activities consisted of $102.7 million from the issuance of debt, net of issuance costs, which was comprised of $75.2 million principal amount of 14 1/4% Senior Secured Notes for $69.2 million in net cash, and $35.0 million from a credit facility with a financial institution (less $1.5 million in financing costs), and $19.2 million from the sale of 22.5 million shares of our registered common stock; partially offset by the retirement in full of $22.7 million principal amount of our 2000 Convertible Subordinated Debentures, the retirement of $10.5 million principal amount of our 12 3/4% Senior Notes, the repayment in full of a $29.9 million Canadian loan facility and a $4.9 million capital lease financing, and $12.4 million principal payments of capital leases, leased fiber capacity, financing facilities and other long-term obligations.

Short- and Long-Term Liquidity Considerations and Risks

As of December 31, 2008, we had $37.0 million of cash and cash equivalents. On March 16, 2009 the Debtors each filed a voluntary petition for reorganization relief under chapter 11 of the United States bankruptcy code as described in this item under the caption, "—Going Concern and Voluntary Reorganization Under Chapter 11." The filings for bankruptcy constituted an event of default that triggered repayment obligations under a number of debt instruments. As a result of the event of default, all obligations under the affected debt agreements became automatically and immediately due and payable. The affected debt has been classified as a current liability under current portion of long-term obligations on the consolidated balance sheet of the Company as of December 31, 2008. The recent severe downturns in global economic conditions and contraction of capital markets, as well as the significant exchange rate appreciation of the United States dollar, have impaired our near-term possibilities to strengthen the balance sheet opportunistically and improve cash flows through potential refinancing and equity capital infusions. Further, such conditions have made the sale of non-strategic assets and businesses to generate enhanced liquidity difficult to complete on acceptable terms or at all. Additionally, given that the preponderance of our Debtors' holding company obligations are in United States dollars, the recent sharp strengthening of the United States dollar as compared to other foreign currencies has added further concern to our liquidity position with payments from our foreign Operating Subsidiaries yielding less United States dollars recently, as it has become more expensive to such Operating Subsidiaries to purchase United States dollars as the United States dollar has strengthened significantly to such foreign currencies since June 30, 2008 (see "—2008 Results and First Quarter 2009 Plans").

In the third quarter 2008, we instituted cost reductions that included a reduction in total headcount which, together with additional savings in other sales, general and administrative expenses, were expected to generate approximately $15 million in annual savings. Since then, we have experienced significant adverse changes in currency exchange rates that dramatically reduced or offset the benefits that these cost reductions would have otherwise had on our results. As a result, among other things, we are currently focused on completing additional cost reductions that were begun in the fourth quarter 2008. These include efforts to reduce headcount; to moderate advertising and marketing costs to the most productive programs; to reduce the non-sales and marketing cost structure; to focus on improving sales productivity and margin enhancements by leveraging existing network assets and increasing the revenue mix in favor of higher margin growth services; and to reduce administrative costs. We also continue to focus on minimizing capital expenditures and managing working capital. In addition to our cost reduction efforts, we consider the feasibility and timing of transactions, including assets sales, that could raise capital. The sum of these efforts, along with the reorganization of the companies filing bankruptcy petitions, should strengthen our ability to resume growth and a positive cash flow outlook. However, we are uncertain as to the outcome of our petitions for reorganization relief, so at this time, we cannot predict if and when we would emerge as a restructured company. Therefore, substantial doubt exists about our ability to continue as a going concern, and therefore, we may be unable to realize our assets and discharge our liabilities in the normal course of business.

Regardless of the results of our Reorganization efforts, we expect to continue to have significant debt service obligations on a long-term basis. From time to time, we consider the feasibility and timing of transactions that could raise capital for additional liquidity, debt reduction, debt extension, refinancing of existing indebtedness and for additional working capital and growth opportunities. There can be no assurance we will be successful in any of these efforts to consummate timely any such transactions or at all or to obtain any such financing on acceptable terms or at all, especially in consideration of the state of the current global economic and credit situation. Additionally, the Reorganization may result in additional limitations in levels of debt and debt transactions. If we are successful in raising additional financing or issuing our securities in exchange for or extension of debt, securities comprising a significant percentage of our diluted equity capital may be issued in connection with the completion of such transactions. Additionally, if our plans or assumptions change or prove inaccurate, including those with respect to our debt levels, currency exchange rates, competitive developments, developments affecting our network or product initiatives, services, operations or cash from operating activities, if we consummate additional investments or acquisitions, if we experience unexpected costs or competitive pressures or if existing cash and any other borrowings prove to be insufficient, we may need to obtain such financing and/or relief sooner than expected. In such circumstances, there can be no assurance we will be successful in these efforts to obtain new capital at acceptable terms or to exchange or to extend debt. Also there can be no assurance that changes in assumptions or conditions, including those referenced herein and under “Item 1A. Risk Factors,” “Item 3. Legal Proceedings. Legal Proceedings Related to the Chapter 11 Cases” and “—Special Note Regarding Forward-Looking Statements” will not adversely affect our financial condition or short-term or long-term liquidity.

As of December 31, 2008, we have $42.9 million in future minimum purchase obligations, $64.9 million in future operating lease payments and $604.8 million of indebtedness. At December 31, 2008, approximately $90.4 million of unrecognized tax benefits have been recorded in accordance with FIN No. 48. 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. This table is prepared assuming we will continue as a going concern without the possible effects of our reorganization efforts under Chapter 11 or the effects of the changes to the Canadian Financing Facility which became effective March 10, 2009 (both of which are described above in this item). Although a substantial portion of the debt has been classified as current portion of long-term obligations due to the default provisions triggered by the bankruptcy filings, the following table reflects the contractual payments of principal and interest that existed prior to the bankruptcy filings as of December 31, 2008 for all long-term obligations as follows:

Year Ending December 31,	Vendor Financing and Other	Senior Secured Term Loan Facility (1)	Financing Facility	12 3/4% and 8% Senior Notes	3 3/4% Convertible and 5% Exchangeable Senior Notes (2)	Step Up Subordinated Debentures	Senior Secured Notes	Purchase Obligations	Operating Leases	Total
2009	$ 2,528	$ 9,993	$ 2,583	$ 30,875	$ 2,451	$ 9,332	$ 24,679	$ 26,583	$ 17,319	$ 126,343
2010	4,913	9,899	2,583	14,880	59,436	—	24,679	13,957	13,724	144,071
2011	278	94,250	2,583	14,880	—	—	184,657	1,893	10,186	308,727
2012	95	—	35,646	14,880	—	—	—	486	8,559	59,666
2013	62	—	—	14,880	—	—	—	—	6,038	20,980
Thereafter	33	—	—	193,440	—	—	—	—	9,075	202,548
Total Minimum Principal & Interest Payments	7,909	114,142	43,395	283,835	61,887	9,332	234,015	42,919	64,901	862,335
Less: Amount Representing Interest	(886)	(17,892)	(8,395)	(83,649)	(4,318)	(691)	(60,858)	—	—	(176,689)
Face Value of Long-Term Obligations	7,023	96,250	35,000	200,186	57,569	8,641	173,157	42,919	64,901	685,646
Less: Amount Representing Discount	—	—	—	—	(194)	(351)	4,224	—	—	3,679
Add: Exchangeable Notes Interest Treated as Long-Term Obligations (2)	—	—	—	—	1,753	—	21,579	—	—	23,332
Total Long-Term Obligations	$ 7,023	$ 96,250	$ 35,000	$200,186	$ 59,128	$ 8,290	$ 198,960	$ 42,919	$64,901	$ 712,657

(1) For preparation of this table, we have assumed the interest rate of the Senior Secured Term Loan Facility to be 9.38%, which is the interest rate at December 31, 2008.

(2) For preparation of this table, the Company has shown separately the cash interest payments of the 5% Exchangeable Senior Notes and the portion of the 14 1/4% Senior Secured Notes that were issued through troubled debt restructurings as a portion of long-term obligations (see Footnote 5 "*Senior Notes, Senior Secured Notes, Convertible Senior Notes, Exchangeable Senior Notes, Step Up Convertible Subordinated Debentures and Convertible Subordinated Debentures*" of our Consolidated Financial Statements set forth under Item 8 of this report on Form 10-K). The interest due on the 5% Exchangeable Senior Notes in 2009 and 2010 is $1.2 million and $0.6 million, respectively. The interest due on this portion of the 14 1/4% Senior Secured Notes in 2009, 2010 and 2011 is $8.7 million, $8.7 million and $4.1 million, respectively.

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 $26.6 million, $14.0 million, $1.9 million and $0.5 million remaining in 2009, 2010, 2011 and 2012, respectively.

The indentures governing the senior notes, senior secured notes, senior secured term loan facility, convertible and exchangeable senior notes, and step up convertible subordinated debentures, as well as certain other credit arrangements, contain certain financial and other covenants which, among other things, by their terms restrict our ability to incur further indebtedness and make certain payments, including the payment of dividends and repurchase of subordinated debt held by us. In addition, outstanding indentures and certain credit arrangements include provisions that by their terms would create, after the defined passage of time, and under certain instruments, after the entry of final judgment, an event of default for each of the instruments, should there be an event of default on any one or more of the instruments that have an aggregate principal amount outstanding in excess of certain thresholds as defined in the various indentures and certain credit arrangements. Currently, the lowest such threshold is $20 million. We believe we were in compliance with the above covenants at December 31, 2008.

However, the filing of the Chapter 11 Cases on March 16, 2009 described in this filing constituted an event of default that triggered repayment obligations under a number of debt instruments of the Debtors (the “Debt Documents”). As a result of the event of default, all obligations under the Debt Documents became automatically and immediately due and payable. The Debtors believe that any efforts to enforce the payment obligations under the Debt Documents against the Debtors are stayed as a result of the filing of such Chapter 11 Cases in the Bankruptcy Court (subject to exceptions contemplated by the Term Loan Modification Term Sheet following Bankruptcy Court approval) and the Debtors will reserve rights and shall take such action as appropriate to stay any efforts to enforce the payment obligations against non-Debtor guarantors. The Debt Documents and the approximate principal amount of debt currently outstanding thereunder are as follows:

1. $96 million Senior Secured Term Loan Facility of Group due February 2011.
2. $173 million 14 1/4% Senior Secured Notes of IHC due May 2011.
3. $23 million 5% Exchangeable Senior Notes of Holding due June 2010.
4. $186 million 8% Senior Notes of Holding due January 2014.
5. $34 million 3 3/4% Convertible Senior Notes of Group due September 2010.
6. $14 million 12 3/4% Senior Notes of Group due October 2009.
7. $9 million Step Up Convertible Subordinated Debentures of Group due August 2009.

Additionally, the filing of the Chapter 11 Cases constituted an event of default through a cross default provision of the Canadian Financing Facility, which was addressed through a waiver under, and subject to the terms of, the Waiver and Amendment (see “Item 3. Legal Proceedings; Legal Proceedings Related to the Chapter 11 Cases—Canadian Financing Facility”).

The Debtors have received the support of a majority of the impaired noteholders entitled to a distribution under a Plan Support Agreement, which provides for a recovery to subordinated security holders upon the achievement of certain threshold enterprise values of the Reorganized Group. The requisite lenders under the $100 million senior secured Term Loan have agreed to the Term Loan Modification Term Sheet concerning a Term Loan amendment that is to be documented and executed upon satisfaction of a number of conditions precedent, including replacement Administrative Agent approval. The Term Loan amendment is subject to the consent of certain noteholders of the Debtors. While the Term Loan Modification Term Sheet is not an effective amendment to the Term Loan, it does represent an agreement in principle with the Term Loan Ad Hoc Committee and it reflects the elevated nature of negotiations with the senior secured Term Loan lenders and support by the Term Loan lenders of possible modifications to the Plan.

The filing of the Chapter 11 Cases did not create a need to seek debtor-in-possession financing due to the fact that all business expenses are handled at the Operating Subsidiary level and should not be affected by filing. Thus, our Operating Subsidiaries are unaffected by, and are not part of, the Plan and are expected to continue to manage and to operate their businesses without interruption. Employees, customers, suppliers and partners of these Operating Subsidiaries should be unaffected by the filing of the Chapter 11 Cases. We believe that the Operating Subsidiaries, as well as the Debtors, have adequate cash available to support their operations while the Debtors seek Bankruptcy Court confirmation of the Plan. However, if the Debtors remain in Chapter 11 beyond the anticipated 90-120 day period following the Petition Date, the Debtors may be faced with the need to secure DIP Financing. It is not certain that we can secure DIP Financing and, if we can, at what cost. The Reorganization is subject to a number of uncertainties and contingencies (see the following paragraph, "Item 1A. Risk Factors—Bankruptcy Considerations and Uncertainties" and "Item 3. Legal Proceedings; Legal Proceedings Related to the Chapter 11 Cases"), and is subject to Bankruptcy Court confirmation.

The Term Loan is guaranteed by Group, PTII, IHC, Holding and certain of Holding's United States operating subsidiaries and is secured by certain assets of Holding and of certain United States operating subsidiaries and by partial stock pledges of certain foreign subsidiaries. The Chapter 11 filings by the Debtors have effectively stayed any rights the Term Loan lenders may have with respect to Group's foreign subsidiaries. However, if we are unsuccessful in reaching a Term Loan amendment or other mutually agreeable resolution with the Term Loan lenders, we intend to assert our rights and may seek certain relief in connection therewith, but we cannot give any assurances as to the ultimate outcome of such actions. See "Item 3. Legal Proceedings; Legal Proceedings Related to the Chapter 11 Cases". See also "—Special Note Regarding Forward Looking Statements".

Newly Adopted Accounting Principle

Effective January 1, 2008, we adopted the provisions of SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. We elected not to apply fair value on our existing financial assets and liabilities upon adoption. Therefore, this adoption did not have a material effect on our results of operations, financial position or cash flows.

Effective January 1, 2008, we adopted SFAS No. 157, "Fair Value Measurements," for all financial instruments accounted for at fair value on a recurring basis. We do not have any non-financial instruments accounted for at fair value on a recurring basis. SFAS No. 157 establishes a new framework for measuring fair value and expands related disclosures. Broadly, the SFAS No. 157 framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. SFAS No. 157 establishes market or observable inputs as the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs.

In February 2008, the FASB issued a final FASB Staff Position ("FSP") No. FAS 157-2, "Effective Date of FASB Statement No. 157." FSP No. 157-2 delays the effective date of SFAS No. 157, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. In addition, FSP No. 157-2 removes certain leasing transactions from the scope of SFAS No. 157. The effective date of SFAS No. 157 for nonfinancial assets and liabilities has been delayed by one year to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. SFAS No. 157 for financial assets and liabilities is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years.

In July 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes," which is effective for fiscal years beginning after December 15, 2006. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS Statement No. 109, "Accounting for Income Taxes." This Interpretation prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return. See Note 6—"Income Taxes."

New Accounting Pronouncements

In May 2008, the FASB issued FSP No. 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." FSP No. 14-1 requires issuers of convertible debt securities to separate securities into a debt component and an equity component, resulting in the debt component being recorded at fair value without consideration given to the conversion feature. Issuance costs are also allocated between the debt and equity components. FSP No. 14-1 requires that convertible debt within its scope reflect a company's nonconvertible debt borrowing rate when interest expense is recognized. FSP No. 14-1 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. We anticipate that the adoption of this standard will not have a material impact on our results of operations, financial position and cash flows.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 identifies the sources of accounting principles and provides the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS No. 162 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the impact of SFAS No. 162 on our financial statements and anticipate that the adoption of this standard will not have a material impact on our results of operations, financial position and cash flows.

In March 2008, the Financial Accounting Standard Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, "Disclosures about Derivative Instruments and Hedging Activities." SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging" with the intent to provide users of financial statements with an enhanced understanding of use of derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's financial statements. SFAS No. 161 is effective for financial statements issued for fiscal years after July 1, 2009. We anticipate that the adoption of this standard will not have a material impact on our results of operations, financial position and cash flows.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations." SFAS No. 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, any business combinations we engage in will be recorded and disclosed following existing GAAP until January 1, 2009. We anticipate that the adoption of this standard will have an impact on our consolidated financial statements for prospective business combinations, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions we consummate after the effective date.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements," an amendment to ARB No. 51, "Consolidated Financial Statements." This statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. Due to the immaterial size of the noncontrolling interest in

Globility Communications Corporations as discussed under the *Principles of Consolidation* section of Footnote 2 to the consolidated financial statements, which is approximately $2.8 million, we anticipate that the adoption of this standard will not have a material impact on our results of operations, financial position and cash flows.

Special Note Regarding Forward Looking Statements

Certain statements in this Annual Report on Form 10-K and elsewhere 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:

- the Debtors’ plan of reorganization or any amended plan of reorganization;
- the Term Loan Modification Term Sheet;
- pre- and post-restructuring financial condition, financing requirements, prospects, cash flow and ongoing impacts of the Reorganization on our operations;
- 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, whether in connection with the Reorganization or otherwise;
- liquidity and debt service forecast;
- assumptions regarding currency exchange rates;
- timing, extent and effectiveness of cost reduction initiatives and management’s ability to moderate or control discretionary spending;
- management’s plans, goals, expectations, guidance, objectives, strategies, and timing for future operations, acquisitions, asset dispositions, product plans, performance and results;
- management’s assessment of market factors and competitive developments, including pricing actions and regulatory rulings; and
- ability to generate net cash proceeds from the disposition of selective assets without material impairment to profitability.

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 ability of the Debtors to obtain requisite consent and support of the Term Loan lenders to the Reorganization, whether by amendment to the Term Loan in a manner consistent with the Term Loan Modification Term Sheet, or otherwise, and to obtain consent of certain noteholders to the treatment of the Term Loan lenders by amendment of the Term Loan agreement on the terms contemplated by the Term Loan Modification Term Sheet;
- the occurrence of any termination event under the Forbearance Agreement;
- the occurrence of a default or event of default under the Term Loan that is not covered by the waiver of Forbearance Defaults and Covenants under the Forbearance Agreement;
- to confirm and consummate the contemplated Chapter 11 plans of reorganization timely;
- the potential adverse impact of the Chapter 11 filings on the operations, management and employees of the Debtors and their subsidiaries, and the risks associated with operating businesses under Chapter 11 protection;
- the potential need to modify or amend the contemplated Chapter 11 plans of reorganization;
- professional fees incurred in the Chapter 11 Cases in excess of estimates;
- the potential need to secure an approved debtor-in-possession financing facility;
- customer, vendor, carrier and third-party responses to the Chapter 11 filings;
- potential adverse actions that may be pursued by certain senior lenders, including the Term Loan group;
- risk factors or uncertainties listed or identified in Bankruptcy Court filings or SEC filings in the future, as well as the factors affecting our ongoing business, as described below;
- 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;
- adverse interest rate developments affecting our variable interest rate debt;
- 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 DSL networks;
- inadequate financial resources to promote and to market product initiatives;
- 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, whether in connection with the Reorganization or otherwise;
- the impact of the delisting of our common stock from the Nasdaq Capital Market which may impair our ability to raise capital;
- 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;

- 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; and
- the potential further elimination or limitation of a substantial amount or all of our United States or foreign operating loss carryforwards due to the Reorganization, future significant issuances of equity securities, changes in ownership or other circumstances, which carryforwards would otherwise be available to reduce future taxable income.

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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Management's Report on Internal Control Over Financial Reporting

The management of Primus Telecommunications Group, Incorporated ("Primus" or the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control system over financial reporting is designed 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. The Company's internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

2. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with United States generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the company; and

3. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in condition, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of its internal control over financial reporting as of December 31, 2008. 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 management's assessment and those criteria, management concludes that Primus did not maintain effective internal control over financial reporting as of December 31, 2008, due to the material weakness in the Company's internal control over accounting for income taxes (details provided in Item 9A. Controls and Procedures of the Company's Annual Report on Form 10-K for the period ended December 31, 2008). This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

/s/ K. PAUL SINGH **K. Paul Singh** **Chairman, President and Chief Executive Officer and Director**	April 15, 2009
/s/ THOMAS R. KLOSTER **Thomas R. Kloster** **Chief Financial Officer** **(Principal Financial Officer)**	April 15, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Primus Telecommunications Group, Incorporated and subsidiaries
McLean, Virginia

We have audited the accompanying consolidated balance sheets of Primus Telecommunications Group, Incorporated and subsidiaries (in reorganization under Chapter 11 of the Federal Bankruptcy Code since March 16, 2009 – see Note 2) (the “Company”) as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders’ deficit, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule included herein. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Primus Telecommunications Group, Incorporated and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the financial statements, the Company has filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. The accompanying financial statements do not purport to reflect or provide for the consequences of the bankruptcy proceedings. In particular, such financial statements do not purport to show (1) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (2) as to prepetition liabilities, the amounts that may be allowed for claims or contingencies, or the status and priority thereof; (3) as to stockholder accounts, the effect of any changes that may be made in the capitalization of the Company; or (4) as to operations, the effect of any changes that may be made in its business.

The accompanying consolidated financial statements for the year ended December 31, 2008, have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company’s negative working capital, stockholders’ deficit, and inability to generate sufficient cash flow to meet its obligations that resulted in its filing for bankruptcy raise substantial doubt about its ability to continue as a going concern. Management’s plans concerning these matters are also discussed in Note 2 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 6 to the consolidated financial statements, in 2007 the Company changed its method of accounting for uncertain tax positions to conform to Financial Accounting Standards Board (“FASB”) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*.

/s/ Deloitte & Touche LLP

McLean, Virginia
April 15, 2009, except for Note 21, paragraphs six and seven as to which the date is November 30, 2009

Primus Telecommunications Group, Incorporated

Consolidated Statements of Operations
(in thousands, except per share amounts)

	For the Year Ended December 31, 2008	2007	2006
NET REVENUE	$895,863	$896,029	$ 993,034
OPERATING EXPENSES			
Cost of revenue (exclusive of depreciation included below)	569,865	551,303	653,905
Selling, general and administrative	260,430	281,010	278,951
Depreciation and amortization	32,791	30,529	47,002
(Gain) loss on sale or disposal of assets	(6,028)	1,463	14,158
Asset impairment write-down	—	—	206,139
Total operating expenses	857,058	864,305	1,200,155
INCOME (LOSS) FROM OPERATIONS	38,805	31,724	(207,121)
INTEREST EXPENSE	(53,888)	(61,347)	(54,128)
ACCRETION ON DEBT PREMIUM (DISCOUNT), NET	583	(449)	(1,732)
CHANGE IN FAIR VALUE OF DERIVATIVES EMBEDDED WITHIN CONVERTIBLE DEBT	—	—	5,373
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT, NET	36,872	(7,652)	7,409
INTEREST AND OTHER INCOME	3,279	5,665	2,584
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	(47,563)	32,699	10,668
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(21,912)	640	(236,947)
INCOME TAX BENEFIT (EXPENSE)	366	9,232	(4,863)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(21,546)	9,872	(241,810)
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(326)	(268)	(4,673)
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax	—	6,132	7,415
NET INCOME (LOSS)	$ (21,872)	$ 15,736	$ (239,068)
Less: Net (income) loss attributable to the noncontrolling interest	(3,159)	—	1,110
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (25,031)	$ 15,736	$ (237,958)
BASIC INCOME (LOSS) PER COMMON SHARE:			
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (0.17)	$ 0.07	$ (2.14)
Loss from discontinued operations	(0.01)	(0.00)	(0.05)
Gain from sale of discontinued operations	—	0.05	0.07
Net income (loss)	$ (0.18)	$ 0.12	$ (2.12)
DILUTED INCOME (LOSS) PER COMMON SHARE:			
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (0.17)	$ 0.06	$ (2.14)
Loss from discontinued operations	(0.01)	(0.00)	(0.05)
Gain from sale of discontinued operations	—	0.03	0.07
Net income (loss)	$ (0.18)	$ 0.09	$ (2.12)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic	142,643	128,771	112,366
Diluted	142,643	196,470	112,366
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED			
Income (loss) from continuing operations, net of tax	$ (24,705)	$ 9,872	$ (240,700)
Loss from discontinued operations	(326)	(268)	(4,673)
Loss from sale of discontinued operations	—	6,132	7,415
Net income (loss)	$ (25,031)	$ 15,736	$ (237,958)

See notes to consolidated financial statements.

Primus Telecommunications Group, Incorporated

Consolidated Balance Sheets
(in thousands, except share amounts)

	December 31, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 37,000	$ 81,282
Restricted cash	—	362
Accounts receivable (net of allowance for doubtful accounts receivable of $9,710 and $12,039)	99,483	113,588
Prepaid expenses and other current assets	15,846	28,660
Total current assets	152,329	223,892
RESTRICTED CASH	8,133	9,677
PROPERTY AND EQUIPMENT — Net	112,152	144,599
GOODWILL	32,688	40,134
OTHER INTANGIBLE ASSETS — Net	746	1,557
OTHER ASSETS	24,396	40,544
TOTAL ASSETS	$ 330,444	$ 460,403
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 58,671	$ 74,893
Accrued interconnection costs	41,422	44,911
Deferred revenue	13,303	16,513
Accrued expenses and other current liabilities	42,440	54,420
Accrued income taxes	18,213	30,791
Accrued interest	10,248	12,460
Current portion of long-term obligations	564,797	11,228
Total current liabilities	749,094	245,216
LONG-TERM OBLIGATIONS	40,040	662,675
OTHER LIABILITIES	35	1
Total liabilities	789,169	907,892
COMMITMENTS AND CONTINGENCIES (See Note 8.)		
STOCKHOLDERS' DEFICIT:		
Primus Telecommunications Group, Incorporated Stockholders' Deficit:		
Preferred stock: Not Designated, $0.01 par value — 1,410,050 shares authorized; none issued and outstanding; Series A and B, $0.01 par value — 485,000 shares authorized; none issued and outstanding; Series C, $0.01 par value — 559,950 shares authorized; none issued and outstanding	—	—
Common stock, $0.01 par value — 300,000,000 shares authorized; 142,695,390 and 142,632,540 shares issued and outstanding	1,427	1,426
Additional paid-in capital	718,956	718,695
Accumulated deficit	(1,099,809)	(1,074,778)
Accumulated other comprehensive loss	(82,113)	(92,883)
Total Primus Telecommunications Group, Incorporated stockholders' deficit	(461,539)	(447,540)
Noncontrolling interest	2,814	51
Total stockholders' deficit	(458,725)	(447,489)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 330,444	$ 460,403

See notes to consolidated financial statements.

Primus Telecommunications Group, Incorporated

Consolidated Statements of Stockholders' Deficit
(in thousands)

	Common Stock						
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Stockholders' Deficit
BALANCE, JANUARY 1, 2006	105,255	$1,053	$686,196	$ (844,895)	$ (78,688)	$ 1,153	$ (235,181)
Common shares issued for cash	6,667	66	4,934	—	—	—	5,000
Common shares issued under employee stock purchase plan	102	1	57	—	—	—	58
Common shares issued in exchange for the Company's senior notes	1,825	18	1,333	—	—	—	1,351
Stock option compensation expense	—	—	545	—	—	—	545
Offering cost for sale of stock	—	—	(124)	—	—	—	(124)
Foreign currency translation adjustment	—	—	—	—	(793)	—	(793)
Net loss	—	—	—	(237,958)	—	(1,110)	(239,068)
BALANCE, DECEMBER 31, 2006	113,849	1,138	692,941	(1,082,853)	(79,481)	43	(468,212)
Common shares issued in private equity offering	22,500	225	19,124	—	—	—	19,349
Offering cost for sale of stock	—	—	(179)	—	—	—	(179)
Common shares issued for compensation	284	3	(3)	—	—	—	—
Common shares issued in exchange for the Company's debentures	6,000	60	6,566	—	—	—	6,626
Stock option compensation expense	—	—	246	—	—	—	246
Adjustment from implementation of FIN No. 48	—	—	—	(7,661)	—	—	(7,661)
Foreign currency translation adjustment	—	—	—	—	(13,402)	8	(13,394)
Net income	—	—	—	15,736	—	—	15,736
BALANCE, DECEMBER 31, 2007	142,633	1,426	718,695	(1,074,778)	(92,883)	51	(447,489)
Common shares issued for vesting of restricted stock units	62	1	(1)	—	—	—	—
Stock option compensation expense	—	—	262	—	—	—	262
Foreign currency translation adjustment	—	—	—	—	10,770	(396)	10,374
Net loss	—	—	—	(25,031)	—	3,159	(21,872)
BALANCE, DECEMBER 31, 2008	142,695	$1,427	$718,956	$(1,099,809)	$ (82,113)	$ 2,814	$ (458,725)

See notes to consolidated financial statements.

Primus Telecommunications Group, Incorporated

Consolidated Statements of Cash Flows
(in thousands)

	For the Year Ended December 31, 2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (21,872)	$ 15,736	$ (239,068)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for doubtful accounts receivable	11,940	10,493	15,094
Stock compensation expense	262	246	545
Depreciation and amortization	32,798	30,594	48,156
(Gain) loss on sale or disposal of assets	(6,028)	(4,668)	8,706
Asset impairment write-down	—	—	209,248
Accretion of debt discount	(583)	449	1,732
Change in fair value of derivatives embedded within convertible debt	—	—	(5,373)
Deferred income taxes	5,838	(12,463)	—
(Gain) loss on early extinguishment of debt	(36,872)	7,652	(7,409)
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	48,588	(34,862)	(11,736)
Changes in assets and liabilities, net of acquisitions:			
(Increase) decrease in accounts receivable	(15,658)	5,275	14,825
(Increase) decrease in prepaid expenses and other current assets	10,191	(1,556)	9,367
Decrease in other assets	1,877	2,309	1,173
Increase in accounts payable	(5,930)	(2,652)	(18,427)
Increase (decrease) in accrued interconnection costs	2,243	(6,244)	(18,210)
Increase (decrease) in accrued expenses, deferred revenue, other current liabilities and other liabilities	(5,640)	(2,029)	1,823
Increase (decrease) in accrued income tax	(10,625)	4,352	2,000
Increase (decrease) in accrued interest	(1,750)	(1,165)	424
Net cash provided by operating activities	8,779	11,467	12,870
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(25,441)	(44,745)	(33,016)
Sale of property and equipment and intangible assets	5,756	—	—
Cash from disposition of business, net of cash disposed	1,676	6,140	12,947
Cash used in business acquisitions, net of cash acquired	(583)	(200)	(227)
(Increase) decrease in restricted cash	(102)	(668)	2,427
Net cash used in investing activities	(18,694)	(39,473)	(17,869)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase of the Company's debt securities	(11,534)	—	—
Proceeds from issuance of long-term obligations	—	109,275	35,291
Deferred financing costs	—	(6,570)	(2,850)
Principal payments on long-term obligations	(16,545)	(80,415)	(11,907)
Proceeds from sale of common stock, net of issuance costs	—	19,170	4,934
Net cash provided by (used in) financing activities	(28,079)	41,460	25,468
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(6,288)	3,511	849
NET CHANGE IN CASH AND CASH EQUIVALENTS	(44,282)	16,965	21,318
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	81,282	64,317	42,999
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 37,000	$ 81,282	$ 64,317
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 53,442	$ 59,933	$ 51,487
Cash paid for taxes	$ 1,908	$ 1,056	$ 2,971
Non-cash investing and financing activities:			
Capital lease additions	$ 775	$ 2,418	$ 135
Leased fiber capacity additions	$ —	$ 1,786	$ —
Property and equipment, accrued in current liabilities	$ —	$ 883	$ —
Settlement of outstanding debt with issuance of common stock	$ —	$ 6,626	$ 1,351
Settlement of outstanding debt with issuance of new convertible debt	$ —	$ —	$ (27,417)
Issuance of new convertible debt in exchange for convertible subordinated debentures	$ —	$ —	$ 27,481
Settlement of outstanding debt with issuance of new exchangeable debt	$ —	$ —	$ (54,750)
Issuance of new exchangeable debt in exchange for convertible senior debentures	$ —	$ —	$ 47,102
Settlement of outstanding debt with issuance of new senior secured debt	$(133,159)	$ —	$ —
Issuance of new senior secured debt in exchange for outstanding debt	$ 88,794	$ —	$ —
Business disposition proceeds in note receivable	$ —	$ 845	$ —
Business acquisition financed with note payable	$ 247	$ —	$ —

See notes to consolidated financial statements.

Primus Telecommunications Group, Incorporated

Consolidated Statements of Comprehensive Income (loss)
(in thousands)

	For the Year Ended December 31,		
	2008	2007	2006
NET INCOME (LOSS)	$(21,872)	$ 15,736	$(239,068)
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation adjustment	10,374	(13,394)	(444)
Reclassification of foreign currency translation adjustment for loss from the foreign business disposition included in net loss	—	—	(349)
COMPREHENSIVE INCOME (LOSS)	(11,498)	2,342	(239,861)
Comprehensive income (loss) attributable to the noncontrolling interest	(2,763)	(8)	1,110
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$(14,261)	$ 2,334	$(238,751)

See notes to consolidated financial statements.

1. Organization and Business

Primus Telecommunications Group, Incorporated, ("Primus" or the "Company") is an integrated telecommunications services provider offering a portfolio of international and domestic voice, wireless, Internet, voice-over-Internet protocol (VOIP), data and hosting services to business and residential retail customers and other carriers located primarily in the United States, Australia, Canada, the United Kingdom and western Europe. The Company's focus is to service the demand for high quality, competitively priced communications services that is being driven by the globalization of the world's economies, the worldwide trend toward telecommunications deregulation and the growth of broadband, Internet, VOIP, wireless and data traffic.

The Company targets customers with significant telecommunications needs, including small- and medium-sized enterprises (SMEs), multinational corporations, residential customers, and other telecommunications carriers and resellers. The Company provides services over its global network, which consists of:

- 18 carrier-grade international gateway and domestic switching systems (the hardware/software devices that direct the voice traffic across the network) in the United States, Canada, Europe and the Asia-Pacific region;
- approximately 500 interconnection points to the Company's network, or points of presence (POPs), which includes digital subscriber line access (DSLAM), within its service regions and other markets;
- undersea and land-based fiber optic transmission line systems that the Company owns or leases and that carry voice and data traffic across the network; and
- global network and data centers that use a high-bandwidth network standard (asynchronous transfer mode) and Internet-based protocol (ATM+IP) to connect with the network. The global VOIP network is based on routers and gateways with an open network architecture which connects the Company's partners in over 150 countries.

The Company is incorporated in the state of Delaware and operates as a holding company of wholly-owned operating subsidiaries primarily in the United States, Canada, Australia, the United Kingdom and western Europe.

2. Summary of Significant Accounting Policies

Going Concern and Voluntary Reorganization under Chapter 11 — The consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which reflects the realization of assets and liquidation of liabilities in the normal course of business. The Company's negative working capital, stockholders' deficit, and inability to generate sufficient cash flow to meet its obligations give rise to substantial doubt about the Company's ability to meet cash needs for operations and debt service over the next twelve months and have resulted in filing for voluntary reorganization under Chapter 11 of the bankruptcy code on March 16, 2009 as described below. The Company is uncertain as to the outcome of its petitions for reorganization relief, so at this time, it can not predict if and when it would emerge as a restructured company. Therefore, substantial doubt exists about the Company's ability to continue as a going concern, and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. These financial statements do not include any adjustments that might result from this uncertainty, including those relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should we be unable to continue as a going concern.

On March 16, 2009 (the "Petition Date"), Primus Telecommunications Group, Incorporated ("Group" or "PTGI"), and three of its subsidiaries, Primus Telecommunications Holding, Inc. ("Holding" or "PTHI"), Primus Telecommunications International, Inc. ("PTII") and Primus Telecommunications IHC, Inc., ("IHC" and together with Group, Holding and PTII, collectively, the "Debtors") each filed a voluntary petition (collectively, the "Chapter 11 Cases") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") for reorganization relief ("Reorganization") under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.*, as amended (the "Bankruptcy Code"). The Reorganization remains subject to Bankruptcy Court confirmation and a creditors' committee has not been appointed in these cases by the United States Trustee. Also on the Petition Date, the Debtors filed a plan of reorganization and disclosure statement with respect thereto. On April 8, 2009, the Debtors filed the First Amended Joint Plan of Reorganization of Primus Telecommunications Group, Incorporated and its Affiliate Debtors (the "Plan") and the disclosure statement with respect to the Plan (the "Disclosure Statement").

As petitioned, the Debtors will continue to operate their businesses and manage their properties as debtors in possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court.

Group's subsidiaries other than Holding, IHC and PTII are not part of the plan of reorganization of the Debtors. Operating subsidiary companies, including those in the United States, Australia, Canada, India, Europe and Brazil (the "Operating Subsidiaries"), are not party to the Reorganization and are expected to continue to manage and to operate their businesses without interruption. Employees, customers, suppliers and partners of these Operating Subsidiaries should be unaffected by the filing of the Chapter 11 Cases.

On March 16, 2009, the Debtors entered into a plan support agreement (the "Plan Support Agreement") with the holders of more than the majority of the outstanding principal amount of IHC's 14 1/4% Senior Secured Notes due May 2011 (the "14 1/4% Senior Secured Notes") and more than the majority of the combined outstanding principal amount of Holding's 5% Exchangeable Senior Notes due June 2010 and 8% Senior Notes due January 2014 (collectively, the "Senior Notes"). The parties to the Plan Support Agreement have agreed to support a plan of reorganization of the Debtors on the terms and conditions set forth in the plan term sheet to the Plan Support Agreement (the "Plan Term Sheet") and not to support, directly or indirectly, any other plan, in exchange for the Debtors' agreement to implement all steps necessary to solicit the requisite acceptances of such plan and obtain from the Bankruptcy Court an order confirming such plan in accordance with the terms of the Plan Support Agreement. The Plan Support Agreement may be terminated under certain circumstances, including in the event that such plan and related disclosure statement are not approved by certain deadlines, such plan is not consummated within a certain period of time after its filing with the Bankruptcy Court, a party materially breaches the Plan Support Agreement, a trustee or examiner with enlarged powers relating to the Debtors' business is appointed in the Chapter 11 Cases, the Chapter 11 Cases are converted to cases under chapter 7 of the Bankruptcy Code or the Bankruptcy Court grants relief that is inconsistent with the Plan Support Agreement or the Plan Term Sheet.

Certain lenders, who were not party to the Plan Support Agreement, under the $100 million senior secured term loan among Holding and Group (as obligors) and certain affiliated subsidiary guarantors (the "Term Loan") have (i) agreed to a term sheet dated April 14, 2009 concerning a Term Loan amendment that is to be documented and executed upon satisfaction of a number of conditions precedent, including replacement of the Administrative Agent and establishment of a replacement Administrative Agent, and (ii) executed a forbearance agreement in which Term Loan lenders have agreed to forbear from exercising rights and remedies related to certain defaults and events of default under the Term Loan. The Term Loan amendment is subject to the consent of certain noteholders of the Debtors. The Term Loan forbearance agreement and Term Loan term sheet reflect the elevated nature of negotiations with the senior secured Term Loan lenders concerning support by the Term Loan lenders of a plan of reorganization of the Debtors, provided modification of the Term Loan can be effected as contemplated by the Term Loan term sheet; however, a definitive amendment to the Term Loan has not been negotiated and documented in full, and such amendment is subject to consent by certain noteholders under the Plan and ultimately must be approved by the Bankruptcy Court. (See Note 5 — "Long-Term Obligations — Senior Secured Term Loan Facility")

The Term Loan is guaranteed by Group, PTII, IHC, Holding and certain of Holding's United States operating subsidiaries and is secured by certain assets of Holding and of certain United States operating subsidiaries and by partial stock pledges of certain foreign subsidiaries. If the Company is unsuccessful in obtaining Bankruptcy Court approval and the requisite approval of the creditors in the Chapter 11 Cases, and depending on the subsequent actions of the Term Loan lenders, the Company may seek a stay from the Bankruptcy Court to prevent the Term Loan lenders from seeking to enforce any claim against the United States non-Debtor guarantors, including the related collateral.

In addition, the Company has obtained waivers of the lenders under a Canadian Financing Facility (see Note 5 — "Long-Term Obligations") with regard to the Chapter 11 Cases and the Reorganization.

Under the proposed plan of reorganization contemplated by the Plan Term Sheet:

- Holding's Term Loan facility due February 2011 will be reinstated; provided that the terms of the reinstated Term Loan facility may be improved, subject to the consent of the requisite holders of the 14 $^{1}/_{4}$% Senior Secured Notes and Senior Notes, which consent shall not be unreasonably withheld; and provided further that if the holders of the Term Loan facility contest this treatment, the Debtors reserve the right to impair such claims, subject to the consent of the requisite holders of 14 $^{1}/_{4}$% Senior Secured Notes and Senior Notes, which consent shall not be unreasonably withheld; (Subsequent to the execution of the Plan Support Agreement, the Primus Term Loan Parties executed a forbearance agreement and agreed to a term sheet with certain Term Loan lenders. See Note 5 — Long-Term Obligations.)
- holders of 14 $^{1}/_{4}$% Senior Secured Notes will receive (a) their pro rata reinstatement of $123.5 million of 14 $^{1}/_{4}$% Senior Secured Notes, subject to certain modifications, (b) their pro rata share of 50% of the new outstanding equity of Group upon its emergence from bankruptcy ("Reorganized Group") (excluding the management shares described below), and (c) all reasonable fees, expenses and disbursements of their counsel;
- holders of the Senior Notes will receive (a) their pro rata share of 50% of the new outstanding equity of Reorganized Group (excluding the management shares described below), (b) their pro rata share of warrants to purchase up to 30% of the new outstanding equity of Reorganized Group (including the management shares described below) on terms described further in the Plan Term Sheet, and (c) all reasonable fees, expenses and disbursements of their counsel;
- holders of the 3 $^{3}/_{4}$% Senior Notes due September 2010, 12 $^{3}/_{4}$ % Senior Notes due October 2009 and Step Up Convertible Subordinated Debentures due August 2009 issued by Group (collectively, the "Group Notes") will receive their pro rata share of warrants to purchase up to 15% of the new outstanding equity of Reorganized Group (including the management shares described below) on terms described further in the Plan Term Sheet;
- holders of Group's outstanding common stock will receive their pro rata share of contingent value rights ("CVRs") to acquire up to approximately 15% of the fully diluted new equity of Reorganized Group after the enterprise value of Reorganized Group reaches or exceeds $700 million; provided, however, that in no case shall the issuance of common stock of Reorganized Group in respect of the CVRs lower the recovery for the holders of 14 $^{1}/_{4}$% Senior Secured Notes, Senior Notes or Group Notes to less than the recovery to such holders prior to the conversion of the CVRs into common stock; and
- restricted stock units comprising 4% of the outstanding new equity of Reorganized Group will be issued to the senior management of the Debtors on terms to be set forth in an exhibit to the plan of reorganization, and warrants to acquire up to 6% of the new outstanding equity of Reorganized Group (including the management shares described above) will be available for distribution to the management of the Debtors through a management compensation plan.

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 Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46 (R), "Consolidation of Variable Interest Entities-an Interpretation of Accounting Research Bulletins (ARB) No. 51." All intercompany profits, transactions and balances have been eliminated in consolidation. In fourth quarter 2008, the Company intended and had the authority to sell certain assets of its Japan retail operations, and therefore, reported this unit as discontinued operations (see Note 21 — "Subsequent Events"). Beginning in the second quarter 2008, the Company intended and had the authority to sell certain assets of its German retail operations, and therefore, reported this unit as discontinued operations. In March 2008, the Company sold its minority equity interest in Bekkoame Internet, Inc. ("Bekko"). The Company used the equity method of accounting for its investment in Bekko.

Revenue Recognition and Deferred Revenue — Net revenue is derived from carrying a mix of business, residential and carrier long distance traffic, data and Internet traffic, and also from the provision of hosting, local and wireless services.

For certain voice services, net revenue is earned based on the number of minutes during a call and is recorded upon completion of a call. Revenue for a period is calculated from information received through the Company's network switches. Customized software has been designed to track the information from the switch and analyze the call detail records against stored detailed information about revenue rates. This software provides the Company the ability to do a timely and accurate analysis of revenue earned in a period. Separate prepaid services software is used to track additional information related to prepaid service usage such as activation date, monthly usage amounts and expiration date. Revenue on these prepaid services is recognized as service is provided until expiration when all unused minutes, which are no longer available to the customers, are recognized as revenue.

Net revenue is also earned on a fixed monthly fee basis for unlimited local and long distance voice plans and for the provision of data/Internet services (including retail VOIP), hosting, and collocation. Data/Internet services include monthly fees collected for the provision of dedicated and dial-up access at various speeds and bandwidths. These fees are recognized as access is provided on a monthly basis. Additionally, service activation and installation fees are deferred and amortized over the longer of the average customer life or the contract term. The Company records payments received in advance for services and services to be provided under contractual agreements, such as Internet broadband, dial-up access, hosting, and collocation, as deferred revenue until such related services are provided.

A portion of revenue, representing less than 1% of total revenue, is earned from the sale of wireless handsets and VOIP routers. The Company applies the provisions of Emerging Issues Task Force (EITF) Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," which provides guidance on when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. The Company has concluded that EITF Issue No. 00-21 requires the Company to account for the sale of wireless handsets and VOIP routers and the related cost of handset and router revenues as a separate unit of accounting when title to the handset or router passes to the customer. Revenue recognized is the portion of the activation fees allocated to the router or handset unit of accounting in the statement of operations when title to the router or handset passes to the customer. The Company defers the portion of the activation fees allocated to the service unit of accounting, and recognizes such deferred fees on a straight-line basis over the contract life in the statement of operations.

Net revenue represents gross revenue, net of allowance for doubtful accounts receivable, service credits and service adjustments.

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).

Cost of Revenue — Cost of revenue includes network costs that consist of access, transport and termination costs. A portion of cost of revenue, representing less than 1% of total cost of revenue, consists of the product cost of wireless handsets and VOIP routers. The majority of the Company's cost of revenue is variable, primarily based upon minutes of use, with transmission and termination costs being the most significant expense. Such costs are recognized when incurred in connection with the provision of telecommunications services.

Foreign Currency Transaction — Foreign currency transactions are transactions denominated in a currency other than a subsidiary's functional currency. A change in the exchange rates between a subsidiary's functional currency and the currency in which a transaction is denominated increases or decreases the expected amount of functional currency cash flows upon settlement of the transaction. That increase or decrease in expected functional currency cash flows is reported by the Company as a foreign currency transaction gain (loss). The primary component of the Company's foreign currency transaction gain (loss) is due to written agreements in place with certain subsidiaries in foreign countries regarding intercompany loans. The Company anticipates repayment of these loans in the foreseeable future, and recognizes the realized and unrealized gains or losses on these transactions that result from foreign currency changes in the period in which they occur as foreign currency transaction gain (loss).

Income Taxes — The Company recognizes income tax expense for financial reporting purposes following the asset and liability approach for computing deferred income taxes. Under this method, the deferred tax assets and liabilities are determined based on the difference between financial reporting and tax bases of assets and liabilities based on enacted tax rates. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. On January 1, 2007, the Company adopted FIN No. 48, "Accounting for Uncertainty in Income Taxes." FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with Statement of Financial Accounting Standards (SFAS) Statement No. 109, "Accounting for Income Taxes."

Foreign Currency Translation — The assets and liabilities of the Company's foreign subsidiaries are translated at the exchange rates in effect on the reporting date. The net effect of such translation gains and losses are reflected within accumulated other comprehensive loss in the stockholders' deficit section of the balance sheet. Income and expenses are translated at the average exchange rate during the period.

Cash and Cash Equivalents — Cash and cash equivalents are comprised principally of amounts in money market accounts, operating accounts, certificates of deposit, and overnight repurchase agreements with original maturities of three months or less.

Restricted Cash — Restricted cash consists of bank guarantees and certificates of deposit utilized to support letters of credit and contractual obligations.

Advertising Costs — In accordance with Statement of Position 93-7, "Reporting on Advertising Costs," costs for advertising are expensed as incurred. Advertising expense for the years ended December 31, 2008, 2007 and 2006 was $18.0 million, $21.5 million and $22.6 million, respectively.

Property and Equipment — Property and equipment is recorded at cost less accumulated depreciation, which is provided on the straight-line method over the estimated useful lives of the assets. Cost includes major expenditures for improvements and replacements which extend useful lives or increase capacity of the assets as well as expenditures necessary to place assets into readiness for use. Expenditures for maintenance and repairs are expensed as incurred. The estimated useful lives of property and equipment are as follows: network equipment — 5 to 8 years, fiber optic and submarine cable — 8 to 25 years, furniture and equipment — 5 years, leasehold improvements and leased equipment — shorter of lease or useful life. In accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," costs for internal use software that are incurred in the preliminary project stage and in the post-implementation stage are expensed as incurred. Costs incurred during the application development stage are capitalized and amortized over the estimated useful life of the software.

Fiber Optic and Submarine Cable Arrangements — The Company obtains capacity on certain fiber optic and submarine cables under three types of arrangements. The Indefeasible Right of Use ("IRU") basis provides the Company the right to use a cable for the estimated economic life of the asset according to the terms of the IRU agreement with most of the rights and duties of ownership. The Minimum Assignable Ownership Units ("MAOU") basis provides the Company an ownership interest in the fiber optic cable with certain rights to control and to manage the facility. The Company accounts for both IRU and MAOU agreements under network equipment and depreciates the recorded asset over the term of the agreement which is generally 25 years. The Company also enters into shorter-term arrangements with other carriers which provide the Company the right to use capacity on a cable but without any rights and duties of ownership. Under these shorter-term arrangements, the costs are expensed in the period the services are provided.

Goodwill and Other Intangible Assets — Under SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually (October 1 for Primus) for impairment, or more frequently, if impairment indicators arise. Such indication occurred as of December 31, 2008 when the fair value of the Company's publicly traded debt dropped significantly since October 1, 2008; however, after performing Step 1 of the impairment test under SFAS No. 142, no impairment was identified as the fair value was greater than the book value of each reporting unit. Intangible assets that have finite lives will be amortized over their useful lives and are subject to the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of

Long-Lived Assets.” Impairment analysis for goodwill and other indefinite lived intangible assets is also triggered by the performance of a SFAS No. 144 analysis.

The Company’s reporting units are the same as its operating segments as each segment’s components have been aggregated and deemed a single reporting unit because they have similar economic characteristics. Each component is similar in that they each provide telecommunications services for which all of the resources and costs are drawn from the same pool, and are evaluated using the same business factors by management. Furthermore, segment management measures results and allocates resources for the segment as a whole and utilizes country by country financials for statutory reporting purposes.

Goodwill impairment is tested using a two-step process that begins with an estimation of the fair value of each reporting unit. The first step is a screen for potential impairment by comparing the fair value of a reporting unit with its carrying amount. The second step measures the amount of impairment loss, if any, by comparing the implied fair value of the reporting unit goodwill with its carrying amount.

In estimating fair value of its reporting units, the Company compares market capitalization of its common stock, distributed between the reporting units based on adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) projections, to the equivalent carrying value (total assets less total liabilities) of such reporting unit. When its carrying value of a reporting unit is a negative value, the Company proceeds to use alternative valuation techniques. These techniques include comparing total fair value of invested capital, distributed between the reporting units based on adjusted EBITDA projections, to the equivalent carrying value (book equity plus book long-term obligations). The carrying value of each reporting unit includes an allocation of the corporate invested capital based on relative size of the reporting units’ intercompany payables and invested capital. Using the Company’s adjusted EBITDA projections is a judgment item that can significantly affect the outcome of the analysis, both in basing the allocation on the most relevant time period as well as in allocating fair value between reporting units. For the interim test performed as of December 31, 2008 as discussed above, the Company used other methods that indicated a control premium on the value of the Company, as opposed to an allocation of the market capitalization. To develop the fair value used for the December 31, 2008 evaluation, the Company used an average value calculated under the discounted cash flow method and the comparative transaction method. The Company derives future cash flow estimates from its historical experience and its internal business plans, which include consideration of industry trends, competitive actions, technology changes, regulatory actions, available financial resources for marketing and capital expenditures and changes in its underlying cost structure.

Valuation of Long-Lived Assets — The Company reviews intangible and other long-lived assets whenever events or changes indicate that the carrying amount of an asset may not be recoverable. In making such evaluations, the Company compares the expected undiscounted future cash flows to the carrying amount of the assets. If the total of the expected undiscounted future cash flows is less than the carrying amount of the assets, the Company is required to make estimates of the fair value of the long-lived assets in order to calculate the impairment loss equal to the difference between the fair value and carrying value of the assets.

The Company makes significant assumptions and estimates in this process regarding matters that are inherently uncertain, such as determining asset groups and estimating future cash flows, remaining useful lives, discount rates and growth rates. The resulting undiscounted cash flows are projected over an extended period of time, which subjects those assumptions and estimates to an even larger degree of uncertainty. While the Company believes that its estimates are reasonable, different assumptions could materially affect the valuation of the long-lived assets. During 2006, the Company completed an evaluation of its expected future cash flows compared to the carrying value of its assets based on estimates of its expected results of operations and recorded an impairment. The Company derives future cash flow estimates from its historical experience and its internal business plans, which include consideration of industry trends, competitive actions, technology changes, regulatory actions, available financial resources for marketing and capital expenditures and changes in its underlying cost structure.

The Company has concluded that it has one asset group; the network. This is due to the nature of its telecommunications network which utilizes all of the points of presence (POPs), switches, cables and various other components throughout the network to form seamlessly the telecommunications gateway over which its products and services are carried for any given customer's phone call or data or Internet transmission. Furthermore, outflows to many of the external network providers are not separately assignable to revenue inflows for any phone call or service plan.

The Company makes assumptions about the remaining useful life of its long-lived assets. The assumptions are based on the average life of its historical capital asset additions, its historical asset purchase trend and that its primary assets, its network switches, have an 8-year life. Because of the nature of its industry, the Company also assumes that the technology changes in the industry render all equipment obsolete with no salvage value after their useful lives. In certain circumstances in which the underlying assets could be leased for an additional period of time, the Company has included such estimated cash flows in its estimate.

The estimate of the appropriate discount rate to be used to apply the present value technique in determining fair value was the Company's weighted average cost of capital which is based on the effective rate of its long-term debt obligations at the current market values as well as the current volatility and trading value of the Company's common stock.

Deferred Financing Costs — Deferred financing costs incurred in connection with the senior secured notes due 2011 ("14 1/4% Senior Secured Notes"), the step up convertible subordinated debentures due August 2009 ("Step Up Convertible Subordinated Debentures"), the senior secured term loan facility (the "Facility"), the 8% senior notes due 2014 ("8% Senior Notes"), the 3 3/4% convertible senior notes due 2010 ("3 3/4% Convertible Senior Notes"), the 12 3/4% senior notes due 2009 ("12 3/4% Senior Notes"), and other financing arrangements are reflected within other assets and are being amortized over the life of the respective financing arrangements using the effective interest method. As the Company completes debt transactions, corresponding amounts of deferred financing costs are written-off in determining the gain or loss on early extinguishment or restructuring of debt.

Derivative Instruments — In March 2007, the Company entered into a Senior Secured Credit Agreement ("Canadian Financing Facility") with a financial institution, to refinance an existing Canadian credit facility. The Canadian Financing Facility provides for a $35.0 million non-amortizing loan bearing interest at a rate of LIBOR plus 425 basis points and matures in 2012. The loan proceeds were used to refinance the existing Canadian credit facility, including certain costs related to the transaction, and to finance certain capital expenditures. The Canadian Financing Facility is secured by the assets of the Company's Canadian operations and certain guarantees. In October 2007, the Company entered into a cross-currency principal and interest rate swap agreement, which fixed the interest rate at 9.21% starting from October 31, 2007. The Canadian Financing Facility requires that the Company, at all times that the loan amounts are outstanding, maintain a hedging agreement to hedge the full amount of its currency rate exposures with respect to the aggregate principal amount outstanding under this Canadian Financing Facility at any time. The cross-currency principal and interest rate swap agreement's counter party is Lehman Brothers Special Financing, Inc. ("Lehman SFI"). Lehman SFI entered into bankruptcy in early October 2008 following its ultimate parent entering bankruptcy in mid-September 2008. Despite the counterparty to the interest rate swap agreement entering bankruptcy in October 2008, management believed no breach or event of default had occurred in relation to the Canadian Financing Facility. As of March 10, 2009, under the Waiver and Amendment Agreement described below in Note 5 — Long-Term Obligations, the Lenders under the Canadian Financing Facility waived any such possible breach or event of default. The Company has estimated the fair value of the outstanding swap agreement with Lehman Brothers Special Financing, Inc. to be zero.

The Company does not hold or issue derivative instruments for trading purposes. During the three months ended March 31, 2006, the Company had entered into financing arrangements that contained embedded derivative features due to the Company having insufficient authorized shares to support conversion of all potentially convertible instruments. The Company accounted for these arrangements in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", and EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", as well as related interpretations of these standards. The Company bifurcated embedded derivatives that were not clearly and closely related to the host contract and recorded them as a liability in its balance sheet at their estimated fair value. Changes in their estimated fair value of $5.4 million were recognized in earnings during the period of change. Since June 20, 2006, when authorization for sufficient authorized shares was obtained, the feature that established the embedded derivative no longer exists. The fair value of the embedded derivative at June 20, 2006, was added back to the debt balance. The remaining debt discount after adding back the fair value of embedded derivatives is accreted through interest expense over the remaining term of the respective instrument using the effective interest method.

The Company estimated the fair value of its embedded derivatives using available market information and appropriate valuation methodologies. These embedded derivatives derived their value primarily based on changes in the price and volatility of the Company's common stock. Considerable judgment was required in interpreting market data to develop the estimates of fair value.

Accounting for derivatives was based upon valuations of derivative instruments determined using various valuation techniques including Black-Scholes and binomial pricing methodologies. The Company considered such valuations to be significant estimates.

Stock-Based Compensation — On January 1, 2006, the Company adopted SFAS No. 123(R), "Share-Based Payments," which addresses the accounting for stock-based payment transactions whereby an entity receives employee services in exchange for equity instruments, including stock options and restricted stock units. SFAS No. 123(R) eliminates the ability to account for stock-based compensation transactions using the intrinsic value method under Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and instead generally requires that such transactions be accounted for using a fair-value based method. The Company has elected the modified prospective transition method as permitted under SFAS No. 123(R), and accordingly prior periods have not been restated to reflect the impact of SFAS No. 123(R). The modified prospective transition method requires that stock-based compensation expense be recorded for all new and unvested stock options that are ultimately expected to vest as the requisite service is rendered beginning on January 1, 2006. The Company issues new shares of common stock upon the exercise of stock options.

In November 2005, the FASB issued FASB Staff Position No. FAS 123R-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." The Company elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of share-based compensation. The alternative transition method includes simplified methods to determine the beginning balance of the additional paid in capital (APIC) pool related to the tax effects of share-based compensation and to determine the subsequent impact on the APIC pool and the statement of cash flows of the tax effects of share-based award that were fully vested and outstanding upon the adoption of SFAS No. 123(R).

The Company uses a Black-Scholes option valuation model to determine the fair value of stock-based compensation under SFAS No. 123(R), consistent with that used for pro forma disclosures under SFAS No. 123. 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. 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. The Company also had an Employee Stock Purchase Plan, which was suspended on July 27, 2006, and which allowed employees to elect to purchase stock at 85% of fair market value (determined monthly) and was considered compensatory under SFAS No. 123(R).

The Company recorded \$0.3 million, \$0.2 million and \$0.5 million stock-based compensation expenses for the years ended December 31, 2008, 2007 and 2006, respectively, under guidance in SFAS No. 123(R).

The weighted average fair value at date of grant for options granted during 2008, 2007, and 2006 was $0.11, $0.28 and $0.43 per option, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2008	2007	2006
Expected dividend yield	0%	0%	0%
Expected stock price volatility	96%	95%	98%
Risk-free interest rate	2.3%	4.6%	4.7%
Expected option term	4 years	4 years	4 years

As of December 31, 2008, the Company had 1.0 million unvested awards outstanding of which $0.1 million of compensation expense will be recognized over the weighted average remaining vesting period of 1.9 years.

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 such as marketable securities and long-term obligations, the calculation used in determining the fair value of the Company’s stock options required by SFAS No. 123(R), various tax contingencies, asset impairment write-downs, and purchase price allocations.

Concentration of Credit Risk — Financial instruments that potentially subject the Company to concentration of credit risk principally consist of trade accounts receivable. The Company performs ongoing credit evaluations of its larger carrier and retail business customers but generally does not require collateral to support customer receivables. The Company maintains its cash with high quality credit institutions, and its cash equivalents are in high quality securities.

Income (Loss) Per Common Share — Basic income (loss) per common share is computed using the weighted average number of shares of common stock outstanding during the year. Diluted income (loss) per common share is computed using the weighted average number of shares of common stock, adjusted for the dilutive effect of potential common stock and related income. Potential common stock, computed using the treasury stock method or the if-converted method, includes options, restricted stock units, and convertible debt securities. In 2008 and 2006, the Company incurred losses, and the effect of potential common stock was excluded from the computation of diluted loss per share as the effect was antidilutive. If the effect of potential common stock had been included, there would have been additional shares outstanding of 38,236,456 and 86,748,289 for the years ended December 31, 2008 and 2006, respectively. The potential common stock included in the diluted income per common share for the year ended December 31, 2007 was 67,699,168 with a $1.8 million related income effect. In 2007, an additional 15,697,951 shares of potential common stock were not included in the diluted income per common share calculation as the effect was antidilutive.

Reclassification — Certain previous year amounts have been reclassified to conform with current year presentations, as related to the reporting of our discontinued operations.

Newly Adopted Accounting Principle

Effective January 1, 2008, the Company adopted the provisions of SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities.” SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The Company elected not to apply fair value on its existing financial assets and liabilities upon adoption. Therefore, this adoption did not have a material effect on the Company’s results of operations, financial position or cash flows.

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements," for all financial instruments accounted for at fair value on a recurring basis. The Company does not have any non-financial instruments accounted for at fair value on a recurring basis. SFAS No. 157 establishes a new framework for measuring fair value and expands related disclosures. Broadly, the SFAS No. 157 framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. SFAS No. 157 establishes market or observable inputs as the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs.

In February 2008, the FASB issued a final FASB Staff Position ("FSP") No. FAS 157-2, "Effective Date of FASB Statement No. 157." FSP No. 157-2 delays the effective date of SFAS No. 157, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. In addition, FSP No. 157-2 removes certain leasing transactions from the scope of SFAS No. 157. The effective date of SFAS No. 157 for nonfinancial assets and liabilities has been delayed by one year to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. SFAS No. 157 for financial assets and liabilities is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years.

The valuation techniques required by SFAS No. 157 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.

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

		Fair Value as of December 31, 2008, using:		
	December 31, 2008	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 9,356	$ 9,356	—	—
Derivative	—	—	—	$ 0
Total	$ 9,356	$ 9,356	—	$ 0

The Company has an outstanding cross-currency principal and interest rate agreement with Lehman Brothers Special Financing, Inc., who entered bankruptcy in October 2008 and ceased performing on the agreement, and has estimated the value to be zero, requiring a write-off of $1.2 million, and has moved the instrument from Level 2 to Level 3 because the counter party's credit risk is not observable.

In July 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes," which is effective for fiscal years beginning after December 15, 2006. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS Statement No. 109, "Accounting for Income Taxes." This Interpretation prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return. See Note 6 — "Income Taxes."

New Accounting Pronouncements

In May 2008, the FASB issued FSP No. 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." FSP No. 14-1 requires issuers of convertible debt securities to separate securities into a debt component and an equity component, resulting in the debt component being recorded at fair value without consideration given to the conversion feature. Issuance costs are also allocated between the debt and equity components. FSP No. 14-1 requires that convertible debt within its scope reflect a company's nonconvertible debt borrowing rate when interest expense is recognized. FSP No. 14-1 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The Company is currently evaluating the impact of FSP No. 14-1 on its financial statements, but does not believe there will be a material impact.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 identifies the sources of accounting principles and provides the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS No. 162 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of SFAS No. 162 on its financial statements, but does not believe there will be a material impact.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities." SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging" with the intent to provide users of financial statements with an enhanced understanding of the use of derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's financial statements. SFAS No. 161 is effective for financial statements issued for fiscal years after July 1, 2009. The Company is currently evaluating the impact of SFAS No. 161 on its financial statements and anticipates that the adoption of this standard will not have a material impact on its results of operations, financial position and cash flows.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations." SFAS No. 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, any business combinations we engage in will be recorded and disclosed following existing GAAP until January 1, 2009. The Company anticipates that the adoption of this standard will have an impact on our consolidated financial statements for prospective business combinations, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions the Company consummates after the effective date.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements", an amendment to ARB No. 51, "Consolidated Financial Statements". This statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. Due to the immaterial size of the noncontrolling interest in Globility Communications Corporations as discussed under the *Principles of Consolidation* section of Footnote 2 to the consolidated financial statements, which is approximately $2.8 million as of December 31, 2008, the Company anticipates that the adoption of this standard will not have a material impact on its results of operations, financial position and cash flows (See Note 21 — "Subsequent Events").

3. Property and Equipment

Property and equipment consisted of the following (in thousands):

	December 31, 2008	December 31, 2007
Network equipment	$163,475	$164,027
Furniture and equipment	6,128	12,102
Leasehold improvements	5,028	5,686
Construction in progress	3,682	10,462
Subtotal	178,313	192,277
Less: Accumulated depreciation	(66,161)	(47,678)
Total property and equipment, net	$112,152	$144,599

Depreciation and amortization expense for property and equipment including equipment under capital leases and vendor financing obligations for the years ended December 31, 2008, 2007 and 2006 was $30.8 million, $27.9 million and $42.1 million, respectively. The Company recorded an asset impairment write-down of $206.1 million in 2006 (see Note 16 — "Asset Impairment").

At December 31, 2008, the total equipment under capital lease and vendor financing obligations consisted of $27.3 million of network equipment and $0.2 million of administrative equipment, with accumulated depreciation of $19.1 million and $0.1 million, respectively. At December 31, 2007, the total equipment under capital lease and vendor financing obligations consisted of $37.6 million of network equipment and $0.4 million of administrative equipment, with accumulated depreciation of $20.6 million and $0.2 million, respectively.

4. Goodwill and Other Intangible Assets

Acquired intangible assets subject to amortization consisted of the following (in thousands):

	As of December 31, 2008			As of December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer lists	$ 3,806	$ (3,150)	$ 656	$ 4,074	$ (2,688)	$ 1,386
Other	1,665	(1,575)	90	1,678	(1,507)	171
Total	$ 5,471	$ (4,725)	$ 746	$ 5,752	$ (4,195)	$ 1,557

Amortization expense for customer lists and other intangible assets for the year ended December 31, 2008, 2007 and 2006 was $2.0 million, $2.6 million and $4.9 million, respectively. The Company expects amortization expense for customer lists and other intangible assets for the fiscal years ended December 31, 2009, 2010 and 2011 to be approximately $0.5 million, $0.2 million and $0.1 million, respectively.

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

	As of December 31, 2008	As of December 31, 2007
Goodwill	$ 32,688	$ 40,134

The changes in the carrying amount of goodwill for the years ended December 31, 2008 and 2007 are as follows (in thousands):

	Brazil	Canada	Europe	Asia-Pacific	Total
Balance as of January 1, 2007	$ —	$23,082	$ —	$11,811	$34,893
Goodwill acquired during period	188	—	—	—	188
Effect of change in foreign currency exchange rates	20	4,205	—	828	5,053
Balance as of December 31, 2007	208	27,287	—	12,639	40,134
Effect of change in foreign currency exchange rates	(51)	(5,374)	—	(2,021)	(7,446)
Balance as of December 31, 2008	$157	$21,913	$ —	$10,618	$32,688

5. Long-term Obligations

On March 16, 2009 the Company and certain holding company subsidiaries filed for voluntary reorganization under Chapter 11 (see Note 2 — "Summary of Significant Accounting Policies" — Going Concern and Voluntary Reorganization Under Chapter 11). The filings for bankruptcy constituted an event of default that triggered repayment obligations under a number of debt instruments (the "Debt Documents"). As a result of the event of default, all obligations under the affected debt agreements became automatically and immediately due and payable. The affected debt has been classified as a current liability under current portion of long-term obligations on the consolidated balance sheet of the Company as of December 31, 2008. Additionally, the filing of the Chapter 11 Cases constituted an event of default through a cross default provision of the Canadian Financing Facility; however a waiver of that default provision was obtained from the lender as described under the Canadian Financing Facility below. Certain other vendor and capital lease obligations are not in default because they are held in operating companies that were not part of the bankruptcy filings. Consequently, the Debtors believe that any efforts to enforce the payment obligations under the Debt Documents against the Debtors are stayed as a result of the filing of such Chapter 11 Cases in the Bankruptcy Court (subject to certain exceptions contemplated by the Term Loan Modification Term Sheet, described below, following Bankruptcy Court approval) and shall take such action as appropriate to stay any efforts to enforce the payment obligations against non-Debtor guarantors. The Debt Documents and the approximate principal amount of debt currently outstanding thereunder are as follows:

1. $96 million Senior Secured Term Loan Facility of Group due February 2011.
2. $173 million 14 1/4% Senior Secured Notes of IHC due May 2011.
3. $23 million 5% Exchangeable Senior Notes of Holding due June 2010.
4. $186 million 8% Senior Notes of Holding due January 2014.
5. $34 million 3 3/4% Convertible Senior Notes of Group due September 2010.
6. $14 million 12 3/4% Senior Notes of Group due October 2009.
7. $9 million Step Up Convertible Subordinated Debentures of Group due August 2009.

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

	December 31, 2008	December 31, 2007
Obligations under capital leases and other	$ 4,851	$ 7,561
Leased fiber capacity	2,172	4,990
Senior secured term loan facility	96,250	97,250
Financing facility	35,000	35,000
Senior notes	200,186	255,270
Senior secured notes	198,960	113,947
Exchangeable senior notes	25,122	63,363
Convertible senior notes	34,006	76,196
Step up convertible subordinated debentures	8,290	20,326
Subtotal	604,837	673,903
Less: Current portion of long-term obligations	(564,797)	(11,228)
Total long-term obligations	$ 40,040	$662,675

Although a substantial portion of the debt has been classified as current portion of long-term obligations due to the default provisions triggered by the bankruptcy filings, the following table reflects the contractual payments of principal and interest that existed prior to the bankruptcy filings as of December 31, 2008 for all long-term obligations as follows.

Year Ending December 31,	Vendor Financing and Other	Senior Secured Term Loan Facility (1)	Financing Facility	8% and 12 3/4% Senior Notes	3 3/4% Convertible and 5% Exchangeable Senior Notes (2)	Step Up Convertible Subordinated Debentures	Senior Secured Notes (2)	Total
2009	$ 2,528	$ 9,993	$ 2,583	$ 30,875	$ 2,451	$ 9,332	$ 24,679	$ 82,441
2010	4,913	9,899	2,583	14,880	59,436	—	24,679	116,390
2011	278	94,250	2,583	14,880	—	—	184,657	296,648
2012	95	—	35,646	14,880	—	—	—	50,621
2013	62	—	—	14,880	—	—	—	14,942
Thereafter	33	—	—	193,440	—	—	—	193,473
Total Minimum Principal & Interest Payments	7,909	114,142	43,395	283,835	61,887	9,332	234,015	754,515
Less: Amount Representing Interest	(886)	(17,892)	(8,395)	(83,649)	(4,318)	(691)	(60,858)	(176,689)
Face Value of Long-Term Obligations	7,023	96,250	35,000	200,186	57,569	8,641	173,157	577,826
Amount Representing Premium (Discount)	—	—	—	—	(194)	(351)	4,224	3,679
Add: Exchangeable Senior Notes and Senior Secured Notes Interest Treated as Long-Term Obligations	—	—	—	—	1,753	—	21,579	23,332
Book Value of Long Term Obligations	$ 7,023	$ 96,250	$35,000	$200,186	$ 59,128	$ 8,290	$198,960	$ 604,837

(1) For preparation of this table, the Company has assumed the interest rate of the Senior Secured Term Loan Facility to be 9.38%, which is the interest rate at December 31, 2008.

(2) For preparation of this table, the Company has shown separately the cash interest payments of the 5% Exchangeable Senior Notes and the portion of the 14 1/4% Senior Secured Notes that were issued through troubled debt restructurings as a portion of long-term obligations (see "*Senior Notes, Senior Secured Notes, Convertible Senior Notes, Exchangeable Senior Notes, Step Up Convertible Subordinated Debentures and Convertible Subordinated Debentures*" below). The interest due on the 5% Exchangeable Senior Notes in 2009 and 2010 is $1.2 million and $0.6 million, respectively. The interest due on this portion of the 14 1/4% Senior Secured Notes in 2009, 2010 and 2011 is $8.7 million, $8.7 million and $4.1 million, respectively.

The indentures governing the senior notes, senior secured notes, senior secured term loan facility, convertible and exchangeable senior notes, and step up convertible subordinated debentures, as well as certain other credit arrangements, contain certain financial and other covenants which, among other things, will restrict the Company's ability to incur further indebtedness and make certain payments, including the payment of dividends and repurchase of subordinated debt held by the Company. In addition, outstanding indentures and certain credit arrangements include provisions that would create, after the defined passage of time, and under certain instruments, after the entry of final judgment, an event of default for each of the instruments, should there be an event of default on any one or more of the instruments that have an aggregate principal amount outstanding in excess of certain thresholds as defined in the various indentures and certain credit arrangements. Currently, the lowest such threshold is $20 million. The Company believes it was in compliance with the above covenants at December 31, 2008. However as indicated above, the bankruptcy filings constituted an event of default under the Debt Documents.

Senior Secured Term Loan Facility

In February 2005, a direct wholly-owned subsidiary of the Company, Primus Telecommunications Holding, Inc. ("Holding"), entered into a six-year, $100 million senior secured term loan facility (the "Facility"). Each borrowing made under the Facility may be, at the election of Holding at the time of the borrowing, a London Inter-Bank Offered Rate (LIBOR) loan (which will bear interest at a rate equal to LIBOR + 6.50%), or a base rate loan (which will bear interest at a rate equal to the greater of the prime rate plus 5.50% or the federal funds effective rate plus 6.00%). The Facility contains no financial maintenance covenants. The Company borrowed $100 million under this Facility in February 2005.

The Facility is to be repaid in 24 quarterly installments, which began on June 30, 2005, at a rate of one percent of the original principal per year over the next five years and nine months, and the remaining balance repaid on the sixth anniversary date of the Facility, with early redemption at a premium to par at Holding's option at any time after February 18, 2006. The Facility is guaranteed by the Company and certain of Holding's domestic subsidiaries and is secured by certain assets of Holding and its guarantor subsidiaries and by partial stock pledges of certain foreign subsidiaries.

In February 2007, the Company received unanimous consent to an amendment of its existing $100 million Facility. This amendment enables Primus Telecommunications IHC, Inc. (IHC), a wholly-owned indirect subsidiary of the Company, to issue and have at any one time outstanding up to $200 million of existing authorized indebtedness in the form of newly authorized secured notes with a second lien security position. On February 26, 2007, an Intercreditor Agreement was entered into between the 14 1/4% Senior Secured Notes and the lenders of the Facility. Pursuant to this authorization, the Company has issued certain 14 1/4% Senior Secured Notes. The amendment allowed for an increase of 1/4% to the interest rate of the Facility and adjusted the early call features. The effective interest rate for the Facility at December 31, 2008 was 10.2%.

The debt under the Facility is in default as a result of the bankruptcy filing on March 16, 2009 and is classified as current portion of long-term obligation on the balance sheet as of December 31, 2008.

On April 14, 2009, Holding and certain affiliates who are party to the Term Loan (collectively, the "Primus Term Loan Parties") agreed to a term sheet with a group of lenders under the Term Loan (the "Term Loan Ad Hoc Committee") which comprise a requisite number to support and consent to an amendment to the Term Loan as part of the Company's Plan of Reorganization (the "Term Loan Modification Term Sheet") and executed a forbearance agreement as discussed below, whereby the Term Loan lenders have agreed to forbear from exercising rights and remedies related to certain defaults and events of default under the Term Loan (including events related to the

Chapter 11 Cases and Reorganization) subject to the terms and conditions described below. The Term Loan Modification Term Sheet contemplates a waiver of defaults and events of default under the Term Loan, including those arising out of the Chapter 11 Cases and the Reorganization, subject to the satisfaction of certain conditions precedent to executing an amendment to the Term Loan and Plan confirmation accepting the amendment reflecting the Term Loan Modification Term Sheet.

Term Loan Modification Term Sheet. The Term Loan Modification Term Sheet is not an effective amendment to the Term Loan and reflects an agreement in principle with the Term Loan Ad Hoc Committee. The Company expects to finalize the terms of an amendment to the Term Loan on the terms set forth in the Term Loan Modification Term Sheet with the Term Loan Ad Hoc Committee and a replacement administrative agent and include such amendment in the Company's Plan of Reorganization, which would be subject to Bankruptcy Court approval and the requisite approval of the creditors in the Chapter 11 Cases. Therefore, there can be no assurance that the Company will obtain the benefits of the waivers set forth in the Term Loan Modification Term Sheet, and as a result, the Company has classified the Term Loan as current portion of long-term obligations on the balance sheet as of December 31, 2008.

In addition, the Term Loan Modification Term Sheet is subject to a number of conditions precedent, including establishing certain additional events of default to include any of the following:

- the release of LCPI as Administrative Agent and the appointment of a replacement Administrative Agent;
- the bring-down of certain representations and warranties under the Term Loan agreement (excluding no default and bankruptcy representations and warranties);
- an accounting of borrowers' and guarantors' intercompany receivables and payables; and
- delivery of certain account control agreements and officer certificates.

The Term Loan Modification Term Sheet contemplates that, subject to approval of the Bankruptcy Court, Holding or a Guarantor will continue to make interest payments as currently provided for in the Term Loan. The Term Loan Modification Term Sheet contemplates that the amortization schedule under the Term Loan will be modified so that principal payments will be due on the dates and in the amounts set forth below:

Payment Date	Principal Payment Amount
March 31, 2009	$ 250,000
June 30, 2009	$ 250,000
September 30, 2009	$ 925,000
December 31, 2009	$ 925,000
March 31, 2010	$1,400,000
June 30, 2010	$1,400,000
September 30, 2010	$1,400,000
December 31, 2010	$1,400,000
February 18, 2011	Remaining Outstanding Principal

In connection with the Term Loan Modification Term Sheet, the interest rate feature would change upon consummation of the Plan to (i) a cash payment of LIBOR + 9.00% with a LIBOR floor of 3.00% or (ii) a cash payment of LIBOR + 7.00% with a LIBOR floor of 3.00% and 4.00% in a payment in kind ("PIK"); either interest rate option shall be selected at Holding's option with notice 30 days prior to each interest payment date.

The Term Loan Modification Term Sheet provides for:

- the replacement of Lehman Commercial Paper Inc. ("LCPI") as Administrative Agent under the Term Loan, with a replacement agent reasonably acceptable to the Company and the Term Loan lenders;

- first priority liens in all of the Collateral, except for permitted liens, with the same collateral basket as the Term Loan, subject to exceptions for certain specified account control agreements;
- mandatory prepayments from (1) 25% of the proceeds of certain equity issuances (including 25% of the cash of businesses acquired in exchange for equity), (2) proceeds from debt issuances (other than as permitted under the limitation of indebtedness covenant), and (3) 80% of net cash proceeds from asset sales or insurance recoveries not otherwise reinvested in the business as provided thereunder; and
- the ability of Holding to purchase annually up to $5 million in principal amount of Term Loans by Group or its affiliates at less than par in negotiated transactions without being subject to the pro-rata provisions (or purchases in excess of such annual amount by way of an offer to all holders of Loans) and the obligation to cancel Term Loans purchased by Group or its affiliates (without voting rights in respect of such acquired Term Loans).

The Term Loan Modification Term Sheet provides for the modification of Term Loan covenants concerning the incurrence of debt, including the elimination of most of the exceptions to the limitation on debt incurrence other than

(a) an aggregate of $50 million of specified indebtedness (of which approximately $40 million is currently outstanding);

(b) an additional unsecured debt basket of up to an aggregate dollar cap of $7.5 million;

(c) debt to finance acquisitions, which would be limited to 2.5 times the annual EBITDA acquired and satisfy acquisition debt standards; and

(d) additional permitted debt, including debt arising from the use of PIK.

The Term Loan Modification Term Sheet provides for modification of a number of other Term Loan covenants, including:

- modification of the restricted payments covenant to make clear that any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value of any debt, including but not limited to any of the 14 1/4% Senior Secured Notes issued by IHC (the "Second Lien Debt"), other than Indebtedness representing the Term Loans and specified indebtedness will be a "Restricted Payment"; provided that "Restricted Payments" shall not include (a) any repayment, repurchase or retirement of any indebtedness in connection with any permitted refinancing or (b) any repurchase of indebtedness with equity proceeds or asset sale proceeds not otherwise required to be applied in prepayment of the Term Loans. The restricted payments covenant is to contain customary restrictions, including, but not limited to, a cap of $1 million;
- modification of the limitation on liens covenant to delete the incurrence test and expressly prohibit any liens other than permitted liens;
- modification of the restriction on certain purchases of Indebtedness covenant to preclude Group and each restricted subsidiary from repaying, prepaying or purchasing debt, excluding specified debt and other certain limited exceptions;

The Term Loan Modification Term Sheet provides for the inclusion of financial covenants concerning Minimum Adjusted EBITDA, Maximum Debt and Maximum Capital Expenditures ("Capex") and provides that

- the Adjusted EBITDA covenant initially will be calculated beginning September 30, 2009 based on the trailing four quarters for the periods ended September 30, 2009 and December 31, 2009, and such calculations will be made using specified constant currency rates (e.g., CAD – 0.80; AUD – 0.65; EUR – 1.275 and GBP – 1.40);
- currency rates in effect on December 31, 2009 and June 30, 2010 will be used for purposes of calculating compliance for quarters ended during the next succeeding six month periods, but such currency rates will not be used retroactively for any periods prior to such date;

- Minimum Adjusted EBITDA compliance shall be set at $50 million, calculated quarterly based upon the prior four quarters effective September 30, 2009. Failure to meet the Minimum Adjusted EBITDA covenant will not be an event of default, except in circumstances noted in the succeeding proviso, and would result in a financial penalty of $250,000 per quarter in incremental amortization plus a 50 basis point increase in the interest rate during the quarters of non-compliance, provided however that if the Adjusted EBITDA is below $42 million it will constitute an event of default. The minimum Adjusted EBITDA will be calculated quarterly based upon the last four quarters' results in a manner consistent with the definition used by the Company in past earnings releases, subject to the addition of reorganization cost adjustments and adjustments for divestitures and acquisitions.
- Maximum Debt shall be $270 million plus additional debt accrued from the use of PIK – and for debt arising from acquisitions which debt would be limited to 2.5 times annual EBITDA acquired and as long as such debt satisfies Acquisition Debt Standards; the Maximum Debt covenant will be required to be maintained at all times following substantial consummation of the plan of reorganization; and
- Maximum Capex shall be $18 million in 2009 and $23 million in 2010, calculated annually effective December 31, 2009, and subject to adjustment for divestitures and acquisitions.

Forbearance Agreement. On April 14, 2009, the Primus Term Loan Parties and certain lenders under the Term Loan (the "Required Lenders") entered into a Forbearance Agreement (the "Term Loan Forbearance Agreement").

Subject to the terms and conditions of this Agreement, the Required Lenders agreed to forbear and to direct the Administrative Agent to forbear from exercising any or all of their respective rights and remedies under the Term Loan documents in respect of the forbearance defaults and covenants, including rights associated with defaults or events of default as a result of, arising in connection with, or related to the filing of petitions by the Debtors in connection with the Reorganization ("Forbearance").

While the Required Lenders agreed to forbear enforcement of and waive the forbearance defaults and covenants, subject to the terms of the Term Loan Forbearance Agreement, such forbearance nonetheless is subject to termination for the following failures that occur on or before the date listed below, or such later date as mutually agreed upon by the Debtors and the required Lenders:

Failure Event	Trigger Date
Failure of Debtors to file amended plan of reorganization with treatment set forth in Term Loan Modification Term Sheet ("Amended Plan") and amended disclosure statement ("Amended Disclosure Statement") with Bankruptcy Court on or before	April 20, 2009
Failure of Bankruptcy Court to enter Order approving Amended Disclosure Statement, in form and substance reasonably satisfactory to the Required Lenders, on or before	May 15, 2009
Failure of Debtors and Required Lenders to modify agreements under Term Loan consistent with Term Loan Modification Term Sheet "(Modified Loan Documents") on or before	May 15, 2009
Failure of Bankruptcy Court to enter Order confirming the Amended Plan ("Confirmation Order") on or before	June 30, 2009
Failure of Debtors to consummate the Amended Plan on or before	July 15, 2009 ("Plan Effective Date")
Failure of Debtors or non-Debtor subsidiaries to timely make, or fail payment of, scheduled principal or interest required under Term Loan ("Loan Document Payments")	Prior to Plan Effective Date

Termination of Forbearance also can occur in the event:

- of certain noteholder, or indenture trustee, objection to Loan Document Payments;
- any Chapter 11 Case is converted to case under Chapter 7 of Bankruptcy Code;
- the Bankruptcy Court shall enter an order in the Chapter 11 Cases ordering the appointment of (i) a trustee, (ii) a responsible officer, or (iii) an examiner with enlarged powers relating to the operation of the business (powers beyond those set forth in subclauses (3) and (4) of Section 1106(a)) under Section 1106(b) of the Bankruptcy Code;
- any of the Chapter 11 Cases are dismissed;
- the Confirmation Order is reversed on appeal or vacated;
- any Primus Term Loan Party has failed to perform any material provision of the Term Loan Forbearance Agreement or the Term Loan Modification Term Sheet subject to notice and cure;
- any court or governmental authority shall enter a final, non-appealable judgment or order declaring the Term Loan Forbearance Agreement or any material portion thereof to be unenforceable or enjoining the consummation of a material portion of the transactions contemplated hereby;
- the Debtors shall withdraw the Amended Plan or publicly announce their intention not to support the Amended Plan, or propose a reorganization or plan under the Bankruptcy Code other than the Amended Plan;
- the Debtors inform the Required Lenders in writing of their determination that there is sufficient risk of non-performance by the Debtors with respect to the financial obligations contemplated by the Amended Plan with respect to the Lenders and the Loan Documents such that the amendments to the Loan Documents contemplated by the Term Sheet are no longer in the best interests of the Debtors' estates;
- the Debtors lose the exclusive right to file and solicit acceptances of the Amended Plan;
- the conditions precedent required to be met prior to the closing of the amendment to the Term Loan agreement, consistent with and as contemplated in the Term Loan Modification Term Sheet, including any modification or amendment thereof, have not been satisfied on or before the Plan Effective Date or waived by the Required Lenders;
- the Debtors file any motion or pleading with the Bankruptcy Court that is not consistent in any material respect with the Term Loan Forbearance Agreement or the Term Loan Modification Term Sheet and such motion or pleading has not been withdrawn prior to the earlier of (i) two (2) business days of the Debtors receiving notice that such motion or pleading is inconsistent with the Term Loan Forbearance Agreement or the Term Loan Modification Term Sheet and (ii) entry of an order of the Bankruptcy Court approving such motion;
- the Bankruptcy Court grants relief that is inconsistent with the Term Loan Forbearance Agreement or the Term Loan Modification Term Sheet in any material respect;
- the commencement of an avoidance action by any or all of the Debtors affecting the rights of any Term Loan lender or the commencement of such an action by any other party;
- the filing by any or all of the Debtors or by any other party of an objection to the allowance of the Term Loan lenders' claims against the Debtors' estates in respect of the Term Loan Agreement;
- subject to the execution of an appropriate and otherwise reasonable confidentiality agreement, to the extent necessary, the failure by the Debtors to provide to the Required Lenders and their advisors (i) reasonable access to the books and records of the Debtors, and (ii) reasonable access to the respective management and advisors of the Debtors for the purposes of evaluating the Debtors' respective business plans and participating in the plan process with respect to the Reorganization;
- the occurrence of a "Termination Event" as that term is defined in the Plan Support Agreement (the "PSA") entered into as of March 16, 2009 between the Second Lien Noteholders, the 8% Noteholder, the 5% Noteholders and the Debtors that has resulted in a termination of the PSA;
- failure to replace LCPI with an administrative agent reasonably acceptable to the Company and the Required Lenders on or before the Plan Effective Date;

- the failure of the Debtors or any non-Debtor subsidiaries to pay all invoiced and unpaid fees and expenses of the Required Lenders' advisors on or before the Plan Effective Date;
- the Bankruptcy Court shall enter an order approving the use of cash collateral or otherwise approving the Debtors' use of cash to fund the Chapter 11 Cases without the prior written consent of the Required Lenders; or
- the filing of a petition for relief under the Bankruptcy Court by a non-Debtor Guarantor.

While the Term Loan Forbearance Agreement is in effect, Forbearance shall be operative with respect to Forbearance Defaults and Covenants, but shall not constitute a forbearance with respect to any failure of the Company, Holding, PTII or any Guarantor to comply with any other covenant or other provision in the Term Loan Agreement or any of the Loan Documents or the occurrence of other present or future Default or Event of Default.

Canadian Financing Facility

In March 2007, the Company entered into a Senior Secured Credit Agreement ("Canadian Financing Facility") with a financial institution, to refinance an existing Canadian credit facility. The Canadian Financing Facility provides for a $35.0 million non-amortizing loan bearing interest at a rate of LIBOR plus 425 basis points and matures in March 2012. The loan proceeds were used to refinance the existing Canadian credit facility, including certain costs related to the transaction, and to finance certain capital expenditures. The Canadian Financing Facility is secured by the assets of the Company's Canadian operations and certain guarantees. At December 31, 2008, the Company had an outstanding liability of $35.0 million under the Canadian Financing Facility.

In October 2007, the Company entered into a cross-currency principal and interest rate swap agreement, a portion of which was required by the Canadian Financing Facility, which fixed the interest rate at 9.21% starting from October 31, 2007. The cross-currency principal and interest rate swap agreement's counter party is Lehman Brothers Special Financing, Inc. ("Lehman SFI"). Lehman SFI entered into bankruptcy in early October 2008 following its ultimate parent entering bankruptcy in mid-September 2008. Since September 2008, month end interest rate swap payments were not made by Lehman SFI to Primus nor, correspondingly, were payments made from Primus to Lehman SFI. While the covenant language is arguably ambiguous, management believed that the swap agreement with Lehman SFI continued to be in force with respect to the requirements under the Canadian Financing Facility and, accordingly, that no breach or event of default had occurred. Because of the possible multiple interpretations of the covenant language, management specifically addressed these points in the Waiver and Amendment Agreement (described below).

On March 10, 2009, Group's indirect wholly-owned Canadian subsidiary, Primus Telecommunications Canada Inc. ("Primus Canada"), 3082833 Nova Scotia Company and certain affiliate guarantors entered into a Waiver and Amendment Agreement (the "Waiver and Amendment") to their $35 million Canadian Financing Facility with Guggenheim Corporate Funding, LLC, as Administrative Agent and Collateral Agent.

The lenders under the Waiver and Amendment waived events constituting events of default and potential events of default under the Canadian Financing Facility, subject to the terms and conditions of the Waiver and Amendment. Such events included waivers covering certain specified events that have occurred and may constitute an event of default under the Canadian Financing Facility and Anticipated Events, including anticipated events of default. Anticipated events include events related to the plan of reorganization involving one or more of the guarantors and contemplated by the Waiver and Amendment (the "Contemplated Plan"), the occurrence of a material adverse effect arising as a result of the Chapter 11 Cases, the failure of a guarantor to make payment when due with respect to indebtedness (or the acceleration of indebtedness) of a guarantor at any time before the Contemplated Plan is effective and certain provisions of the guarantee being deemed invalid or unenforceable against a guarantor in connection with the Chapter 11 Cases for the Canadian Financing Facility. Specified events include:

- the failure of Primus Canada to maintain certain hedging agreements, Lehman unsecured hedging agreements or unsecured hedging agreements reasonably satisfactory to the Administrative Agent to hedge the full amount of its currency rate exposures with respect to the aggregate principal amount outstanding under the Canadian Financing Facility;

- the actions the guarantors have taken to authorize or effect certain actions related to the Reorganization; and
- the failure to deliver to the Administrative Agent an Officer's Certificate in connection with the events described in the preceding bullets.

The Waiver and Amendment permits Primus Canada to incur certain second-lien secured term loans that do not exceed $5 million and guarantees by the credit parties. The Canadian Financing Facility, as amended, obligates Primus Canada to pay loan principal amounts under the Canadian Financing Facility on the dates and in the amounts set forth below:

Payment Date		Principal Payment Amount
March 31, 2009	$	500,000
April 30, 2009	$	500,000
May 31, 2009	$	500,000
June 30, 2009	$	2,250,000
The last day of each calendar month from and including July 2009 to and including April 2011	$	500,000

Additionally, a principal prepayment of $1,750,000 was due and paid upon execution of the Waiver and Amendment.

In connection with the Waiver and Amendment, the applicable margin under the Canadian Financing Facility was increased to LIBOR +3.750% for the Term A Loans and LIBOR +6.375% for Term B Loans, with a 2.50% LIBOR floor, and the maturity date was changed to May 21, 2011.

The Waiver and Amendment established certain additional events of default under the Canadian Financing Facility to include any of the following:

- the Bankruptcy Court shall enter an order denying confirmation of the Plan or the Chapter 11 Cases shall be converted to a case under Chapter 7 of Title 11 of the United States Code;
- the plan of reorganization shall not have been confirmed by the Bankruptcy Court and become effective on or before August 31, 2010;
- the plan of reorganization shall be confirmed or become effective without the reinstatement after effectiveness of each guarantee on terms identical to such guarantee existing on the date hereof as a valid, unsubordinated obligation of the applicable guarantor, or the plan of reorganization is confirmed without any guarantor holding, directly or indirectly, substantially all of its current assets and businesses;
- the Bankruptcy Court shall enter any order that impairs the enforceability of this Agreement or any loan document (except as provided herein in connection with the obligations of the guarantors under the guarantee), as reasonably determined by the Administrative Agent;
- any representation or warranty made by a credit party in this Agreement shall prove to be untrue in any material respect as of the date hereof;
- any credit party shall default in the performance of any obligation under this Agreement that is not cured within 10 business days following notice thereof from the Administrative Agent; and
- the guarantee or any other loan document executed by a guarantor shall cease to be valid and binding on or enforceable against any guarantor.

Senior Notes, Senior Secured Notes, Convertible Senior Notes, Exchangeable Senior Notes, Step Up Convertible Subordinated Debentures and Convertible Subordinated Debentures

14 1/4% Senior Secured Notes

In February 2007, subsequent to the effectiveness of the amendment of the Facility, IHC issued in a private transaction $57.2 million principal amount of the 14 1/4% Senior Secured Notes in exchange for $40.7 million principal amount of the Company's outstanding 12 3/4% Senior Notes and $23.6 million in cash. This exchange has been accounted for as a modification of debt with a portion deemed to be a troubled debt restructuring. In March 2007, IHC also issued for cash in private transactions an additional $51.0 million principal amount of 14 1/4% Senior Secured Notes with a $0.3 million discount. Net cash proceeds from the 14 1/4% Senior Secured Notes issuance, after giving effect to expenses, discounts and fees related to all of the foregoing transactions (including the amendment of the Facility) was $69.2 million. The Company recorded $5.1 million in costs associated with this issuance of the 14 1/4% Senior Secured Notes, which have been recorded as a loss on restructuring of debt.

In May 2008, IHC issued $67.1 million principal amount of the 14 1/4% Senior Secured Notes and paid $4.7 million in cash in exchange for $49.0 million principal amount of the Company's 8% Senior Notes, $33.0 million principal amount of the Company's 5% exchangeable senior notes due June 2010 ("5% Exchangeable Senior Notes"), $43.1 million principal amount of the Company's 3 3/4% Convertible Senior Notes, and $5.3 million principal amount of the Company's 12 3/4% Senior Notes. All exchanges were deemed troubled debt restructurings, and accordingly, have been accounted for as modifications of debt, with future cash interest payments of $26.4 million being recorded in long-term obligations. The Company recognized a gain on restructuring of debt of $32.2 million in connection with this exchange, including the expensing of $0.5 million of financing costs.

The 14 1/4% Senior Secured Notes will mature on May 20, 2011 with early redemption at a premium to par at IHC's option at any time after February 2008. During specified periods, IHC may redeem at par up to 35% of the aggregate principal amount of the 14 1/4% Senior Secured Notes with the net cash proceeds of certain equity offerings of the Company. Accrued interest will be paid each May 31st and November 30th, beginning May 31st, 2007. The effective interest rate for the 14 1/4% Senior Secured Notes at December 31, 2008 was 12.4% for those amounts not related to the troubled debt restructuring discussed above. (see Note 20 — "Guarantor/Non-Guarantor Consolidating Condensed Financial Information.")

In December 2008, the Company made open market purchases of $2.1 million principal amount of its 14 1/4% Senior Secured Notes, resulting in a $2.0 million gain on early extinguishment of debt including the write-off of related deferred financing costs. The notes are held by the Company as treasury bonds and have been recorded as a reduction of long-term obligations. This debt is in default as a result of the bankruptcy filing on March 16, 2009, and is classified as current portion of long-term obligations on the balance sheet as of December 31, 2008.

5% Exchangeable Senior Notes

In the second quarter 2006, the Company completed the exchange of $54.8 million principal amount of the Company's 3 3/4% Convertible Senior Notes and $20.5 million in cash for $56.3 million principal amount of Holding's 5% Exchangeable Senior Notes. This exchange was deemed a troubled debt restructuring, and accordingly, has been accounted for as a modification of debt, with total future cash payments of $67.6 million being recorded in long-term obligations. The Company recognized a gain on restructuring of debt of $4.8 million in connection with this exchange, including the expensing of $2.9 million of financing costs.

The 5% Exchangeable Senior Notes mature on June 30, 2010, as a result of the Company increasing its equity (through designated transactions) in the aggregate of $25 million during June and July 2007. Interest on the 5% Exchangeable Senior Notes is paid at the rate of 5% per annum on each June 30 and December 30, beginning on December 30, 2006. Under certain circumstances, the Company may elect to make interest payments in shares of common stock, although the holders of the 5% Exchangeable Senior Notes were entitled to receive the first two semi-annual interest payments wholly in cash. The 5% Exchangeable Senior Notes are exchangeable into the Company's common stock at a conversion price of $1.20 per share of common stock, subject to adjustment in certain circumstances. If the closing bid price of the Company's common stock, for at least 20 trading days in any consecutive 30 trading-day period, exceeds 150% of the conversion price then in effect, the Company may elect to exchange the senior notes for shares of the Company's common stock at the conversion price, subject to certain conditions, including that no more than 50% of the 5% Exchangeable Senior Notes may be exchanged by the Company within any 30-day period. As of December 31, 2008, such conversion trigger had not been met. In the event of a change in control, as defined, the holders may require the Company to repurchase the 5% Exchangeable Senior Notes at which time the Company has the option to settle in cash or common stock at an adjusted conversion price. The 5% Exchangeable Senior Notes are guaranteed by Primus Telecommunications Group, Incorporated (Group) (see Note 20 — "Guarantor/Non-Guarantor Consolidating Condensed Financial Information").

In May 2008, the Company restructured $33.0 million principal amount of the 5% Exchangeable Senior Notes; see prior disclosure regarding the 14 1/4% Senior Secured Notes within this footnote. The outstanding 5% Exchangeable Senior Notes are convertible in the aggregate into 19,474,167 shares of the Company's common stock. This debt is in default as a result of the bankruptcy filing on March 16, 2009, and is classified as current portion of long-term obligations on the balance sheet as of December 31, 2008.

Step Up Convertible Subordinated Debentures

In the first quarter 2006, the Company completed the exchange of $27.4 million principal amount of the Company's 5 3/4% convertible subordinated debentures due 2007 ("2000 Convertible Subordinated Debentures") for $27.5 million principal amount of the Step Up Convertible Subordinated Debentures through two transactions. The Company recognized a gain on early extinguishment of debt of $1.5 million in connection with this exchange.

The Step Up Convertible Subordinated Debentures will mature on August 15, 2009. Interest will be payable from February 27, 2006 to December 31, 2006 at the rate of 6% per annum; from January 1, 2007 to December 31, 2007 at the rate of 7% per annum; and from January 1, 2008 to maturity at the rate of 8% per annum. Accrued interest will be paid each February 15 and August 15, beginning August 15, 2006, to holders of record on the preceding February 1 and August 1, respectively. The Step Up Convertible Subordinated Debentures are convertible into the Company's common stock at a conversion price of $1.187 per share of common stock through August 15, 2009, subject to adjustment in certain circumstances. The Indenture permits the Company, at its sole option, to require conversion if the Company's stock trades at 150% of the conversion price for at least 20 days within a 30 day period, subject to certain conditions, including that no more than 25% of the notes may be exchanged within any 30 day trading period. As of December 31, 2008, such conversion trigger had not been met. In the event of a change in control, as defined, the holders may put the instrument to the Company at which time the Company has the option to settle in cash or common stock at an adjusted conversion price.

During the quarter ended June 30, 2007, the Company exchanged 6,000,000 shares of the Company's common stock for the extinguishment of $5.0 million in principal amount of these convertible subordinated debentures. In accordance with SFAS No. 84, "Induced Conversion of Convertible Debt," the Company recognized an induced conversion expense of $1.6 million and $0.7 million write-off of debt discount and deferred financing costs in connection with this conversion. During the first quarter 2008, the Company made open market purchases of $13.8 million principal amount of its Step Up Convertible Subordinated Debentures, resulting in a $2.1 million gain on early extinguishment of debt including the write-off of related deferred financing costs. The outstanding Step Up Convertible Subordinated Debentures are convertible in the aggregate into 7,279,697 shares of the Company's common stock. This debt is in default as a result of the bankruptcy filing on March 16, 2009, and is classified as current portion of long-term obligations on the balance sheet as of December 31, 2008.

Step Up Convertible Subordinated Debentures and 3 3/4% Convertible Senior Notes Supplemental Information

At the time of issuance of the Step Up Convertible Subordinated Debentures, the Company did not have sufficient authorized and unissued shares of common stock to satisfy exercise and conversion of all of its convertible instruments. Accordingly, the Company determined that the Step Up Convertible Subordinated Debentures, the 2000 Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes were hybrid instruments with characteristics of a debt host agreement and contained embedded derivative features that had characteristics and risks that were not clearly and closely associated with the debt host. In the first quarter 2006, the conversion options were determined to be derivative instruments to be bifurcated and recorded as a current liability at fair value. In the second quarter 2006, the Company's shareholders voted to approve alternative proposals to authorize an amendment to the Company's Certificate of Incorporation to affect a one-for-ten reverse stock split or to authorize an amendment of the Company's Certificate of Incorporation allowing an increase of authorized common stock from 150,000,000 to 300,000,000. Either authorization ensured the Company would have the ability to control whether it has sufficient authorized and unissued shares of common stock to satisfy exercise and conversion of all of its convertible instruments. Therefore, the Company determined that the Step Up Convertible Subordinated Debentures, the 2000 Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes did not contain embedded derivative features as of the date of the shareholder vote, June 20, 2006, and added back the June 20, 2006 fair value of the embedded derivative into the debt balance. On July 27, 2006, the Board of Directors determined to increase the authorized shares of the common stock to 300,000,000.

The Company recorded a corresponding debt discount to the Step Up Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes in the amount of the fair value of the embedded derivative at the issue date. An additional debt discount of $1.7 million was recorded for the Step Up Convertible Subordinated Debentures to bring the carrying value to fair value. The carrying value of the Step Up Convertible Subordinated Debentures at issuance was approximately $14.3 million, and the carrying value of the 3 3/4% Convertible Senior Notes at issuance of the Step Up Convertible Subordinated Debentures was approximately $127.8 million. The Company is accreting the difference between the face values of the Step Up Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes and the corresponding carrying values to interest expense under the effective interest method on a monthly basis over the lives of the Step Up Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes. At December 31, 2008, the carrying value of the Step Up Convertible Subordinated Debentures (face value of $8.6 million) was $8.3 million, and the carrying value of the 3 3/4% Convertible Senior Notes (face value of $34.2 million) was $34.0 million. The effective interest rates of the Step Up Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes at December 31, 2008 were 14.0% and 4.7%, respectively.

8% Senior Notes

In January 2004, Holding, a direct, wholly-owned subsidiary of the Company, completed the sale of $240 million in aggregate principal amount of 8% Senior Notes with semi-annual interest payments due on January 15th and July 15th, with early redemption at a premium to par at Holding's option at any time after January 15, 2009. The Company recorded $6.7 million in costs associated with the issuance of the 8% Senior Notes, which have been recorded as deferred financing costs in other assets. The effective interest rate at December 31, 2008 was 8.4%. During specified periods, Holding may redeem up to 35% of the original aggregate principal amount with the net cash proceeds of certain equity offerings of the Company. The 8% Senior Notes are guaranteed by Group (see Note 20 — "Guarantor/Non-Guarantor Consolidating Condensed Financial Information").

During the year ended December 31, 2004, the Company reduced $5.0 million principal balance of the 8% Senior Notes through open market purchases. In May 2008, the Company restructured $49.0 million principal amount of the 8% Senior Notes; see prior disclosure regarding the 14 1/4% Senior Secured Notes within this footnote. This debt is in default as a result of the bankruptcy filing on March 16, 2009, and is classified as current portion of long-term obligations on the balance sheet as of December 31, 2008.

3 3/4% Convertible Senior Notes

In September 2003, the Company completed the sale of $132 million in aggregate principal amount of 3 3/4% Convertible Senior Notes. The 3 3/4% Convertible Senior Notes are due September 2010, with semi-annual interest payments due on March 15th and September 15th. The Company recorded $5.2 million in costs associated with the issuance of the 3 3/4% Convertible Senior Notes, which have been recorded as deferred financing costs in other assets. Holders of these notes may convert their notes into the Company's common stock at any time prior to maturity at an initial conversion price of $9.3234 per share, which is equivalent to an initial conversion rate of 107.257 shares per $1,000 principal amount of the notes, subject to adjustment in certain circumstances. In the event of a change in control, as defined, the holders may put the instrument to the Company at which time the Company has the option to settle in cash or common stock at an adjusted conversion price.

In the second quarter 2006, the Company restructured $54.8 million principal amount of 3 3/4% Convertible Senior Notes; see prior disclosure regarding the 5% Exchangeable Senior Notes within this footnote. In May 2008, the Company restructured $43.1 million principal amount of 3 3/4% Convertible Senior Notes; see prior disclosure regarding the 14 1/4% Senior Secured Notes within this footnote. The outstanding notes are convertible in the aggregate into 3,668,190 shares of the Company's common stock. This debt is in default as a result of the bankruptcy filing on March 16, 2009, and is classified as current portion of long-term obligations on the balance sheet as of December 31, 2008.

12 3/4% Senior Notes

In October 1999, the Company completed the sale of $250 million in aggregate principal amount of the 12 3/4% Senior Notes. The 12 3/4% Senior Notes are due October 15, 2009, with semi-annual interest payments due on October 15th and April 15th with early redemption at a premium to par at the Company's option at any time after October 15, 2004 and with an early redemption at par at the Company's option at any time after October 15, 2007.

During the years ended December 31, 2002, 2001 and 2000, the Company reduced the principal balance of these senior notes through open market purchases. In June and September 2002, the Company retired all of the 12 3/4% Senior Notes that it had previously purchased in the principal amount of $134.3 million in aggregate. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. During the year ended December 31, 2004, the Company retired $33.0 million principal amount of the 12 3/4% Senior Notes through open market purchases. During the year ended December 31, 2005, the Company exchanged 5,165,175 shares of the Company's common stock for the extinguishment of $8.6 million principal amount of these senior notes. During the quarter ended March 31, 2006, the Company exchanged 1,825,000 shares of the Company's common stock for the extinguishment of $2.5 million principal amount of these senior notes. During the first quarter 2007, the Company restructured $40.7 million principal amount of the 12 3/4% Senior Notes; the Company entered into a supplemental indenture, amending the terms to eliminate certain covenants. See prior disclosure regarding the 14 1/4% Senior Secured Notes within this footnote. During the remainder of 2007, the Company retired $10.5 million principal amount of the 12 3/4% Senior Notes through open market purchases. In the first quarter 2008, the Company made open market purchases of $0.8 million principal amount of its 12 3/4% Senior Notes, resulting in a $0.1 million gain on early extinguishment of debt including the write-off of related deferred financing costs. In May 2008, the Company restructured $5.3 million principal amount of the 12 3/4% Senior Notes; see prior disclosure regarding the 14 1/4% Senior Secured Notes within this footnote. This debt is in default as a result of the bankruptcy filing on March 16, 2009, and is classified as current portion of long-term obligations on the balance sheet as of December 31, 2008.

Leased Fiber Capacity

In December 2000, the Company entered into a financing arrangement to purchase fiber optic capacity in Australia for 51.1 million Australian dollars (AUD) ($28.5 million at December 31, 2000) from Optus Networks Pty. Limited. As of December 31, 2001, the Company had fulfilled the total purchase obligation. The Company signed a promissory note payable over a four-year term ending in April 2005 bearing interest at a rate of 14.31%. During the three months ended June 30, 2003, the Company renegotiated the payment terms extending the payment schedule through March 2007, and lowering the interest rate to 10.2%. In October 2006, the Company renegotiated the payment terms of its promissory note payable to Optus Networks Pty. Limited to defer principal payments from April 2006 through December 2006 and was obligated to pay the remaining balance in three equal monthly principal payments in the first quarter 2007. In February 2007, the Company again renegotiated the payment terms of its $7.0 million (10.1 million AUD) promissory note payable to Optus Networks Pty. Limited to extend the payment schedule through December 2008 in 24 equal monthly payments. During the third quarter 2008, the payment terms were again renegotiated to extend payment of the principal balance of $2.2 million (3.1 million AUD) to June 2010 with monthly payments of interest only at a rate of 13.5%. If certain conditions are not met, including certain purchase targets by September 30, 2009, Optus Networks Pty. Limited may give 30 days notice requiring full payment of the principal balance. At December 31, 2008 and December 31, 2007, the Company had a liability recorded in the amount of $2.2 million (3.1 million AUD) and $5.0 million (5.7 million AUD), respectively.

Equipment Financing and Other Long-Term Obligations

In November 2005, Primus Australia entered into a financing arrangement for network equipment. Payments are made over a five-year term ending October 2010. The effective interest rate on the current borrowing is 9.3%. At December 31, 2008 and December 31, 2007, the Company had a liability recorded under this agreement in the amount $2.9 million (4.2 million AUD) and $4.7 million (5.4 million AUD), respectively. At December 31, 2007, the Company was in breach of a covenant under the financing arrangement. Breach of such covenant was waived by the lender on February 8, 2008. No such breach existed as of December 31, 2008.

6. Income Taxes

The total provision (benefit) for income taxes for the years ended December 31, 2008, 2007, and 2006 is as follows:

	2008	2007	2006
Current: Federal	$ 59	$ 86	$ —
State	63	154	—
Foreign	(6,852)	2,052	4,863
	(6,730)	2,292	4,863
Deferred: Federal	162	—	—
State	—	—	—
Foreign	6,202	(11,524)	—
	6,364	(11,524)	—
Total Tax Provision (Benefit)	$ (366)	$ (9,232)	$4,863

The US and foreign components of income from continuing operations before income taxes for 2008, 2007, and 2006 are as follows:

	For the Year Ended December 31,		
	2008	2007	2006
US	$(43,097)	$(13,514)	$ (51,102)
Foreign	21,185	14,154	(185,845)
Income from continuing operations before income taxes	$(21,912)	$ 640	$(236,947)

The provision for (benefit from) income taxes differed from the amount computed by applying the federal statutory income tax rate to income (loss) before income taxes due to the following (in thousands):

	For the Year Ended December 31,		
	2008	2007	2006
Tax provision (benefit) at federal statutory rate	$ (8,524)	$ 218	$ (80,185)
Permanent differences	(1,940)	(29,299)	13,417
State tax (net of federal)	(1,043)	1,129	(758)
Effect of foreign tax rate change	(1,241)	(3,278)	3,157
Foreign withholding taxes (net of Federal)	(3,159)	2,518	4,863
FIN No. 48 items	(5,014)	(3,525)	—
Foreign taxes	3,180	8,432	—
Increase (decrease) in valuation allowance	15,710	12,579	65,934
Other	1,665	1,994	(1,565)
Income tax (benefit) expense	$ (366)	$ (9,232)	$ 4,863

Deferred income taxes are recognized to account for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts of each period-end, based on enacted tax laws and statutory income tax rates applicable to periods in which the differences are expected to affect taxable income. Deferred income taxes reflect the net income tax effect of temporary differences between the basis of assets and liabilities for financial reporting purposes and for income tax purposes. Net deferred tax balances are comprised of the following (in thousands):

	December 31,	
	2008	2007
Deferred tax assets	$ 274,000	$ 268,659
Valuation allowance	(227,798)	(239,680)
Deferred tax liabilities	(32,183)	(4,881)
Net deferred taxes	$ 14,019	$ 24,098

The valuation allowance decreased during 2007 by $98.0 million. This is composed of $98.6 million due to the implementation of FIN No. 48, which decreased both the valuation allowance and the deferred tax assets, a decrease of $11.3 million for the release of the Canadian subsidiaries' valuation allowance, and an offsetting $10.7 million increase which offsets deferred tax asset increases in 2007.

The significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	December 31, 2008	December 31, 2007
Current		
Allowance for bad debt	$ 2,301	$ 2,443
Other	3,683	4,424
Valuation allowance	(5,133)	(5,187)
	$ 851	$ 1,680
Non-current		
Basis difference in intangibles	$ 27,915	$ 30,872
Basis difference in fixed assets impairment	57,066	64,672
Other basis difference	0	450
Bond related adjustments	(30,940)	—
Capital loss carryforwards	27,491	34,305
Net operating loss carryforwards	139,664	111,168
Basis difference in fixed assets	8,615	13,375
Unrealized foreign exchange gains	3,256	(4,723)
Accrued withholding tax	3,283	6,062
Minimum tax credit carryforward	726	888
Other	(1,243)	(158)
Valuation allowance	(222,665)	(234,493)
	$ 13,168	$ 22,418

As of December 31, 2008, the Company had foreign operating loss carryforwards of approximately $244.5 million of which $22.5 million expire periodically from 2009 through 2028, and the remainder of which carryforward without expiration.

At December 31, 2008, the Company had United States operating loss carryforwards of $72.8 million available to reduce future United States taxable income, which expires periodically between 2014 through 2028. Of the operating loss carryforwards, $45.4 million are subject to limitations in the future, in accordance with Section 382 of the Internal Revenue Code.

During 2008 and the testing periods under Internal Revenue Code Section 382 ("382"), the Company had various changes to its 5% shareholder base as reported in the applicable SEC 13G filings. Based on the review of the 13G filings and other available data the Company believes that an ownership change did not occur. If a change does occur, the resulting 382 limitation would place severe limits on the Company's ability to utilize the United States net operating losses.

The net operating loss carryforward amounts above reflect all FIN No. 48 changes.

The Company incurred $(3.1) million, $3.9 million and $4.7 million of expense in 2008, 2007 and 2006, respectively, related to foreign withholding tax on intercompany interest and royalties owed to our United States subsidiary. On December 15, 2008 the U.S. Treasury Department announced that the Fifth Protocol ("Protocol") to the United States — Canada Income Tax Treaty entered into force. The Protocol is generally effective for tax years beginning on or after January 1, 2009, however certain provisions of the Protocol have different effective dates. The elimination of withholding tax on interest paid or credited between related parties is phased in over a 3-year period, between 2008 through 2010. The reduced withholding tax rates are 7% for 2008, 4% for 2009, and 0% for 2010 and thereafter. Effective January 1, 2010, interest paid by or to certain hybrid entities will not qualify for treaty benefits. The changes made by the Protocol have substantially reduced the accrued income tax liability by $5.4 million, thereby providing for an overall tax benefit.

No provision was made in 2008 for United States income taxes on the undistributed earnings of the foreign subsidiaries as it is the Company's intention to utilize those earnings in the foreign operations for an indefinite period of time or to repatriate such earnings only when it is tax effective to do so. Determining the income or withholding tax liability that would arise if these earnings were remitted is not practicable. That liability would depend on a number of factors, including the amount of the earnings distributed and whether the U.S. operations were generating taxable profits or losses.

On January 1, 2007, the Company adopted FIN No. 48. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." This Interpretation prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the Company has taken or expects to take on a tax return.

The Company is subject to challenge from various taxing authorities relative to certain tax planning strategies, including certain intercompany transactions as well as regulatory taxes. Prior to the implementation of FIN No. 48 on January 1, 2007, the Company accrued income tax contingencies under FASB No. 5, "Accounting for Contingencies," when it was probable that a liability to a taxing authority had been incurred and the amount of the contingency could be reasonably estimated, based on past experience. The Company's tax contingency reserve was adjusted for changes in circumstances and additional uncertainties, such as significant amendments to existing tax law, both legislated and concluded through various jurisdictions' tax court systems. For 2008 the reserve is recorded under FIN No. 48.

As a result of the implementation of FIN No. 48, the Company recorded adjustments to increase its unrecognized tax benefits by $106.4 million, with no net impact to the consolidated statement of operations. Of this amount, $7.7 million was accounted for as an increase to the January 1, 2007 balance of accumulated deficit. The remainder of $98.7 million resulted in a reduction of deferred tax assets offset by an equal adjustment to the valuation allowance. The total of unrecognized tax benefits on the consolidated balance sheet was $116.5 million as of January 1, 2008. Of this amount, total unrecognized tax benefits of $22.7 million, if recognized, would affect the effective tax rate. Penalties and income tax-related interest expense are reported as a component of income tax expense. As of January 1, 2008, the total amount of accrued income tax-related interest and penalties was $2.7 million.

Reconciliations of the January 1, 2008 to December 31, 2008 and January 1, 2007 to December 31, 2007 balances of unrecognized tax benefits are as follows (in thousands):

	Liability for Unrecognized Tax Benefits	
	2008	2007
Balance at January 1,	$116,454	$ 111,426
Foreign currency adjustments	(11,215)	4,934
Statute expiration	(441)	(4,269)
Gross increases (decreases) of tax positions in prior period	(501)	3,075
Audit resolution	(16,977)	(9,343)
Gross increases of tax positions in current period	3,042	7,961
Penalties and interest	51	2,670
Balance at December 31,	$ 90,413	$ 116,454

The total of unrecognized tax benefits on the consolidated balance sheet was $90.4 million as of December 31, 2008. Total unrecognized tax benefits of $3.7 million, if recognized, would affect the effective tax rate.

It is not expected that any unrecognized tax benefits will significantly increase or decrease over the next 12 months, with the possible exception of Canada, who is currently involved in an ongoing international tax planning audit whose outcome is uncertain at this time.

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

Jurisdiction	Open Tax Years
United States Federal	2000, 2002-2008
Australia	2001-2008
Canada	2003-2008
United Kingdom	2005-2008
Netherlands	2007-2008

The Company has closed certain federal and provincial income tax examinations in Canada for the years 2000 through 2005 (federal) and 2001 through 2005 (provincial) with all assessments being received. The Company has concluded an examination in the Netherlands for the years 2002, 2003, 2004, 2005 and 2006. Based on the final settlement, the Company reversed its remaining liability in the fourth quarter of 2008. The Company is also currently under examination in other foreign tax jurisdictions, none of which are individually material.

7. Fair Value of Financial Instruments

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 Company's senior secured term loan facility, 14 1/4% Senior Secured Notes, 5% Exchangeable Senior Notes, Step Up Convertible Subordinated Debentures, 8% Senior Notes, 12 3/4% Senior Notes and 3 3/4% Convertible Senior Notes (face value of $536 million and $617 million, at December 31, 2008 and 2007, respectively), based on quoted market prices for all but the senior secured term loan facility, was $111 million and $455 million, respectively, at December 31, 2008 and 2007. For the senior secured term loan facility, fair value determination was based on a SFAS No. 157 Level 2 input, as the market is inactive with no trades since June 2008, and was based on a current offering sheet. The effect of the filings under Chapter 11 as described in "Note 2 — Summary of Significant Accounting Policies — Going Concern and Voluntary Reorganization Under Chapter 11" cannot be determined at this time, but are potentially substantial.

8. Commitments and Contingencies

Future minimum lease payments under capital leases and leased fiber capacity financing ("Vendor Financing"), purchase obligations and non-cancelable operating leases as of December 31, 2008 are as follows (in thousands):

Year Ending December 31,	Vendor Financing and Other	Purchase Obligations	Operating Leases
2009	$ 2,528	$ 26,583	$ 17,319
2010	4,913	13,957	13,724
2011	278	1,893	10,186
2012	95	486	8,559
2013	62	—	6,038
Thereafter	33	—	9,075
Total minimum lease payments	7,909	42,919	64,901
Less: Amount representing interest	(886)	—	—
	$ 7,023	$ 42,919	$ 64,901

The Company has contractual obligations to utilize network facilities from certain carriers with terms greater than one year. The Company does not purchase or commit to purchase quantities in excess of normal usage or amounts that cannot be used within the contract term or at rates below or above market value. The Company made purchases under purchase commitments of $33.6 million, $30.3 million and $8.9 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Rent expense under operating leases was $16.6 million, $17.0 million and $15.4 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Litigation

Legal Proceedings Related to the Chapter 11 Cases

On March 16, 2009, each of Group, Holding, PTII and IHC filed Chapter 11 Cases in the United States Bankruptcy Court for the District of Delaware for reorganization relief under Chapter 11 of the Bankruptcy Code. Subsequently, the Debtors sought and received an order directing joint administration of the Debtors' Chapter 11 Cases under the caption, In re: Primus Telecommunications Group, Incorporated, et al., Debtors Case No. 09-10867. A creditors' committee has not been appointed in these cases by the United States Trustee. On April 8, 2009, the Debtors filed the First Amended Joint Plan of Reorganization of Primus Telecommunications Group, Incorporated and its Affiliate Debtors and the Disclosure Statement (see Note 2 — "Summary of Significant Accounting Policies" — Going Concern and Voluntary Reorganization Under Chapter 11).

The Reorganization is subject to a number of uncertainties and contingencies and is subject to Bankruptcy Court confirmation; as a result, the Company is unable to assess the ultimate outcome of the Chapter 11 Cases.

Other Legal Proceedings

Group and its subsidiaries are subject to claims and legal proceedings unrelated to the Chapter 11 Cases that arise in the ordinary course of its business ("Other Proceedings"). 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 the Other Proceedings will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

9. Stockholders' Equity

This note does not affect any revision that may occur as a result of the Company's March 16, 2009 voluntary bankruptcy petition under Chapter 11 and the resulting effects to the Company's capital structure (see Note 2 — "Summary of Significant Accounting Policies" — Going Concern and Voluntary Reorganization Under Chapter 11).

During the year ended December 31, 2008, 100,000 restricted stock units were fully vested upon involuntary termination of an employee without cause. The fair market value of the stock units at the grant date was $0.40 per share. The employee withholding tax was netted against the share issuance, and the Company issued 62,850 shares of common stock to the employee.

During the year ended December 31, 2007, the Company exchanged 6,000,000 shares of the Company's common stock for the extinguishment of $5.0 million in principal amount of the Step Up Convertible Subordinated Debentures (see Note 5 — "Long-Term Obligations"). Also, the Company sold 22,500,000 shares of the Company's common stock to certain investors pursuant to a subscription agreement for $19.3 million cash. The Company also granted 284,000 shares to an executive employee as a stock award.

During the year ended December 31, 2006, the Company exchanged 1,825,000 shares of the Company's common stock for the extinguishment of $2.5 million in principal amount of the October 1999 Senior Notes (see Note 5 — "Long-Term Obligations"). The Company also sold 6,666,667 shares of the Company's common stock for $5.0 million cash pursuant to a subscription agreement with an existing stockholder.

10. Share-based Compensation

The Company sponsors an employee stock compensation plan (the "Equity Incentive Plan"). The total number of shares of common stock authorized for issuance under the Equity Incentive Plan is 13,000,000. Under the Equity Incentive Plan, awards may be granted to key employees or consultants of the Company and its subsidiaries in the form of Incentive Stock Options, Nonqualified Stock Options or Restricted Stock Units. The Equity Incentive Plan allows the granting of options at an exercise price of not less than 100% of the stock's fair value at the date of grant and allows the grant of restricted stock units (RSUs) for no consideration. The options and RSUs vest over a period of up to three years. No option will be exercisable more than ten years from the date it is granted. On June 16, 2004, the stockholders of the Company approved amendments to the Equity Incentive Plan, including (i) renaming the employee stock option plan the "Equity Incentive Plan"; (ii) expanding the forms of awards permitted to be granted, including stock appreciation rights, restricted stock awards, stock units and other equity securities, and authorizing a tax deferral feature for executive officers; (iii) prohibiting the repricing of stock options in the future without stockholder approval; and (iv) requiring vesting in full to be not less than three years for restricted stock and stock unit awards, unless accelerated following the first anniversary of the award due to the satisfaction of predetermined performance conditions.

The Company sponsors a Director Stock Option Plan (the "Director Plan") for non-employee directors. Under the Director Plan, an option is granted to each qualifying non-employee director upon election or reelection to purchase 45,000 shares of common stock, which vests in one-third increments as of the grant date and the first and second anniversaries of the grant date, over a two-year period. The option price per share is the fair market value of a share of common stock on the date the option is granted. No option will be exercisable more than five years from the date of grant. On June 16, 2004, the stockholders of the Company approved amendments to the Director Plan to (i) increase the number of shares of common stock issuable pursuant to awards under the Director Plan by 300,000 to a total of 900,000; and (ii) authorize the issuance of restricted stock (in lieu of cash compensation at the discretion of individual Directors).

A summary of stock option activity during the three years ended December 31 is as follows:

	2008		2007		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding — Beginning of year	7,368,262	$ 2.09	7,919,267	$ 2.15	9,316,005	$ 2.36
Granted	1,042,000	$ 0.35	155,000	$ 0.86	797,500	$ 0.76
Exercised	—	$ —	—	$ —	—	$ —
Forfeitures	(595,859)	$ 2.26	(706,005)	$ 2.53	(2,194,238)	$ 2.50
Outstanding — End of year	7,814,403	$ 1.85	7,368,262	$ 2.09	7,919,267	$ 2.15
Eligible for exercise — End of year	6,860,732	$ 2.05	6,628,171	$ 2.23	6,588,966	$ 2.42

The following table summarizes information about stock options outstanding at December 31, 2008:

	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
$ 0.27 to $ 0.29	42,000	9.33	$ 0.27	$ —	—	0.00	$ —	$ —
$ 0.36 to $ 0.65	1,118,167	8.25	$ 0.41	$ —	338,164	6.56	$ 0.50	$ —
$ 0.73 to $ 0.88	724,333	6.70	$ 0.79	$ —	622,665	6.61	$ 0.79	$ —
$ 0.90	754,154	2.52	$ 0.90	$ —	754,154	2.52	$ 0.90	$ —
$ 0.92	696,915	6.85	$ 0.92	$ —	696,915	6.85	$ 0.92	$ —
$ 0.93 to $ 0.99	110,000	4.13	$ 0.98	$ —	80,000	4.39	$ 0.98	$ —
$ 1.33 to $ 1.61	19,500	4.80	$ 1.47	$ —	19,500	4.80	$ 1.47	$ —
$ 1.65	1,465,273	3.97	$ 1.65	$ —	1,465,273	3.97	$ 1.65	$ —
$ 1.90 to $ 2.38	1,700,711	4.00	$ 1.97	$ —	1,700,711	4.00	$ 1.97	$ —
$ 3.03 to $ 6.30	1,159,000	5.60	$ 4.92	$ —	1,159,000	5.60	$ 4.92	$ —
$ 12.31 to $ 17.44	16,800	0.51	$ 15.09	$ —	16,800	0.51	$ 15.09	$ —
$ 31.94	7,550	1.08	$ 31.94	$ —	7,550	1.08	$ 31.94	$ —
	7,814,403	5.22	$ 1.85	$ —	6,860,732	4.75	$ 2.05	$ —

The number of unvested options expected to vest is 0.4 million shares, with a weighted average remaining life of 8.6 years, a weighted average exercise price of $0.43, and with an intrinsic value of $0.

In 2007, 100,000 restricted stock units were granted, which is the only grant to date. The fair market value of the stock units at the grant date was $0.40 per share. In October 2008, the stock units were fully vested upon involuntary termination without cause. The employee withholding tax was netted against the share issuance, and the Company issued 62,850 shares of common stock and accelerated the recognition of $28 thousand expense.

In December 1998, the Company established the 1998 Restricted Stock Plan (the "Restricted Plan") to facilitate the grant of restricted stock to selected individuals (excluding executive officers and directors of the Company) who contribute to the development and success of the Company. The total number of shares of common stock that may be granted under the Restricted Plan is 750,000. The Company did not issue any restricted stock under the Restricted Plan for the years ended 2008, 2007 and 2006. As of December 31, 2008, 54,000 shares have been issued and none are considered restricted.

11. Employee Benefit Plans

The Company sponsors a 401(k) employee benefit plan (the "401(k) Plan") that covers substantially all United States based employees. Employees may contribute amounts to the 401(k) Plan not to exceed statutory limitations. The 401(k) Plan provides an employer matching contribution in cash of 50% of the first 6% of employee annual salary contributions capped at $2,000 which are subject to three-year cliff vesting.

The matching contribution made by the Company in cash during the years ended December 31, 2008, 2007 and 2006 was $168,000, $262,000 and $256,000, respectively.

Effective January 1, 1998, the Company adopted an Employee Stock Purchase Plan ("ESPP"). The ESPP allows employees to contribute up to 15% of their compensation to purchase the Company's common stock at 85% of the fair market value. An aggregate of 2,000,000 shares of common stock were reserved for issuance under the ESPP. The plan was suspended as of July 27, 2006. During the year ended December 31, 2006, the Company issued 102,321 shares under the ESPP.

12. Related Parties

The Company had a reciprocal services agreement with a vendor to provide and to receive domestic and international termination of telecommunication services. A Director of the Company is the Chairman and Chief Executive Officer of the vendor providing such services. The contract was on a month-to-month basis. The Company recorded $0 revenue and cost in 2008 and 2007. The Company recorded cost of $3,000 in 2006 for discrete services received under this agreement. The Company had no amounts due from the vendor at December 31, 2008, 2007 and 2006.

During the year ended 2008, 2007 and 2006, the Company provided international telecommunications services to a customer for which a Director of the Company is the Chairman and Chief Executive Officer of the customer. The Company recorded revenue of approximately $20,000, $36,000 and $38,000 in 2008, 2007 and 2006, respectively, for services provided and costs of $1,000, $0 and $0 in 2008, 2007 and 2006, respectively, for services received. The Company had amounts due from the customer of approximately $0, $2,000 and $6,000 at December 31, 2008, 2007 and 2006, respectively.

13. 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 and Asia-Pacific, Brazil and the wholesale business from the United States and Europe managed as a separate global segment (See Note 21 — "Subsequent Events"). The Company evaluates the performance of its segments and allocates resources to them based upon net revenue and income (loss) from operations. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Net revenue by geographic segment is reported on the basis of where services are provided. The Company has no single customer representing greater than 10% of its revenues. Operations and assets of the United States segment include shared corporate functions and assets, which the Company does not allocate to its other geographic segments for management reporting purposes. 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 geographic regions and segments is as follows:

	Year Ended December 31, 2008	2007	2006
Net Revenue by Geographic Region			
United States	$170,552	$166,799	$ 192,235
Canada	260,834	262,412	275,546
Europe			
United Kingdom	87,706	89,363	84,397
Germany	18,254	21,004	34,607
Netherlands	2,765	139	34,457
France	26,284	19,433	16,833
Spain	11,428	15,831	18,443
Italy	21,318	15,075	14,408
Other	10,005	12,093	13,620
Total Europe	177,760	172,938	216,765
Australia	276,588	285,962	304,402
Brazil	10,129	7,918	4,086
Total	$895,863	$896,029	$ 993,034
Net Revenue by Segment			
United States	$ 86,579	$101,583	$ 111,319
Canada	260,834	262,200	274,318
Europe	64,629	68,943	94,114
Australia	276,414	284,935	301,506
Wholesale	197,278	170,450	207,691
Brazil	10,129	7,918	4,086
Total	$895,863	$896,029	$ 993,034
Provision for Doubtful Accounts Receivable			
United States	$ 2,830	$ 1,919	$ 2,637
Canada	2,708	2,979	3,432
Europe	765	817	4,287
Australia	3,948	3,509	3,794
Wholesale	1,092	958	874
Brazil	597	168	49
Total	$ 11,940	$ 10,350	$ 15,073
Income (Loss) from Operations			
United States	$ (7,184)	$ (3,132)	$ (93,392)
Canada	41,393	37,138	(7,224)
Europe	(3,968)	(13,947)	(39,225)
Australia	10,408	15,594	(63,787)
Wholesale	(1,407)	(3,097)	(256)
Brazil	(437)	(832)	(3,237)
Total	$ 38,805	$ 31,724	$(207,121)
Capital Expenditures			
United States	$ 1,579	$ 1,819	$ 2,495
Canada	10,394	23,434	18,399
Europe	839	3,418	1,289
Australia	12,376	15,860	10,740
Brazil	253	214	93
Total	$ 25,441	$ 44,745	$ 33,016

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

	December 31,	
	2008	2007
Property and Equipment — Net		
United States	15,590	18,430
Canada	44,234	54,787
Europe		
United Kingdom	$ 5,965	$ 8,718
Other	577	1,670
Total Europe	6,542	10,388
Australia	45,282	60,397
Brazil	504	597
Total	$ 112,152	$ 144,599
Assets		
United States	28,230	71,782
Canada	121,105	166,817
Europe		
United Kingdom	$ 23,597	$ 21,434
Germany	2,710	5,803
Italy	9,301	11,501
France	6,326	6,710
Other	33,262	34,217
Total Europe	75,196	79,665
Australia	101,650	136,710
Brazil	4,263	5,429
Total	$ 330,444	$ 460,403

The Company offers three main products — voice, data/Internet and VOIP in all of its segments. Summary net revenue information with respect to the Company's products is as follows (in thousands):

	For the Year Ended December 31,		
	2008	2007	2006
Voice	$ 566,791	$ 597,404	$ 704,971
Data/Internet	180,308	179,809	166,520
VOIP (Retail and Wholesale)	148,764	118,816	121,543
Total	$ 895,863	$ 896,029	$ 993,034

14. Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results of operations for the years ended December 31, 2008 and 2007.

	For the Quarter Ended			
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
	(in thousands, except per share amounts)			
Net revenue	$225,434	$235,897	$ 231,256	$ 203,276
Cost of revenue (exclusive of depreciation)	$141,484	$142,495	$ 149,834	$ 136,052
Income from operations	$ 9,713	$ 15,227	$ 7,136	$ 6,729
Income (loss) from continuing operations	$ (2,954)	$ 46,545	$ (32,784)	$ (35,512)
Income (loss) from discontinued operations	$ (45)	$ (21)	$ (436)	$ 176
Net income (loss) attributable to common stockholders	$ (2,999)	$ 46,524	$ (33,220)	$ (35,336)
Basic income (loss) per common share:				
Income (loss) from continuing operations	$ (0.02)	$ 0.33	$ (0.23)	$ (0.25)
Loss from discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Net income (loss) attributable to common stockholders	$ (0.02)	$ 0.33	$ (0.23)	$ (0.25)
Diluted income (loss) per common share:				
Income (loss) from continuing operations	$ (0.02)	$ 0.25	$ (0.23)	$ (0.25)
Loss from discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Net income (loss) attributable to common stockholders	$ (0.02)	$ 0.25	$ (0.23)	$ (0.25)

	For the Quarter Ended			
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
	(in thousands, except per share amounts)			
Net revenue	$225,282	$225,751	$ 223,744	$ 221,252
Cost of revenue (exclusive of depreciation)	$143,651	$141,285	$ 135,580	$ 130,787
Income from operations	$ 7,807	$ 8,302	$ 8,644	$ 6,971
Income (loss) from continuing operations	$ (8,446)	$ 12,309	$ 4,369	$ 1,640
Income (loss) from discontinued operations	$ (154)	$ (208)	$ 220	$ (126)
Gain from sale of discontinued operations	$ 5,958	$ —	$ 174	$ —
Net income (loss) attributable to common stockholders	$ (2,642)	$ 12,101	$ 4,763	$ 1,514
Basic income (loss) per common share:				
Income (loss) from continuing operations	$ (0.07)	$ 0.10	$ 0.03	$ 0.01
Income (loss) from discontinued operations	(0.00)	(0.00)	0.00	(0.00)
Gain from sale of discontinued operations	0.05	—	0.00	—
Net income (loss) attributable to common stockholders	$ (0.02)	$ 0.10	$ 0.03	$ 0.01
Diluted income (loss) per common share:				
Income (loss) from continuing operations	$ (0.07)	$ 0.07	$ 0.02	$ 0.01
Income (loss) from discontinued operations	(0.00)	(0.00)	0.00	(0.00)
Gain from sale of discontinued operations	0.05	—	0.00	—
Net income (loss) attributable to common stockholders	$ (0.02)	$ 0.07	$ 0.02	$ 0.01

Quarterly and year-to-date computations of per share amounts are made independently; therefore, the sum of per share amounts for the quarters may not agree with per share amounts for the year.

15. Loss on Sale or Disposal of Assets

During the year ended December 31, 2008, the Company recognized a gain of $6.0 million associated with the sale or disposal of specific long-lived assets, as detailed below.

In the third quarter, a consolidated, variable interest entity in Canada, of which the Company currently owns 45.6% of the equity, sold certain primarily rural WIMAX spectrum (spectrum for transmission of sound, data, and video) assets (representing approximately 10% of the entity's spectrum population coverage) for cash consideration of $4.9 million ($5.0 million CAD). The minority interest on the gain on the sale of $4.6 million was $2.5 million and was included in interest income and other income (expense). Total minority interest is $2.9 million included in other long-term liabilities. The cash proceeds from the sale of $4.9 million can be used for operations within the variable interest entity, but requires unanimous shareholder consent for a dividend distribution.

Additionally, a $0.8 million gain was recognized for the sale of certain surplus fiber assets in the United States; a $1.7 million gain was recognized for the sale of a minority equity investment in a Japanese entity; and a $0.9 million loss was recognized on the disposal of certain equipment related to the WIMAX operations in Canada.

During the year ended December 31, 2007, the Company recognized a charge of $1.5 million for the sale or disposal of specific long-lived assets which were taken out of service. The assets disposed or sold were comprised of switch and peripheral equipment and other network equipment.

During the year ended December 31, 2006, the Company recognized a charge of $16.1 million for the sale or disposal of specific long-lived assets which were taken out of service. The charge included $8.9 million in the United States, $1.8 million in Canada, $3.0 million in Europe, and $2.4 million in Asia-Pacific and was comprised of network fiber, peripheral switch equipment, software development costs and other network equipment.

16. Asset Impairment

In the second quarter 2006, pursuant to SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company identified certain indications of impairment. The overall deterioration in economic conditions within the telecommunications industry, including certain pricing actions enacted by incumbent carriers, during the first half of 2006 led the Company to believe that the fair value of certain long-lived assets had decreased significantly. Based on the Company's evaluation, it was determined that the estimated future cash flows were less than the carrying value of its long-lived assets. The Company's assets were evaluated as a single asset group, because of the nature of the cash flows being inseparable within a global telecommunications company. Therefore, the impairment was applied equally across the entire asset group. Accordingly, during the second quarter 2006, the Company adjusted the carrying value of its long-lived assets, including property and equipment and amortizing intangible assets, to their estimated fair value of $108.7 million, as determined through a replacement cost analysis. This adjustment resulted in an asset impairment write-down of $154.6 million, consisting of the following specific asset write-downs: $149.3 million in property and equipment and $5.3 million in customer lists and other intangible assets. The impairment analysis relied on the present value of estimated future cash flows using a discount rate commensurate with the risks involved.

Because of the impairment identified under the guidance of SFAS No. 144, the Company performed an analysis under SFAS No. 142, "Goodwill and Other Intangible Assets." Through that evaluation, the Company determined that a $51.6 million impairment to goodwill was required in the Europe, United States, Canada and Asia-Pacific reporting units.

The following table outlines the Company's asset impairment write-down by segment (in thousands):

	For the Year Ended December 31, 2006
United States	
United States	$ 65,528
Brazil	4,320
Total United States	69,848
Canada	
Canada	44,744
Total Canada	44,744
Europe	
United Kingdom	9,991
Germany	1,430
Netherlands	1,677
Other	5,800
Total Europe	18,898
Asia-Pacific	
Australia	72,603
Other	46
Total Asia-Pacific	72,649
Total	$ 206,139

17. Gain (Loss) on Early Extinguishment or Restructuring of Debt

In 2008, the Company exchanged $49.0 million principal amount of the 8% Senior Notes, $33.0 million principal amount of the 5% Exchangeable Senior Notes, $43.1 million principal amount of the 3 3/4% Convertible Senior Notes, $5.3 million principal amount of the 12 3/4% Senior Notes for $67.1 million principal amount of its newly issued 14 1/4% Senior Secured Notes and $4.7 million of cash, resulting in a gain on restructuring of debt of $32.2 million including the expensing of related financing costs, which was adjusted to $32.3 million in the third quarter. The Company also made open market purchases of $0.8 million principal amount of the 12 3/4% Senior Notes, $13.8 million principal amount of the Step Up Convertible Subordinated Debentures and $2.1 million principal amount of the 14 1/4% Senior Secured Notes, resulting in a $0.1 million, $2.1 million and $2.0 million gain, respectively, on early extinguishment of debt including the write-off of related deferred financing costs, discount and effective interest.

In 2007, the Company issued in a private transaction $57.2 million principal amount of the 14 1/4% Senior Secured Notes, in exchange for $40.7 million principal amount of the Company's outstanding 12 3/4% Senior Notes and $23.6 million in cash. This exchange has been accounted for as a modification of debt with a portion deemed to be a troubled debt restructuring. The Company recorded $5.1 million in costs associated with the issuance of the 14 1/4% Senior Secured Notes, which have been recorded as loss on restructuring of debt. The Company refinanced an existing Canadian credit facility and recognized a $0.9 million loss on early extinguishment of debt for pre-payment penalties and the write-off of related deferred financing costs. The Company also exchanged 6,000,000 shares of the Company's common stock for the extinguishment of $5.0 million principal amount of its Step Up Convertible Subordinated Debentures resulting in a loss on early extinguishment of debt of $2.3 million, including the write-off of related deferred financing costs and debt discount. These losses were offset by a $0.5 million gain on early extinguishment of debt on forgiveness of equipment financing and a $0.3 million gain on open market purchases of $10.5 million principal amount of the 12 3/4% Senior Notes including the write-off of related deferred financing costs.

In 2006, the Company issued $56.3 million principal amount of Holding's 5% Exchangeable Senior Notes in exchange for $20.5 million of cash and the retirement of $54.8 million principal amount of the Company's 3 3/4% Convertible Senor Notes. This exchange has been accounted for as a troubled debt restructuring, resulting in $11.3 million of future cash payments being recognized as long-term obligations and a gain on restructuring of debt of $4.8 million. The Company also exchanged $27.4 million principal amount of the Company's 2000 Convertible Subordinated Debentures for $27.5 million principal amount of the Step Up Convertible Subordinated Debentures resulting in a gain on early extinguishment of debt of $1.5 million including the write-off of related deferred financing costs. In January 2006, the Company exchanged 1,825,000 shares of the Company's common stock for the extinguishment of $2.5 million in principal amount of the 12 3/4% Senior Notes resulting in a $1.2 million gain on early extinguishment of debt including the write-off of related deferred financing costs.

18. Discontinued Operations

In the second and fourth quarter 2008, the Company determined it would sell its German retail operations and its Japanese retail operations, respectively, and therefore, is reporting these units as discontinued operations. There is an immaterial amount of assets associated with these operations (see Note 21 — "Subsequent Events").

In August 2007, the Company sold its 51% interest in its German telephone installation system subsidiaries. The sale price was $0.8 million (0.6 million Euros), which included $0.5 million (0.4 million Euros) in cash and $0.3 million (0.2 million Euros) for payment of outstanding intercompany debt. For the intercompany debt payment, the Company received $0.1 million (0.1 million Euros) in cash at closing. The balance owing is represented by a note receivable and will be paid in fifteen equal monthly installment payments. As a result, the Company recorded a $0.2 million gain from sale of assets. Net assets held for sale were $0.6 million at the closing date.

In February 2007, the Company sold its Australian domain name registry and web hosting subsidiary, Planet Domain. The sale price was $6.5 million ($8.3 million AUD). The Company received $5.5 million in net cash proceeds from the transaction after closing adjustments. As a result, the Company recorded a $6.0 million gain from sale of assets. The net assets of Planet Domain were $0.2 million at the closing date.

In May 2006, the Company entered into a Share Purchase Agreement (SPA) with Videsh Sanchar Nigam Limited (VSNL), a leading international telecommunications company and member of the TATA Group, whereby VSNL purchased 100% of the stock of Direct Internet Limited (DIL), whose wholly-owned subsidiary, Primus Telecommunications India Limited (PTIL), was primarily engaged in providing fixed broadband wireless Internet services to enterprise and retail customers in India. The Company owned approximately 85% of the stock of DIL through an indirect wholly-owned subsidiary. The remaining approximately 15% of the stock of DIL was owned by the manager of DIL and PTIL, who had founded the predecessor companies. The total purchase consideration was $17.5 million. The Company received $13.0 million in net cash proceeds from the transaction at closing on June 23, 2006, after closing adjustments. Under the SPA, the Company agreed to certain non-compete provisions regarding the business of DIL and PTIL and is a party to the SPA for the purpose of guaranteeing indemnity obligations of its subsidiary selling the stock of DIL. The net assets of DIL were $8.9 million at June 23, 2006.

As a result of these events, the Company's consolidated financial statements reflect the Japan retail operations, German retail operations, discontinued German subsidiary, Planet Domain and India operations as discontinued operations for the year ended December 31, 2008, 2007 and 2006. 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 for the year ended December 31, 2008, 2007 and 2006 are as follows (in thousands):

	Year Ended December 31,		
	2008	2007	2006
Net revenue	$3,851	$ 9,961	$24,086
Operating expenses	4,610	10,233	28,640
Loss from operations	(759)	(272)	(4,554)
Interest expense	—	(26)	(47)
Interest income and other income (expense)	60	39	(2)
Foreign currency transaction gain (loss)	376	(6)	10
Loss before income tax	(323)	(265)	(4,593)
Income tax expense	(3)	(3)	(80)
Loss from discontinued operations	$ (326)	$ (268)	$ (4,673)

19. 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. Potentially dilutive common shares primarily include the dilutive effects of common shares issuable under the Company's stock option compensation plans computed using the treasury stock method and the dilutive effects of shares issuable upon conversion of its 5% Exchangeable Senior Notes, the Step Up Convertible Subordinated Debentures, the 3 3/4% Convertible Senior Notes and the 2000 Convertible Subordinated Debentures.

The Company had no dilutive common share equivalents during the year ended December 31, 2008, due to the results of operations being a net loss. For the year ended December 31, 2008, the following could potentially dilute income per common share in the future but were excluded from the calculation of diluted loss per common share due to their antidilutive effects:

- 7.8 million shares issuable under the Company's stock option compensation plans,
- 19.5 million shares issuable upon the conversion of the 5% Exchangeable Senior Notes,
- 7.3 million shares issuable upon the conversion of the Step Up Convertible Subordinated Debentures, and
- 3.7 million shares issuable upon conversion of the 3 3/4% Convertible Senior Notes.

For the year ended December 31, 2007, the following could potentially dilute income per common share in the future but were excluded from the calculation of diluted income per common share due to their antidilutive effects:

- 7.4 million shares issuable under the Company's stock option compensation plans,
- 8.3 million shares issuable upon conversion of the 3 3/4% Convertible Senior Notes, and
- 0.1 million shares issuable upon the conversion of the 2000 Convertible Subordinated Debentures.

The Company had no dilutive common share equivalents during the year ended December 31, 2006, due to the results of operations being a net loss. For the year ended December 31, 2006, the following could potentially dilute income per common share in the future but were excluded from the calculation of diluted loss per common share due to their antidilutive effects:

- 7.9 million shares issuable under the Company's stock option compensation plans,
- 46.9 million shares issuable upon the conversion of the 5% Exchangeable Senior Notes,

- 23.2 million shares issuable upon the conversion of the Step Up Convertible Subordinated Debentures,
- 8.3 million shares issuable upon conversion of the 3 3/4% Convertible Senior Notes, and
- 0.5 million shares issuable upon the conversion of the 2000 Convertible Subordinated Debentures.

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

	Year ended December 31,		
	2008	2007	2006
Income (loss) from continuing operations	$ (24,705)	$ 9,872	$(240,700)
Loss from discontinuing operations, net of tax	(326)	(268)	(4,673)
Gain from sale of discontinued operations, net of tax	—	6,132	7,415
Net income (loss) attributable to common stockholders — basic	(25,031)	15,736	(237,958)
Adjustment for interest expense on Step Up Convertible Subordinated Debentures	—	1,846	—
Income (loss) attributable to common stockholders — diluted	$ (25,031)	$ 17,582	$(237,958)
Weighted average common shares outstanding — basic	142,643	128,771	112,366
In-the-money options exercisable under stock option compensation plans	—	12	—
5% Exchangeable Senior Notes	—	46,936	—
Step Up Convertible Subordinated Debentures	—	20,751	—
Weighted average common shares outstanding — diluted	142,643	196,470	112,366
Basic income (loss) per common share:			
Income (loss) from continuing operations attributable to common stockholders	$ (0.17)	$ 0.07	$ (2.14)
Loss from discontinued operations	(0.01)	(0.00)	(0.05)
Gain from sale of discontinued operations	—	0.05	0.07
Net income (loss) attributable to common stockholders	$ (0.18)	$ 0.12	$ (2.12)
Diluted income (loss) per common share:			
Income (loss) from continuing operations attributable to common stockholders	$ (0.17)	$ 0.06	$ (2.14)
Loss from discontinued operations	(0.01)	(0.00)	(0.05)
Gain from sale of discontinued operations	—	0.03	0.07
Net income (loss) attributable to common stockholders	$ (0.18)	$ 0.09	$ (2.12)

20. Guarantor/Non-guarantor Consolidating Condensed Financial Information

Subsequent to the issuance of the 2007 consolidated financial statements, the Company determined that its 2007 disclosures of consolidating financial information incorrectly excluded the intercompany interest and related accrued intercompany receivables and payables that resulted from three intercompany loans between IHC, Group and Holding. The effects of this correction on the 2007 consolidating condensed financial statements are shown in the table below. The consolidating condensed statements of operations for the year ended December 31, 2007, the consolidating condensed statements of cash flows for year ended December 31, 2007, and the consolidating condensed balance sheets at December 31, 2007 contained herein have been restated to include the effects of the adjustments shown in the tables below as increases (decreases) in the effected line items to reflect correctly intercompany interest charged by IHC to Group and Holding on intercompany notes issued in 2007.

	PTGI	PTHI	Other
		For the year ended December 31, 2007	
Statements of Operations:			
Intercompany interest	$(4,037)	$ (7,881)	$ 11,918
Equity in net income (loss) of subsidiaries	$ 4,037	$11,918	$ —
Net income	$ —	$ 4,037	$ 11,918
Statements of Cash Flows:			
Net cash provided by (used) in operating activities	$(4,037)	$ (7,881)	$ 11,918
Net cash provided by investing activities	4,037	7,881	—
Net cash used in financing activities	—	—	(11,918)
Net change in cash and cash equivalents	$ —	$ —	$ —
		December 31, 2007	
Balance sheets:			
Investment in subsidiaries	$ 4,037	$11,918	$ —
Intercompany payable	$ 4,037	$ 7,881	$(11,918)
Total stockholders' equity (deficit)	$ —	$ 4,037	$ 11,918

	PTGI	IHC	Guarantor Subsidiaries
		For the year ended December 31, 2007	
Statements of Operations:			
Intercompany interest	$(4,037)	$ 11,918	$ (7,881)
Equity in net income (loss) of subsidiaries	$ 4,037	$ —	$ 11,918
Net income	$ —	$ 11,918	$ 4,037
Statements of Cash Flows:			
Net cash provided by (used in) operating activities	$(4,037)	$ 11,918	$ (7,881)
Net cash provided by investing activities	4,037	—	7,881
Net cash used in financing activities	—	(11,918)	—
Net change in cash and cash equivalents	$ —	$ —	$ —
		December 31, 2007	
Balance sheets:			
Intercompany receivable	$ —	$ 11,918	$ —
Investment in subsidiaries	$ 4,037	$ —	$ 11,918
Intercompany payable	$ 4,037	$ —	$ 7,881
Total stockholders' equity (deficit)	$ —	$ 11,918	$ 4,037

In each consolidating presentation, the above described changes are completely offset by corresponding increases in the elimination entries. Accordingly, these changes have no effect on the Company's consolidated financial statements.

Consolidating Financial Statements for Holding Debt Issuances

Holding's 8% Senior Notes and 5% Exchangeable Senior Notes are fully and unconditionally guaranteed by Group on a senior basis as of December 31, 2008. As discussed in Note 2, on March 16, 2009, Holding, Group, and IHC filed for bankruptcy. Group has a 100% ownership in Holding and no direct subsidiaries other than Holding. Accordingly, the following consolidating condensed financial information as of December 31, 2008, 2007 and 2006 are included for (a) Group on a stand-alone basis; (b) Holding on a stand-alone basis; (c) Group indirect non-guarantor subsidiaries on a combined basis; and (d) Group on a consolidated basis.

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)

	For the Year Ended December 31, 2008				
	PTGI	PTHI	Other	Eliminations	Consolidated
NET REVENUE	$ —	$ —	$895,863	$ —	$ 895,863
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)	—	—	569,865	—	569,865
Selling, general and administrative	5,097	5,697	249,636	—	260,430
Depreciation and amortization	—	—	32,791	—	32,791
Gain on sale or disposal of assets	—	—	(6,028)	—	(6,028)
Total operating expenses	5,097	5,697	846,264	—	857,058
INCOME (LOSS) FROM OPERATIONS	(5,097)	(5,697)	49,599	—	38,805
INTEREST EXPENSE	(5,301)	(27,630)	(20,957)	—	(53,888)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(858)	—	1,441	—	583
GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	12,448	22,784	1,640	—	36,872
INTEREST AND OTHER INCOME	18	—	3,261	—	3,279
FOREIGN CURRENCY TRANSACTION LOSS	(3,523)	(713)	(43,327)	—	(47,563)
INTERCOMPANY INTEREST	(9,390)	(12,075)	21,465	—	—
MANAGEMENT FEE	—	5,498	(5,498)	—	—
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(11,703)	(17,833)	7,624	—	(21,912)
INCOME TAX BENEFIT (EXPENSE)	211	1,087	(932)	—	366
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(11,492)	(16,746)	6,692	—	21,546
EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(13,539)	3,207	—	10,332	—
INCOME (LOSS) FROM CONTINUING OPERATIONS	(25,031)	(13,539)	6,692	10,332	21,546
LOSS FROM DISCONTINUED OPERATIONS, net of tax	—	—	(326)	—	(326)
NET INCOME (LOSS)	$(25,031)	$(13,539)	$ 6,366	$ 10,332	$ (21,872)
Less: Net income attributable to the noncontrolling interest	—	—	(3,159)	—	(3,159)
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$(25,031)	$(13,539)	$ 3,207	$ 10,332	$ (25,031)
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED					
Income (loss) from continuing operations, net of tax	$(25,031)	$(13,539)	$ 3,533	$ 10,332	$ (24,705)
Loss from discontinued operations	—	—	(326)	—	(326)
Gain from sale of discontinued operations	—	—	—	—	—
Net income (loss)	$(25,031)	$(13,539)	$ 3,207	$ 10,332	$ (25,031)

Primus Telecommunications Group, Incorporated

Consolidating Condensed Statement of Operations
(in thousands)

	For the Year Ended December 31, 2007				
	PTGI	PTHI	Other	Eliminations	Consolidated
NET REVENUE	$ —	$ —	$896,029	$ —	$ 896,029
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)	—	—	551,303	—	551,303
Selling, general and administrative	4,843	10,104	266,063	—	281,010
Depreciation and amortization	—	—	30,529	—	30,529
Loss on sale or disposal of assets	—	—	1,463	—	1,463
Total operating expenses	4,843	10,104	849,358	—	864,305
INCOME (LOSS) FROM OPERATIONS	(4,843)	(10,104)	46,671	—	31,724
INTEREST EXPENSE	(10,249)	(31,806)	(19,292)	—	(61,347)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(1,524)	—	1,075	—	(449)
LOSS ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	(2,000)	(108)	(5,544)	—	(7,652)
INTEREST AND OTHER INCOME	549	—	5,116	—	5,665
FOREIGN CURRENCY TRANSACTION GAIN	4,767	711	27,221	—	32,699
INTERCOMPANY INTEREST	(1,931)	(11,734)	13,665	—	—
MANAGEMENT FEE	—	5,806	(5,806)	—	—
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(15,231)	(47,235)	63,106	—	640
INCOME TAX BENEFIT (EXPENSE)	(355)	(356)	9,943	—	9,232
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(15,586)	(47,591)	73,049	—	9,872
EQUITY IN NET INCOME OF SUBSIDIARIES	31,322	78,913	—	(110,235)	—
INCOME FROM CONTINUING OPERATIONS	15,736	31,322	73,049	(110,235)	9,872
LOSS FROM DISCONTINUED OPERATIONS, net of tax	—	—	(268)	—	(268)
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax	—	—	6,132	—	6,132
NET INCOME	$ 15,736	$ 31,322	$ 78,913	$ (110,235)	$ 15,736
Less: Net (income) loss attributable to the noncontrolling interest	—	—	—	—	—
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 15,736	$ 31,322	$ 78,913	$ (110,235)	$ 15,736
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED					
Income from continuing operations, net of tax	$ 15,736	$ 31,322	$ 73,049	$ (110,235)	$ 9,872
Loss from discontinued operations	—	—	(268)	—	(268)
Gain from sale of discontinued operations	—	—	6,132	—	6,132
Net income	$ 15,736	$ 31,322	$ 78,913	$ (110,235)	$ 15,736

Primus Telecommunications Group, Incorporated

Consolidating Condensed Statement of Operations
(in thousands)

	For the Year Ended December 31, 2006				
	PTGI	PTHI	Other	Eliminations	Consolidated
NET REVENUE	$ —	$ —	$ 993,034	$ —	$ 993,034
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)	—	—	653,905	—	653,905
Selling, general and administrative	6,005	6,511	266,435	—	278,951
Depreciation and amortization	—	—	47,002	—	47,002
Loss on sale or disposal of assets	—	—	14,158	—	14,158
Asset impairment write-down	—	—	206,139	—	206,139
Total operating expenses	6,005	6,511	1,187,639	—	1,200,155
LOSS FROM OPERATIONS	(6,005)	(6,511)	(194,605)	—	(207,121)
INTEREST EXPENSE	(17,308)	(31,128)	(5,692)	—	(54,128)
ACCRETION ON DEBT DISCOUNT	(1,732)	—	—	—	(1,732)
CHANGE IN FAIR VALUE OF DERIVATIVES EMBEDDED WITHIN CONVERTIBLE DEBT	5,373	—	—	—	5,373
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	10,374	(2,850)	(115)	—	7,409
INTEREST AND OTHER INCOME	139	—	2,445	—	2,584
FOREIGN CURRENCY TRANSACTION GAIN	8,777	1,445	446	—	10,668
INTERCOMPANY INTEREST	—	1,295	(1,295)	—	—
MANAGEMENT FEE	—	5,441	(5,441)	—	—
LOSS BEFORE INCOME TAXES AND EQUITY IN NET LOSS OF SUBSIDIARIES	(382)	(32,308)	(204,257)	—	(236,947)
INCOME TAX EXPENSE	(405)	(93)	(4,365)	—	(4,863)
LOSS BEFORE EQUITY IN NET LOSS OF SUBSIDIARIES	(787)	(32,401)	(208,622)	—	(241,810)
EQUITY IN NET LOSS OF SUBSIDIARIES	(237,171)	(204,770)	—	441,941	—
LOSS FROM CONTINUING OPERATIONS	(237,958)	(237,171)	(208,622)	441,941	(241,810)
LOSS FROM DISCONTINUED OPERATIONS, net of tax	—	—	(4,673)	—	(4,673)
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax	—	—	7,415	—	7,415
NET LOSS	$(237,958)	$(237,171)	$ (205,880)	$ 441,941	$ (239,068)
Less: Net loss attributable to the noncontrolling interest	—	—	1,110	—	1,110
NET LOSS ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$(237,958)	$(237,171)	$ (204,770)	$ 441,941	$ (237,958)
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED					
Loss from continuing operations, net of tax	$(237,958)	$(231,171)	$ (207,512)	$ 441,941	$ (240,700)
Loss from discontinued operations	—	—	(4,673)	—	(4,673)
Gain from sale of discontinued operations	—	—	7,415	—	7,415
Net loss	$(237,958)	$(237,171)	$ (204,770)	$ 441,941	$ (237,958)

Primus Telecommunications Group, Incorporated

Consolidating Condensed Balance Sheet
(in thousands)

	December 31, 2008				
	PTGI	PTHI	Other	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 152	$ (18)	$ 36,866	$ —	$ 37,000
Restricted cash	—	—	—	—	—
Accounts receivable	—	—	99,483	—	99,483
Prepaid expenses and other current assets	288	149	15,409	—	15,846
Total current assets	440	131	151,758	—	152,329
INTERCOMPANY RECEIVABLES	93,373	1,129,158	—	(1,222,531)	—
INVESTMENTS IN SUBSIDIARIES	2,636	(709,720)	—	707,084	—
RESTRICTED CASH	—	—	8,133	—	8,133
PROPERTY AND EQUIPMENT — Net	—	—	112,152	—	112,152
GOODWILL	—	—	32,688	—	32,688
OTHER INTANGIBLE ASSETS — Net	—	—	746	—	746
OTHER ASSETS	393	4,607	19,396	—	24,396
TOTAL ASSETS	$ 96,842	$ 424,176	$ 324,873	$ (515,447)	$ 330,444
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
CURRENT LIABILITIES:					
Accounts payable	$ 1,558	$ 154	56,959	$ —	$ 58,671
Accrued interconnection costs	—	—	41,422	—	41,422
Deferred revenue	—	—	13,303	—	13,303
Accrued expenses and other current liabilities	168	834	41,438	—	42,440
Accrued income taxes	70	—	18,143	—	18,213
Accrued interest	1,067	7,714	1,467	—	10,248
Current portion of long-term obligations	56,482	307,371	200,944	—	564,797
Total current liabilities	59,345	316,073	373,676	—	749,094
INTERCOMPANY PAYABLES	499,036	105,467	618,028	(1,222,531)	—
LONG-TERM OBLIGATIONS	—	—	40,040	—	40,040
OTHER LIABILITIES	—	—	35	—	35
Total liabilities	558,381	421,540	1,031,779	(1,222,531)	789,169
COMMITMENTS AND CONTINGENCIES					
STOCKHOLDERS' EQUITY (DEFICIT):					
Primus Telecommunications Group, Incorporated Stockholders' Equity (Deficit):					
Common stock	1,427	—	—	—	1,427
Additional paid-in capital	718,956	1,161,930	232,294	(1,394,224)	718,956
Accumulated deficit	(1,099,809)	(1,077,982)	(869,407)	1,947,389	(1,099,809)
Accumulated other comprehensive loss	(82,113)	(81,312)	(72,607)	153,919	(82,113)
Total Primus Telecommunications Group, Incorporated stockholders' equity (deficit)	(461,539)	2,636	(709,720)	707,084	(461,539)
Noncontrolling interest	—	—	2,814	—	2,814
Total stockholders' equity (deficit)	(461,539)	2,636	(706,906)	707,084	(458,725)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 96,842	$ 424,176	$ 324,873	$ (515,447)	$ 330,444

Primus Telecommunications Group, Incorporated

Consolidating Condensed Balance Sheet
(in thousands)

	December 31, 2007				
	PTGI	PTHI	Other	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 1,299	$ (35)	$ 80,018	$ —	$ 81,282
Restricted cash	—	—	362	—	362
Accounts receivable	—	—	113,588	—	113,588
Prepaid expenses and other current assets	308	—	28,352	—	28,660
Total current assets	1,607	(35)	222,320	—	223,892
INTERCOMPANY RECEIVABLES	88,536	1,089,076	—	(1,177,612)	—
INVESTMENTS IN SUBSIDIARIES	5,404	(650,148)	—	644,744	—
RESTRICTED CASH	—	—	9,677	—	9,677
PROPERTY AND EQUIPMENT — Net	—	—	144,599	—	144,599
GOODWILL	—	—	40,134	—	40,134
OTHER INTANGIBLE ASSETS — Net	—	—	1,557	—	1,557
OTHER ASSETS	2,389	7,095	31,060	—	40,544
TOTAL ASSETS	$ 97,936	$ 445,988	$ 449,347	$ (532,868)	$ 460,403
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
CURRENT LIABILITIES:					
Accounts payable	$ 805	$ 407	73,681	$ —	$ 74,893
Accrued interconnection costs	—	—	44,911	—	44,911
Deferred revenue	—	—	16,513	—	16,513
Accrued expenses and other current liabilities	207	1,225	52,988	—	54,420
Accrued income taxes	306	1,522	28,963	—	30,791
Accrued interest	2,388	8,701	1,371	—	12,460
Current portion of long-term obligations	—	3,816	7,412	—	11,228
Total current liabilities	3,706	15,671	225,839	—	245,216
INTERCOMPANY PAYABLES	424,978	33,116	719,518	(1,177,612)	—
LONG-TERM OBLIGATIONS	116,792	391,797	154,086	—	662,675
OTHER LIABILITIES	—	—	1	—	1
Total liabilities	545,476	440,584	1,099,444	(1,177,612)	907,892
COMMITMENTS AND CONTINGENCIES					
STOCKHOLDERS' EQUITY (DEFICIT):					
Primus Telecommunications Group, Incorporated Stockholders' Equity (Deficit):					
Common stock	1,426	—	—	—	1,426
Additional paid-in capital	718,695	1,161,930	305,844	(1,467,774)	718,695
Accumulated deficit	(1,074,778)	(1,064,443)	(872,614)	1,937,057	(1,074,778)
Accumulated other comprehensive loss	(92,883)	(92,083)	(83,378)	175,461	(92,883)
Total Primus Telecommunications Group, Incorporated stockholders' equity (deficit)	(447,540)	5,404	(650,148)	644,744	(447,540)
Noncontrolling interest	—	—	51	—	51
Total stockholders' equity (deficit)	(447,540)	5,404	(650,097)	644,744	(447,489)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 97,936	$ 445,988	$ 449,347	$ (532,868)	$ 460,403

Primus Telecommunications Group, Incorporated

Consolidating Condensed Statement of Cash Flows
(in thousands)

	For the Year Ended December 31, 2008				
	PTGI	PTHI	Other	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	$(25,031)	$(13,539)	$ 6,366	$ 10,332	$ (21,872)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Provision for doubtful accounts receivable	—	—	11,940	—	11,940
Stock compensation expense	—	262	—	—	262
Depreciation and amortization	—	—	32,798	—	32,798
Gain on sale or disposal of assets	—	—	(6,028)	—	(6,028)
Accretion of debt (premium) discount	858	—	(1,441)	—	(583)
Equity in net (income) loss of subsidiary	13,539	(3,207)	—	(10,332)	—
Deferred income taxes	—	450	5,388	—	5,838
Gain on early extinguishment or restructuring of debt	(12,448)	(22,784)	(1,640)	—	(36,872)
Unrealized foreign currency transaction loss on intercompany and foreign debt	3,549	698	44,341	—	48,588
Changes in assets and liabilities, net of acquisitions:					
Increase in accounts receivable	—	—	(15,658)	—	(15,658)
(Increase) decrease in prepaid expenses and other current assets	20	(149)	10,320	—	10,191
Decrease in other assets	521	1,135	221	—	1,877
Increase (decrease) in accounts payable	753	(253)	(6,430)	—	(5,930)
Increase in accrued interconnection costs	—	—	2,243	—	2,243
Decrease, net, in deferred revenue, accrued expenses, other current liabilities, and other liabilities	(40)	(399)	(5,201)	—	(5,640)
Decrease in accrued income taxes	(236)	(1,522)	(8,867)	—	(10,625)
Increase (decrease) in accrued interest	(904)	(976)	130	—	(1,750)
Net cash provided by (used in) operating activities	(19,419)	(40,284)	68,482	—	8,779
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment	—	—	(25,441)	—	(25,441)
Sale of property and equipment and intangible assets	—	—	5,756	—	5,756
Cash from disposition of business, net of cash disposed	—	—	1,676	—	1,676
Cash used in business acquisitions, net of cash acquired	—	—	(583)	—	(583)
Increase in restricted cash	—	—	(102)	—	(102)
Proceeds from intercompany balance	30,689	22,579	—	(53,268)	—
Net cash provided by (used in) investing activities	30,689	22,579	(18,694)	(53,268)	(18,694)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Purchase of the Company's debt securities	(11,217)	—	(317)	—	(11,534)
Principal payments on long-term obligations	(1,200)	(6,316)	(9,029)	—	(16,545)
Proceeds from (payments on) intercompany balance	—	24,038	(77,306)	53,268	—
Net cash provided by (used in) financing activities	(12,417)	17,722	(86,652)	53,268	(28,079)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	—	(6,288)	—	(6,288)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,147)	17	(43,152)	—	(44,282)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,299	(35)	80,018	—	81,282
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 152	$ (18)	$ 36,866	$ —	$ 37,000

Primus Telecommunications Group, Incorporated

Consolidating Condensed Statement of Cash Flows
(in thousands)

	For the Year Ended December 31, 2007				
	PTGI	PTHI	Other	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 15,736	$ 31,322	$ 78,913	$ (110,235)	$ 15,736
Adjustments to reconcile net income to net cash provided by operating activities:					
Provision for doubtful accounts receivable	—	—	10,493	—	10,493
Stock compensation expense	—	246	—	—	246
Depreciation and amortization	—	—	30,594	—	30,594
Gain on sale or disposal of assets	—	—	(4,668)	—	(4,668)
Accretion of debt (premium) discount	1,524	—	(1,075)	—	449
Equity in net income of subsidiary	(31,322)	(78,913)	—	110,235	—
Deferred income taxes	—	(450)	(12,013)	—	(12,463)
Loss on early extinguishment or restructuring of debt	2,000	108	5,544	—	7,652
Unrealized foreign currency transaction gain on intercompany and foreign debt	(8,372)	(5,721)	(20,769)	—	(34,862)
Changes in assets and liabilities, net of acquisitions:					
Decrease in accounts receivable	—	—	5,275	—	5,275
(Increase) decrease in prepaid expenses and other current assets	480	—	(2,036)	—	(1,556)
Decrease in other assets	899	1,347	63	—	2,309
Increase (decrease) in accounts payable	(33)	106	(2,725)	—	(2,652)
Decrease in accrued interconnection costs	—	—	(6,244)	—	(6,244)
Decrease, net, in deferred revenue, accrued expenses, other current liabilities, and other liabilities	(934)	(845)	(250)	—	(2,029)
Increase (decrease) in accrued income taxes	(1,154)	1,372	4,134	—	4,352
Increase (decrease) in accrued interest	(1,781)	(65)	681	—	(1,165)
Net cash provided by (used in) operating activities	(22,957)	(51,493)	85,917	—	11,467
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment	—	—	(44,745)	—	(44,745)
Cash from disposition of business, net of cash disposed	—	—	6,140	—	6,140
Cash used in business acquisitions, net of cash acquired	—	—	(200)	—	(200)
Decrease in restricted cash	—	—	(668)	—	(668)
Investments in intercompany balance	66,371	56,222	—	(122,593)	—
Net cash provided by (used in) investing activities	66,371	56,222	(39,473)	(122,593)	(39,473)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from issuance of long-term obligations	—	—	109,275	—	109,275
Deferred financing costs	—	—	(6,570)	—	(6,570)
Principal payments on long-term obligations	(65,049)	(3,795)	(11,571)	—	(80,415)
Proceeds from sale of common stock	19,170	—	—	—	19,170
Payments on intercompany balance	—	(941)	(121,652)	122,593	—
Net cash provided by (used in) financing activities	(45,879)	(4,736)	(30,518)	122,593	41,460
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	—	3,511	—	3,511
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,465)	(7)	19,437	—	16,965
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,764	(28)	60,581	—	64,317
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,299	$ (35)	$ 80,018	$ —	$ 81,282

Primus Telecommunications Group, Incorporated

Consolidating Condensed Statement of Cash Flows
(in thousands)

	For the Year Ended December 31, 2006				
	PTGI	PTHI	Other	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net loss	$(237,958)	$(237,171)	$(205,880)	$ 441,941	$ (237,958)
Adjustments to reconcile net loss to net cash provided by operating activities:					
Provision for doubtful accounts receivable	—	—	15,094	—	15,094
Stock compensation expense	—	545	—	—	545
Depreciation and amortization	—	—	48,156	—	48,156
Loss on sale or disposal of assets	—	—	8,706	—	8,706
Asset impairment write-down	—	—	209,248	—	209,248
Accretion of debt discount	1,732		—		1,732
Equity in net loss of subsidiary	237,171	204,770	—	(441,941)	—
Change in estimated fair value of embedded derivatives	(5,373)		—		(5,373)
(Gain) loss on early extinguishment or restructuring of debt	(10,374)	2,850	115	—	(7,409)
Unrealized foreign currency transaction gain on intercompany and foreign debt	(8,696)	(1,468)	(1,572)	—	(11,736)
Changes in assets and liabilities, net of acquisitions:					
Decrease in accounts receivable	—	—	14,825	—	14,825
Decrease in prepaid expenses and other current assets	809	8	8,550	—	9,367
(Increase) decrease in other assets	861	511	(199)	—	1,173
(Increase) decrease in intercompany balance	—	—	—	—	—
Increase (decrease) in accounts payable	(1,437)	127	(17,117)	—	(18,427)
Decrease in accrued interconnection costs	—	—	(18,210)	—	(18,210)
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities, and other liabilities	1,047	1,319	(543)	—	1,823
Increase (decrease) in accrued income taxes	(310)	101	2,209	—	2,000
Increase (decrease) in accrued interest	(282)	38	668	—	424
Net cash provided by (used in) operating activities	(22,810)	(28,370)	64,050	—	12,870
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment	—	—	(33,016)	—	(33,016)
Cash from disposition of business, net of cash disposed	—	—	12,947	—	12,947
Cash used for business acquisitions, net of cash acquired	—	—	(227)	—	(227)
Decrease in restricted cash	—	—	2,427	—	2,427
Proceeds from intercompany balance	20,385	65,246	—	(85,631)	—
Net cash provided by (used in) investing activities	20,385	65,246	(17,869)	(85,631)	(17,869)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from issuance of long-term obligations	—	20,501	14,790	—	35,291
Deferred financing costs	—	(2,850)	—	—	(2,850)
Principal payments on capital leases, vendor financing and other long-term obligations	—	(2,445)	(9,462)	—	(11,907)
Proceeds from sale of common stock	4,934	—	—	—	4,934
Payments on intercompany balance	—	(52,028)	(33,603)	85,631	—
Net cash provided by (used in) financing activities	4,934	(36,822)	(28,275)	85,631	25,468
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	—	849	—	849
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,509	54	18,755	—	21,318
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,255	(82)	41,826	—	42,999
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 3,764	$ (28)	$ 60,581	$ —	$ 64,317

Consolidating Financial Statements for IHC Debt Issuance

Primus Telecommunications IHC, Inc.'s 14 1/4% Senior Secured Notes are fully, unconditionally, jointly and severally guaranteed by Group on a senior basis as of December 31, 2008 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% owned subsidiaries of Group (collectively, the "Other Guarantors"). Group has a 100% ownership in Holding and no direct subsidiaries other than Holding. As discussed in Note 2, on March 16, 2009, Holding, Group, and IHC filed for bankruptcy. Accordingly, the following consolidating condensed financial information as of December 31, 2008, 2007 and 2006 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.

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)

	For the Year Ended December 31, 2008					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$ —	$ —	$ 141,065	$ 754,798	$ —	$ 895,863
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)	—	—	114,897	454,968	—	569,865
Selling, general and administrative	5,097	171	33,534	221,628	—	260,430
Depreciation and amortization	—	—	3,245	29,546	—	32,791
Gain on sale or disposal of assets	—	—	(806)	(5,222)	—	(6,028)
Total operating expenses	5,097	171	150,870	700,920	—	857,058
INCOME (LOSS) FROM OPERATIONS	(5,097)	(171)	(9,805)	53,878	—	38,805
INTEREST EXPENSE	(5,301)	(15,900)	(27,818)	(4,869)	—	(53,888)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(858)	1,441	—	—	—	583
GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	12,448	1,532	22,784	108	—	36,872
INTEREST AND OTHER INCOME (EXPENSE)	18	—	(1)	3,262	—	3,279
FOREIGN CURRENCY TRANSACTION LOSS	(3,523)	(16,270)	(525)	(27,245)	—	(47,563)
INTERCOMPANY INTEREST	(9,390)	20,594	(12,075)	871	—	—
MANAGEMENT FEE	—	—	5,925	(5,925)	—	—
ROYALTY FEE	—	13,684	—	(13,684)	—	—
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(11,703)	4,910	(21,515)	6,396	—	(21,912)
INCOME TAX BENEFIT (EXPENSE)	211	379	558	(782)	—	366
INCOME (LOSS) BEFORE EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(11,492)	5,289	(20,957)	5,614	—	(21,546)
EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(13,539)	—	3,207	—	10,332	—
INCOME (LOSS) FROM CONTINUING OPERATIONS	(25,031)	5,289	(17,750)	5,614	10,332	(21,546)
LOSS FROM DISCONTINUED OPERATIONS, net of tax	—	—	—	(326)	—	(326)
NET INCOME (LOSS)	$(25,031)	$ 5,289	$ (17,750)	$ 5,288	$ 10,332	$ (21,872)
Less: Net income attributable to the noncontrolling interest	—	—	—	(3,159)	—	(3,159)
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$(25,031)	$ 5,289	$ (17,750)	$ 2,129	$ 10,332	$ (25,031)
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income (loss) from continuing operations, net of tax	$(25,031)	$ 5,289	$ (17,750)	$ 2,455	$ 10,332	$ (24,705)
Loss from discontinued operations	—	—	—	(326)	—	(326)
Gain from sale of discontinued operations	—	—	—	—	—	—
Net income (loss)	$(25,031)	$ 5,289	$ (17,750)	$ 2,129	$ 10,332	$ (25,031)

Primus Telecommunications Group, Incorporated

Consolidating Condensed Statement of Operations
(in thousands)

	For the Year Ended December 31, 2007					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$ —	$ —	$ 137,346	$ 758,683	$ —	$ 896,029
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)	—	—	96,203	455,100	—	551,303
Selling, general and administrative	4,843	111	42,226	233,830	—	281,010
Depreciation and amortization	—	—	3,700	26,829	—	30,529
Loss on sale or disposal of assets	—	—	—	1,463	—	1,463
Total operating expenses	4,843	111	142,129	717,222	—	864,305
INCOME (LOSS) FROM OPERATIONS	(4,843)	(111)	(4,783)	41,461	—	31,724
INTEREST EXPENSE	(10,249)	(12,470)	(31,831)	(6,797)	—	(61,347)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(1,524)	1,075	—	—	—	(449)
LOSS ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	(2,000)	(5,144)	(108)	(400)	—	(7,652)
INTEREST AND OTHER INCOME	549	—	70	5,046	—	5,665
FOREIGN CURRENCY TRANSACTION GAIN	4,767	8,049	777	19,106	—	32,699
INTERCOMPANY INTEREST	(1,931)	15,084	(11,734)	(1,419)	—	—
MANAGEMENT FEE	—	—	6,292	(6,292)	—	—
ROYALTY FEE	—	14,512	(578)	(13,934)	—	—
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(15,231)	20,995	(41,895)	36,771	—	640
INCOME TAX BENEFIT (EXPENSE)	(355)	(1,552)	(230)	11,369	—	9,232
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(15,586)	19,443	(42,125)	48,140	—	9,872
EQUITY IN NET INCOME OF SUBSIDIARIES	31,322	—	78,913	—	(110,235)	—
INCOME FROM CONTINUING OPERATIONS	15,736	19,443	36,788	48,140	(110,235)	9,872
LOSS FROM DISCONTINUED OPERATIONS, net of tax	—	—	—	(268)	—	(268)
GAIN ON SALE OF DISCONTINUED OPERATIONS, net of tax	—	—	—	6,132	—	6,132
NET INCOME	$ 15,736	$ 19,443	$ 36,788	$ 54,004	$ (110,235)	$ 15,736
Less: Net income attributable to the noncontrolling interest	—	—	—	—	—	—
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 15,736	$ 19,443	$ 36,788	$ 54,004	$ (110,235)	$ 15,736
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income from continuing operations, net of tax	$ 15,736	$ 19,443	$ 36,788	$ 48,140	$ (110,235)	$ 9,872
Loss from discontinued operations	—	—	—	(268)	—	(268)
Gain from sale of discontinued operations	—	—	—	6,132	—	6,132
Net income	$ 15,736	$ 19,443	$ 36,788	$ 54,004	$ (110,235)	$ 15,736

Primus Telecommunications Group, Incorporated

Consolidating Condensed Statement of Operations
(in thousands)

	For the Year Ended December 31, 2006					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$ —	$ —	$ 164,388	$ 828,646	$ —	$ 993,034
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)	—	—	124,481	529,424	—	653,905
Selling, general and administrative	6,005	29	42,379	230,538	—	278,951
Depreciation and amortization	—	—	9,029	37,973	—	47,002
(Gain) loss on sale or disposal of assets	—	—	(267)	14,425	—	14,158
Asset impairment write-down	—	—	70,941	135,198	—	206,139
Total operating expenses	6,005	29	246,563	947,558	—	1,200,155
LOSS FROM OPERATIONS	(6,005)	(29)	(82,175)	(118,912)	—	(207,121)
INTEREST EXPENSE	(17,308)	—	(31,142)	(5,678)	—	(54,128)
ACCRETION ON DEBT DISCOUNT	(1,732)	—	—	—	—	(1,732)
CHANGE IN FAIR VALUE OF DERIVATIVES EMBEDDED WITHIN CONVERTIBLE DEBT	5,373	—	—	—	—	5,373
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	10,374	—	(2,965)	—	—	7,409
INTEREST AND OTHER INCOME	139	—	19	2,426	—	2,584
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	8,777	904	1,472	(485)	—	10,668
INTERCOMPANY INTEREST	—	2,697	1,295	(3,992)	—	—
MANAGEMENT FEE	—	—	6,275	(6,275)	—	—
ROYALTY FEE	—	15,266	(436)	(14,830)	—	—
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(382)	18,838	(107,657)	(147,746)	—	(236,947)
INCOME TAX EXPENSE	(405)	(1,090)	(225)	(3,143)	—	(4,863)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(787)	17,748	(107,882)	(150,889)	—	(241,810)
EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(237,171)	—	(204,770)	—	441,941	—
INCOME (LOSS) FROM CONTINUING OPERATIONS	(237,958)	17,748	(312,652)	(150,889)	441,941	(241,810)
LOSS FROM DISCONTINUED OPERATIONS, net of tax	—	—	—	(4,673)	—	(4,673)
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax	—	—	—	7,415	—	7,415
NET INCOME (LOSS)	$(237,958)	$17,748	$ (312,652)	$ (148,147)	$ 441,941	(239,068)
Less: Net loss attributable to the noncontrolling interest	—	—	—	1,110	—	1,110
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$(237,958)	$17,748	$ (312,652)	$ (147,037)	$ 441,941	$ (237,958)
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income (loss) from continuing operations, net of tax	$(237,958)	$17,748	$ (312,652)	$ (149,779)	$ 441,941	$ (240,700)
Loss from discontinued operations	—	—	—	(4,673)	—	(4,673)
Gain from sale of discontinued operations	—	—	—	7,415	—	7,415
Net income (loss)	$(237,958)	$17,748	$ (312,652)	$ (147,037)	$ 441,941	$ (237,958)

Primus Telecommunications Group, Incorporated

Consolidating Condensed Balance Sheet
(in thousands)

	December 31, 2008					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 152	$ —	$ 3,551	$ 33,297	$ —	$ 37,000
Restricted cash	—	—	—	—	—	—
Accounts receivable	—	—	14,224	85,259	—	99,483
Prepaid expenses and other current assets	288	—	1,705	13,853	—	15,846
Total current assets	440	—	19,480	132,409	—	152,329
INTERCOMPANY RECEIVABLES	93,373	284,190	641,341	95,409	(1,114,313)	—
INVESTMENTS IN SUBSIDIARIES	2,636	—	(132,306)	—	129,670	—
RESTRICTED CASH	—	—	314	7,819	—	8,133
PROPERTY AND EQUIPMENT — Net	—	—	14,041	98,111	—	112,152
GOODWILL	—	—	—	32,688	—	32,688
OTHER INTANGIBLE ASSETS — Net	—	—	—	746	—	746
OTHER ASSETS	393	230	5,326	18,447	—	24,396
TOTAL ASSETS	$ 96,842	$284,420	$ 548,196	$ 385,629	$ (984,643)	$ 330,444
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
CURRENT LIABILITIES:						
Accounts payable	$ 1,558	$ —	$ 4,775	$ 52,338	$ —	$ 58,671
Accrued interconnection costs	—	—	16,462	24,960	—	41,422
Deferred revenue	—	—	1,225	12,078	—	13,303
Accrued expenses and other current liabilities	168	—	6,432	35,840	—	42,440
Accrued income taxes	70	3,243	1,220	13,680	—	18,213
Accrued interest	1,067	1,321	7,714	146	—	10,248
Current portion of long-term obligations	56,482	198,961	307,463	1,891	—	564,797
Total current liabilities	59,345	203,525	345,291	140,933	—	749,094
INTERCOMPANY PAYABLES	499,036	—	200,132	415,145	(1,114,313)	—
LONG-TERM OBLIGATIONS	—	—	137	39,903	—	40,040
OTHER LIABILITIES	—	—	—	35	—	35
Total liabilities	558,381	203,525	545,560	596,016	(1,114,313)	789,169
COMMITMENTS AND CONTINGENCIES						
STOCKHOLDERS' EQUITY (DEFICIT):						
Primus Telecommunications Group, Incorporated Stockholders' Equity (Deficit):						
Common stock	1,427	—	—	—	—	1,427
Additional paid-in capital	718,956	—	1,161,930	232,359	(1,394,289)	718,956
Retained earnings (accumulated deficit)	(1,099,809)	80,895	(1,077,982)	(368,208)	1,365,295	(1,099,809)
Accumulated other comprehensive loss	(82,113)	—	(81,312)	(77,352)	158,664	(82,113)
Total Primus Telecommunications Group, Incorporated stockholders' equity (deficit)	(461,539)	80,895	2,636	(213,201)	129,670	(461,539)
Noncontrolling interest	—	—	—	2,814	—	2,814
Total stockholders' equity (deficit)	(461,539)	80,895	2,636	(210,387)	129,670	(458,725)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 96,842	$284,420	$ 548,196	$ 385,629	$ (984,643)	$ 330,444

Primus Telecommunications Group, Incorporated

Consolidating Condensed Balance Sheet
(in thousands)

	December 31, 2007					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 1,299	$ —	$ 670	$ 79,313	$ —	$ 81,282
Restricted cash	—	—	—	362	—	362
Accounts receivable	—	—	14,002	99,586	—	113,588
Prepaid expenses and other current assets	308	—	1,255	27,097	—	28,660
Total current assets	1,607	—	15,927	206,358	—	223,892
INTERCOMPANY RECEIVABLES	88,536	195,254	601,606	18,779	(904,175)	—
INVESTMENTS IN SUBSIDIARIES	5,404	—	(76,945)	—	71,541	—
RESTRICTED CASH	—	—	314	9,363	—	9,677
PROPERTY AND EQUIPMENT — Net	—	—	15,881	128,718	—	144,599
GOODWILL	—	—	—	40,134	—	40,134
OTHER INTANGIBLE ASSETS — Net	—	—	—	1,557	—	1,557
OTHER ASSETS	2,389	283	8,261	29,611	—	40,544
TOTAL ASSETS	$ 97,936	$195,537	$ 565,044	$ 434,520	$ (832,634)	$ 460,403
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
CURRENT LIABILITIES:						
Accounts payable	$ 805	$ —	$ 4,889	$ 69,199	$ —	$ 74,893
Accrued interconnection costs	—	—	15,200	29,711	—	44,911
Deferred revenue	—	—	969	15,544	—	16,513
Accrued expenses and other current liabilities	207	—	8,458	45,755	—	54,420
Accrued income taxes	306	4,656	2,278	23,551	—	30,791
Accrued interest	2,388	1,328	8,701	43	—	12,460
Current portion of long-term obligations	—	—	3,908	7,320	—	11,228
Total current liabilities	3,706	5,984	44,403	191,123	—	245,216
INTERCOMPANY PAYABLES	424,978	—	123,276	355,921	(904,175)	—
LONG-TERM OBLIGATIONS	116,792	113,947	391,961	39,975	—	662,675
OTHER LIABILITIES	—	—	—	1	—	1
Total liabilities	545,476	119,931	559,640	587,020	(904,175)	907,892
COMMITMENTS AND CONTINGENCIES						
STOCKHOLDERS' EQUITY (DEFICIT):						
Primus Telecommunications Group, Incorporated Stockholders' Equity (Deficit):						
Common stock	1,426	—	—	—	—	1,426
Additional paid-in capital	718,695	—	1,161,930	305,937	(1,467,867)	718,695
Retained earnings (accumulated deficit)	(1,074,778)	75,606	(1,064,443)	(370,365)	1,359,202	(1,074,778)
Accumulated other comprehensive loss	(92,883)	—	(92,083)	(88,123)	180,206	(92,883)
Total Primus Telecommunications Group, Incorporated stockholders' equity (deficit)	(447,540)	75,606	5,404	(152,551)	71,541	(447,540)
Noncontrolling interest	—	—	—	51	—	51
Total stockholders's equity (deficit)	(447,540)	75,606	5,404	(152,500)	71,541	(447,489)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 97,936	$195,537	$ 565,044	$ 434,520	$ (832,634)	$ 460,403

Primus Telecommunications Group, Incorporated

Consolidating Condensed Statement Of Cash Flows
(in thousands)

	For the Year Ended December 31, 2008					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income (loss)	$(25,031)	$ 5,289	$ (17,750)	$ 5,288	$ 10,332	$ (21,872)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Provision for doubtful accounts receivable	—	—	2,359	9,581	—	11,940
Stock compensation expense	—	—	262	—	—	262
Depreciation and amortization	—	—	3,245	29,553	—	32,798
Gain on sale or disposal of assets	—	—	(806)	(5,222)	—	(6,028)
Accretion of debt (premium) discount	858	(1,441)	—	—	—	(583)
Equity in net income of subsidiary	13,539	—	(3,207)	—	(10,332)	—
Deferred income taxes	—	—	591	5,247	—	5,838
Gain on early extinguishment or restructuring of debt	(12,448)	(1,532)	(22,784)	(108)	—	(36,872)
Unrealized foreign currency transaction loss on intercompany and foreign debt	3,549	17,303	698	27,038	—	48,588
Changes in assets and liabilities, net of acquisitions:						
Increase in accounts receivable	—	—	(2,581)	(13,077)	—	(15,658)
(Increase) decrease in prepaid expenses and other current assets	20	—	(450)	10,621	—	10,191
(Increase) decrease in other assets	521	49	1,442	(135)	—	1,877
(Increase) decrease in intercompany balance	—	(12,162)	3,415	8,747	—	—
Increase (decrease) in accounts payable	753	—	(115)	(6,568)	—	(5,930)
Increase in accrued interconnection costs	—	—	1,262	981	—	2,243
Decrease, net, in deferred revenue, accrued expenses, other current liabilities and other liabilities	(40)	(504)	(1,777)	(3,319)	—	(5,640)
Decrease in accrued income taxes	(236)	(1,413)	(1,058)	(7,918)	—	(10,625)
Increase (decrease) in accrued interest	(904)	(7)	(976)	137	—	(1,750)
Net cash provided by (used in) operating activities	(19,419)	5,582	(38,230)	60,846	—	8,779
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of property and equipment	—	—	(1,405)	(24,036)	—	(25,441)
Sale of property and equipment and intangible assets	—	—	806	4,950	—	5,756
Cash from disposition of business, net of cash disposed	—	—	—	1,676	—	1,676
Cash used for business acquisitions, net of cash acquired	—	—	—	(583)	—	(583)
Increase in restricted cash	—	—	—	(102)	—	(102)
Proceeds from intercompany balance	30,689	—	20,614	—	(51,303)	—
Net cash provided by (used in) investing activities	30,689	—	20,015	(18,095)	(51,303)	(18,694)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Purchase of the Company’s debt securities	(11,217)	(317)	—	—	—	(11,534)
Principal payments on other long-term obligations	(1,200)	(4,676)	(6,343)	(4,326)	—	(16,545)
Proceeds from (payments on) intercompany balance	—	(589)	27,439	(78,153)	51,303	—
Net cash provided by (used in) financing activities	(12,417)	(5,582)	21,096	(82,479)	51,303	(28,079)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	—	—	(6,288)	—	(6,288)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,147)	—	2,881	(46,016)	—	(44,282)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,299	—	670	79,313	—	81,282
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 152	$ —	$ 3,551	$ 33,297	$ —	$ 37,000

Primus Telecommunications Group, Incorporated

Consolidating Condensed Statement of Cash Flows
(in thousands)

	For the Year Ended December 31, 2007					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$ 15,736	$ 19,443	$ 36,788	$ 54,004	$ (110,235)	$ 15,736
Adjustments to reconcile net income to net cash provided by operating activities:						
Provision for doubtful accounts receivable	—	—	1,532	8,961	—	10,493
Stock compensation expense	—	—	246	—	—	246
Depreciation and amortization	—	—	3,700	26,894	—	30,594
Gain on sale or disposal of assets	—	—	—	(4,668)	—	(4,668)
Accretion of debt (premium) discount	1,524	(1,075)	—	—	—	449
Equity in net income of subsidiary	(31,322)	—	(78,913)	—	110,235	—
Deferred income taxes	—	—	47	(12,510)	—	(12,463)
Loss on early extinguishment or restructuring of debt	2,000	5,144	108	400	—	7,652
Unrealized foreign currency transaction gain on intercompany and foreign debt	(8,372)	(3,718)	(5,721)	(17,051)	—	(34,862)
Changes in assets and liabilities, net of acquisitions:			—	—		
Decrease in accounts receivable	—	—	1,452	3,823	—	5,275
(Increase) decrease in prepaid expenses and other current assets	480	—	(99)	(1,937)	—	(1,556)
Decrease in other assets	899	50	790	570	—	2,309
(Increase) decrease in intercompany balance	—	(22,228)	(1,502)	23,730	—	—
Increase (decrease) in accounts payable	(33)	—	649	(3,268)	—	(2,652)
Increase (decrease) in accrued interconnection costs	—	—	(8,625)	2,381	—	(6,244)
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities, and other liabilities	(934)	(94)	(2,266)	1,265	—	(2,029)
Increase (decrease) in accrued income taxes	(1,154)	1,736	2,247	1,523	—	4,352
Increase (decrease) in accrued interest	(1,781)	1,328	(65)	(647)	—	(1,165)
Net cash provided by (used in) operating activities	(22,957)	586	(49,632)	83,470	—	11,467
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of property and equipment	—	—	(1,248)	(43,497)	—	(44,745)
Cash from disposition of business, net of cash disposed	—	—	—	6,140	—	6,140
Cash used for business acquisitions, net of cash acquired	—	—	(200)	—	—	(200)
Increase (decrease) in restricted cash	—	—	541	(1,209)	—	(668)
Proceeds from intercompany balance	66,371	—	50,868	—	(117,239)	—
Net cash provided by (used in) investing activities	66,371	—	49,961	(38,566)	(117,239)	(39,473)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Proceeds from issuance of long-term obligations	—	101,405	—	7,870	—	109,275
Deferred financing costs	—	—	—	(6,570)	—	(6,570)
Principal payments on other long-term obligations	(65,049)	—	(3,858)	(11,508)	—	(80,415)
Proceeds from sale of common stock	19,170	—	—	—	—	19,170
Proceeds from (payments on) intercompany balance	—	(101,991)	4,234	(19,482)	117,239	—
Net cash provided by (used in) financing activities	(45,879)	(586)	376	(29,690)	117,239	41,460
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	—	—	3,511	—	3,511
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,465)	—	705	18,725	—	16,965
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,764	—	(35)	60,588	—	64,317
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,299	$ —	$ 670	$ 79,313	$ —	$ 81,282

Primus Telecommunications Group, Incorporated

Consolidating Condensed Statement of Cash Flows
(in thousands)

	For the Year Ended December 31, 2006					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income (loss)	$(237,958)	$ 17,748	$ (312,652)	$ (148,147)	$ 441,941	$ (239,068)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Provision for doubtful accounts receivable	—	—	1,410	13,684	—	15,094
Stock compensation expense	—	—	545	—	—	545
Depreciation and amortization	—	—	9,030	39,126	—	48,156
(Gain) loss on sale or disposal of assets	—	—	(267)	8,973	—	8,706
Asset impairment write-down	—	—	70,941	138,307	—	209,248
Accretion of debt discount	1,732	—	—	—		1,732
Equity in net income (loss) of subsidiary	237,171	—	204,770	—	(441,941)	—
Change in estimated fair value of embedded derivatives	(5,373)	—	—	—		(5,373)
(Gain) loss on early extinguishment or restructuring of debt	(10,374)	—	2,965	—	—	(7,409)
Unrealized foreign currency transaction gain on intercompany and foreign debt	(8,696)	(943)	(1,468)	(629)	—	(11,736)
Changes in assets and liabilities, net of acquisitions:						
Decrease in accounts receivable	—	—	3,978	10,847	—	14,825
(Increase) decrease in prepaid expenses and other current assets	809	—	(239)	8,797	—	9,367
(Increase) decrease in other assets	861	—	937	(625)	—	1,173
(Increase) decrease in intercompany balance	—	(28,191)	136,849	(108,658)	—	—
Increase (decrease) in accounts payable	(1,437)	—	2,418	(19,408)	—	(18,427)
Increase (decrease) in accrued interconnection costs	—	—	137	(18,347)	—	(18,210)
Increase, net, in deferred revenue, accrued expenses, other current liabilities, and other liabilities	1,047	—	749	27	—	1,823
Increase (decrease) in accrued income taxes	(310)	493	82	1,735	—	2,000
Increase (decrease) in accrued interest	(282)	—	38	668	—	424
Net cash provided by (used in) operating activities	(22,810)	(10,893)	120,223	(73,650)	—	12,870
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of property and equipment	—	—	(1,790)	(31,226)	—	(33,016)
Cash from disposition of business, net of cash disposed	—	—	—	12,947	—	12,947
Cash used for business acquisitions, net of cash acquired	—	—	—	(227)	—	(227)
Decrease in restricted cash	—	—	775	1,652	—	2,427
Proceeds from (investments in) intercompany balance	20,385	—	(95,221)	—	74,836	—
Net cash provided by (used in) investing activities	20,385	—	(96,236)	(16,854)	74,836	(17,869)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Proceeds from issuance of long-term obligations	—	—	20,501	14,790	—	35,291
Deferred financing costs	—	—	(2,850)	—	—	(2,850)
Principal payments on capital leases, vendor financing and other long-term obligations	—	—	(2,507)	(9,400)	—	(11,907)
Proceeds from sale of common stock	4,934	—	—	—	—	4,934
Proceeds from (payments on) intercompany balance	—	10,893	(38,720)	102,663	(74,836)	—
Net cash provided by (used in) financing activities	4,934	10,893	(23,576)	108,053	(74,836)	25,468
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	—	—	849	—	849
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,509	—	411	18,398	—	21,318
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,255	—	(446)	42,190	—	42,999
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 3,764	$ —	$ (35)	$ 60,588	$ —	$ 64,317

21. Subsequent Events

The Company sold its Japan retail operations on February 1, 2009. The sale price was $0.4 million (40 million Japanese yen) before closing adjustments.

On March 10, 2009, Group's indirect wholly-owned Canadian subsidiary, Primus Canada, 3082833 Nova Scotia Company and certain affiliate guarantors entered into the Waiver and Amendment Agreement to their $35 million Canadian Financing Facility with Guggenheim Corporate Funding, LLC, as Administrative Agent and Collateral Agent.

On March 16, 2009, Primus Telecommunications Group, Incorporated, and three of its subsidiaries and affiliates, Primus Telecommunications Holding, Inc., Primus Telecommunications International, Inc. and Primus Telecommunications IHC, Inc. each filed a voluntary petition in the United States Bankruptcy Court for the District of Delaware for reorganization relief under chapter 11 of the Bankruptcy Code (See Note 2 — "Summary of Significant Accounting Policies" — Going Concern and Voluntary Reorganization Under Chapter 11.)

On April 8, 2009, the Debtors filed the First Amended Joint Plan of Reorganization of Primus Telecommunications Group, Incorporated and its Affiliate Debtors and the Disclosure Statement (see Note 2 — "Summary of Significant Accounting Policies" — Going Concern and Voluntary Reorganization Under Chapter 11).

On April 14, 2009, the Primus Term Loan Parties entered into the Term Loan Forbearance Agreement and agreed to the Term Loan Modification Term Sheet with the Term Loan Ad Hoc Committee. (See Note 5 — "Long-Term Obligations").

Effective January 1, 2009, the Company adopted SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" (ASC No. 810, "Consolidation"). This statement changes the presentation of outstanding noncontrolling interests in one or more subsidiaries or the deconsolidation of those subsidiaries. Amounts previously recorded in other liabilities and other income/expense are being reclassified to noncontrolling interest. Therefore, we are recasting our previously issued financial statements and certain other financial information originally reported herein. Specifically, the principal effect on the balance sheets related to the adoption of SFAS No. 160 is to present $2.8 million as noncontrolling interest in the Equity portion of the consolidated balance sheet as of December 31, 2008. Additionally, the adoption of SFAS 160 had the effect of reclassifying earnings attributable to noncontrolling interest in the consolidated statement of operations from other income and expense to separate line items. SFAS 160 also requires that net income be adjusted to include the net income attributable to the noncontrolling interest, and a new separate caption for net income attributable to common shareholder be presented in the consolidated statement of earnings. Thus, after adoption of SFAS 160, net income will increase by $3.2 million, zero million and $1.1 million for the years ended December 31, 2008, 2007 and 2006, respectively, and net income attributable to common shareholders will be equal to net income as previously reported prior to the adoption of SFAS 160.

During the quarter ended June 30, 2009, management identified its Brazil operating segment as a reportable segment due to management's increased focus on it as a separate market and operations. Therefore, we are recasting our previously issued financial statements and certain other financial information originally reported herein.

SCHEDULE II

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
VALUATION AND QUALIFYING ACCOUNTS

Activity in the Company's allowance accounts for the years ended December 31, 2008, 2007 and 2006 was as follows (in thousands):

	Doubtful Accounts Receivable			
Period	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
2006	$ 16,788	$ 15,094	$(14,586)	$ 17,296
2007	$ 17,296	$ 10,493	$(15,750)	$ 12,039
2008	$ 12,039	$ 11,940	$(14,269)	$ 9,710

	Deferred Tax Asset Valuation			
Period	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
2006	$ 261,936	$ 75,760	$ —	$ 337,696
2007	$ 337,696	$ (98,016)	$ —	$ 239,680
2008	$ 239,680	$ (11,882)	$ —	$ 227,798