PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-Q
November 10, 2008
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# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

**THE SECURITIES EXCHANGE ACT OF 1934.**

**For the quarterly period ended September 30, 2008**

**OR**

**¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

**THE SECURITIES EXCHANGE ACT OF 1934.**

**Commission File No. 0-29092**

# PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

**(Exact name of registrant as specified in its charter)**

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

**(703) 902-2800**

**(Registrant s telephone number, including area code)**

**Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨**

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

**Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨**

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

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

| Class | Outstanding as of October 31, 2008 |
|---|---|
| Common Stock $0.01 par value | 142,632,540 |

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**

(in thousands, except per share amounts)

(unaudited)

| | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|---|---|
| NET REVENUE | $ 231,774 | $ 224,399 | $ 694,316 | $ 676,832 |
| OPERATING EXPENSES | | | | |
| Cost of revenue (exclusive of depreciation included below) | 150,066 | 135,900 | 434,584 | 421,559 |
| Selling, general and administrative | 69,780 | 72,447 | 209,196 | 208,659 |
| Depreciation and amortization | 9,351 | 7,328 | 25,407 | 21,228 |
| (Gain) loss on sale or disposal of assets | (4,576) | | (7,041) | 684 |
| Total operating expenses | 224,621 | 215,675 | 662,146 | 652,130 |
| INCOME FROM OPERATIONS | 7,153 | 8,724 | 32,170 | 24,702 |
| INTEREST EXPENSE | (12,810) | (15,810) | (41,557) | (45,668) |
| ACCRETION ON DEBT PREMIUM (DISCOUNT), NET | 269 | (37) | 456 | (411) |
| GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT | 121 | 364 | 34,608 | (7,910) |
| INTEREST AND OTHER INCOME (EXPENSE) | (2,941) | 1,141 | 16 | 3,695 |
| FOREIGN CURRENCY TRANSACTION GAIN (LOSS) | (23,045) | 12,232 | (13,204) | 30,287 |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | (31,253) | 6,614 | 12,489 | 4,695 |
| INCOME TAX BENEFIT (EXPENSE) | (1,489) | (2,161) | (1,526) | 3,525 |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | (32,742) | 4,453 | 10,963 | 8,220 |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax | (478) | 136 | (658) | (130) |
| GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax | | 174 | | 6,132 |
| NET INCOME (LOSS) | $ (33,220) | $ 4,763 | $ 10,305 | $ 14,222 |
| BASIC INCOME (LOSS) PER COMMON SHARE: | | | | |
| Income (loss) from continuing operations | $ (0.23) | $ 0.03 | $ 0.07 | $ 0.07 |
| Loss from discontinued operations | (0.00) | 0.00 | (0.00) | (0.00) |
| Gain from sale of discontinued operations | | 0.00 | | 0.04 |
| Net income (loss) | $ (0.23) | $ 0.03 | $ 0.07 | $ 0.11 |
| DILUTED INCOME (LOSS) PER COMMON SHARE: | | | | |
| Income (loss) from continuing operations | $ (0.23) | $ 0.02 | $ 0.06 | $ 0.05 |
| Loss from discontinued operations | (0.00) | 0.00 | (0.00) | (0.00) |
| Gain from sale of discontinued operations | | 0.00 | | 0.03 |
| Net income (loss) | $ (0.23) | $ 0.02 | $ 0.06 | $ 0.08 |
| BASIC WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | 142,633 | 142,143 | 142,633 | 124,100 |
| DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | 142,633 | 208,042 | 176,138 | 192,412 |

See notes to consolidated financial statements.

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**CONSOLIDATED CONDENSED BALANCE SHEETS**

(in thousands, except share amounts)

(unaudited)

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 47,630 | $ 81,282 |
| Restricted cash | | 362 |
| Accounts receivable (net of allowance for doubtful accounts receivable of $12,304 and $12,039) | 111,612 | 113,588 |
| Prepaid expenses and other current assets | 19,852 | 28,660 |
| Total current assets | 179,094 | 223,892 |
| RESTRICTED CASH | 9,510 | 9,677 |
| PROPERTY AND EQUIPMENT Net | 133,588 | 144,599 |
| GOODWILL | 38,026 | 40,134 |
| OTHER INTANGIBLE ASSETS Net | 1,188 | 1,557 |
| OTHER ASSETS | 31,272 | 40,544 |
| TOTAL ASSETS | $ 392,678 | $ 460,403 |
| **LIABILITIES AND STOCKHOLDERS DEFICIT** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 64,704 | $ 74,893 |
| Accrued interconnection costs | 38,474 | 44,911 |
| Deferred revenue | 15,405 | 16,513 |
| Accrued expenses and other current liabilities | 53,266 | 54,420 |
| Accrued income taxes | 26,812 | 30,791 |
| Accrued interest | 11,231 | 12,460 |
| Current portion of long-term obligations | 12,737 | 11,228 |
| Total current liabilities | 222,629 | 245,216 |
| LONG-TERM OBLIGATIONS (net of premium of $4,181 and $2,528) | 601,784 | 662,675 |
| OTHER LIABILITIES | 2,969 | 52 |
| Total liabilities | 827,382 | 907,943 |
| COMMITMENTS AND CONTINGENCIES (See Note 5.) | | |
| 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; 142,632,540 shares issued and outstanding | 1,426 | 1,426 |
| Additional paid-in capital | 718,895 | 718,695 |
| Accumulated deficit | (1,064,473) | (1,074,778) |
| Accumulated other comprehensive loss | (90,552) | (92,883) |
| Total stockholders deficit | (434,704) | (447,540) |

| | | | | |
|---|---|---|---|---|
| TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT | $ | 392,678 | $ | 460,403 |

See notes to consolidated financial statements.

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

| | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 10,305 | $ 14,222 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for doubtful accounts receivable | 8,945 | 7,358 |
| Stock compensation expense | 199 | 184 |
| Depreciation and amortization | 25,407 | 21,288 |
| Gain on sale or disposal of assets | (7,041) | (5,447) |
| Accretion of debt discount (premium) | (456) | 411 |
| Deferred income taxes | 3,201 | (860) |
| (Gain) loss on early extinguishment or restructuring of debt | (34,608) | 7,910 |
| Minority interest share of income | 2,838 | |
| Unrealized foreign currency transaction gain on intercompany and foreign debt | 13,587 | (32,629) |
| Changes in assets and liabilities, net of acquisitions: | | |
| (Increase) decrease in accounts receivable | (12,276) | 293 |
| Decrease in prepaid expenses and other current assets | 8,861 | 2,598 |
| Decrease in other assets | 1,428 | 1,313 |
| Increase (decrease) in accounts payable | (7,237) | 2,829 |
| Decrease in accrued interconnection costs | (4,473) | (8,245) |
| Increase (decrease), net, in accrued expenses, deferred revenue, other current liabilities and other liabilities | 209 | 786 |
| Decrease in accrued income taxes | (3,503) | (1,803) |
| Decrease in accrued interest | (691) | (2,043) |
| Net cash provided by operating activities | 4,695 | 8,165 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (20,756) | (29,717) |
| Sale of property and equipment and intangible assets | 5,741 | |
| Cash from disposition of business, net of cash disposed | 1,676 | 6,140 |
| Cash used in business acquisitions, net of cash acquired | (583) | (200) |
| Decrease in restricted cash | (100) | (340) |
| Net cash used in investing activities | (14,022) | (24,117) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Purchase of the Company s debt securities | (11,217) | |
| Proceeds from issuance of long-term obligations | | 109,275 |
| Deferred financing costs | | (6,570) |
| Principal payments on long-term obligations | (10,536) | (64,867) |
| Proceeds from sale of common stock, net of issuance costs | | 19,170 |
| Net cash provided by (used in) financing activities | (21,753) | 57,008 |
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (2,572) | 3,351 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (33,652) | 44,407 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 81,282 | 64,317 |

| | | |
|---|---|---|
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 47,630 | $ 108,724 |
| | | |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid for interest | $ 40,533 | $ 46,000 |
| Cash paid for taxes | $ 1,133 | $ 1,056 |
| Non-cash investing and financing activities: | | |
| Capital lease additions | $ 364 | $ 2,175 |
| Leased fiber capacity additions | $ | $ 1,786 |
| Settlement of outstanding debt with issuance of common stock | $ | $ 6,627 |
| 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.

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(in thousands)

(unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| NET INCOME (LOSS) | $ (33,220) | $ 4,763 | $ 10,305 | $ 14,222 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Foreign currency translation adjustment | 6,379 | (4,008) | 2,331 | (12,419) |
| COMPREHENSIVE INCOME (LOSS) | $ (26,841) | $ 755 | $ 12,636 | $ 1,803 |

See notes to consolidated financial statements.

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**1. BASIS OF PRESENTATION**

The accompanying unaudited consolidated condensed financial statements of Primus Telecommunications Group, Incorporated and subsidiaries (the Company or Primus ) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and Securities and Exchange Commission ( SEC ) regulations. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such principles and regulations. In the opinion of management, the financial statements reflect all adjustments (all of which are of a normal and recurring nature), which are necessary to present fairly the financial position, results of operations, cash flows and comprehensive income (loss) for the interim periods. The results for the three or nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

The results for the three months and nine months ended September 30, 2008 and September 30, 2007 reflect the activities of certain operations as discontinued operations (see Note 10 Discontinued Operations and Other Dispositions ).

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Going Concern Matters and Management s Plans* The consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The factors described below raise substantial doubt 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 the Company be unable to continue as a going concern.

As of September 30, 2008, the Company had $47.6 million of cash and cash equivalents, which includes $4.7 million of cash held by the Company s partially-owned, consolidated variable interest entity, which can be used for operations within that entity, but unanimous shareholder consent is required for dividend distribution to the Company. The Company has significant debt service obligations, including $8.6 million principal amount of Step Up Convertible Subordinated Debentures due in August 2009 and $14.2 million principal amount of 12 $^3/4$% Senior Notes due in October 2009. The Company s ability to repay the Step Up Convertible Subordinated Debentures and the 12 $^3/4$% Senior Notes at their current maturities, together with the ability to meet cash needs for its operations and debt service over the next twelve months, is uncertain. The Company will continue to have significant debt service obligations on a mid-term and a long-term basis, as disclosed in Note 4.

The recent severe downturn in global economic conditions and contraction of capital markets, as well as significant exchange rate appreciation of the United States dollar, have impaired the Company s 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 debt 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 the Company s liquidity position, with payments from foreign operating subsidiaries to the Company s United States entities yielding less United States dollars.

The Company has recently 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. If the recent adverse change in currency exchange rates is maintained or worsens, these factors could dramatically reduce or offset the benefits that these cost reductions would have otherwise had on our results. As a result, among other things, the Company is currently focused on pursuing additional cost reductions beyond the $15 million recently implemented. 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. The Company also continues to focus on minimizing capital expenditures and managing working capital. In addition to the Company s cost reduction efforts, the Company considers the feasibility and timing of transactions, including assets sales, that could raise capital for additional liquidity, debt reduction, debt extension, refinancing of existing indebtedness and for additional working capital and growth opportunities. Although these cash management strategies are being pursued aggressively, there can be no assurance that such actions will be sufficient in amount and timing to offset the detrimental global economic, capital market and currency effects the Company is experiencing. If these plans are insufficient or adverse events occur to delay or prevent the execution of these plans, the Company may not be able to service its debt or other obligations as they become due, and, if the Company is unable to obtain requisite relief from its debt holders, it could, among other things, be required to seek protection under the bankruptcy laws of the United States or other similar laws in other countries.

*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 ARB No. 51. All intercompany profits, transactions and balances have been eliminated in consolidation. Beginning in the second quarter 2008, the Company intended and had the authority to sell its German retail operations, and therefore, is reporting 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.

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

*Stock-Based Compensation* The Company uses a Black-Scholes option valuation model to determine the fair value of stock-based compensation under Statement of Financial Accounting Standards (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 an incremental $67 thousand and $199 thousand stock-based compensation expenses for the three and nine months ended September 30, 2008, respectively, and an incremental $59 thousand and $184 thousand during the three months and nine months ended September 30, 2007, respectively, under guidance in SFAS No. 123(R).

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The Company granted 7,000 and 15,000 options during the three months ended September 30, 2008 and 2007, respectively. The weighted average fair value at date of grant for options granted during the three months ended September 30, 2008 and 2007 was $0.29 and $0.26 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:

| | For the Three Months Ended September 30, | |
|---|---|---|
| | 2008 | 2007 |
| Expected dividend yield | 0% | 0% |
| Expected stock price volatility | 92% | 95% |
| Risk-free interest rate | 3.1% | 4.5% |
| Expected option term | 4 years | 4 years |

As of September 30, 2008, the Company had 1.2 million unvested awards outstanding of which $0.2 million of compensation expense will be recognized over the weighted average remaining vesting period of 1.93 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.

*Newly Adopted Accounting Principle*

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.

In October 2008, the FASB issued FSP No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active, which was effective upon the date of issuance, including prior periods for which financial statements have not been issued. This FSP clarifies the application of SFAS No. 157 in a

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market that is not active and provides illustrative examples regarding key considerations in determining the fair value of financial assets when the market for that asset in not considered active. The Company has evaluated this guidance and has incorporated the clarifications in its fair value measurement process for the quarter ended September 30, 2008. Further information on the Company s fair value process is contained below.

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 September 30, 2008, using: | | |
|---|---|---|---|---|
| | September 30, 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 | $ 19,368 | $ 19,368 | | |
| Derivative | | | | $ 0 |
| Total | $ 19,368 | $ 19,368 | | $ 0 |

The Company has an outstanding swap agreement with Lehman Brothers Special Financing, Inc., has estimated the value to be zero and has moved the instrument from Level 2 to Level 3 because the counter party s credit risk is not observable.

*New Accounting Pronouncements*

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 60 days following the SEC approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. 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 Financial Accounting Standards Board (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 anticipates that the adoption of this standard will not have a material impact on its results of operations, financial position and cash flows.

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### 3. GOODWILL AND OTHER INTANGIBLE ASSETS

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

| | As of September 30, 2008 | | | As of December 31, 2007 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Book Value | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
| Customer lists | $ 4,488 | $ (3,436) | $ 1,052 | $ 4,074 | $ (2,688) | $ 1,386 |
| Other | 1,747 | (1,611) | 136 | 1,678 | (1,507) | 171 |
| Total | $ 6,235 | $ (5,047) | $ 1,188 | $ 5,752 | $ (4,195) | $ 1,557 |

Amortization expense for customer lists and other intangible assets for the three months ended September 30, 2008 and 2007 was $0.5 million and $0.6 million, respectively. Amortization expense for customer lists and other intangible assets for the nine months ended September 30, 2008 and 2007 was $1.6 million and $2.1 million, respectively. The Company expects amortization expense for customer lists and other intangible assets for the remainder of 2008, 2009, 2010 and 2011 to be approximately $0.3 million, $0.6 million, $0.2 million, and $0.1 million, respectively.

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

| | As of September 30, 2008 | As of December 31, 2007 |
|---|---|---|
| Goodwill | $ 38,026 | $ 40,134 |

The changes in the carrying amount of goodwill for the nine months ended September 30, 2008 are as follows (in thousands):

| | United States | Canada | Asia-Pacific | Total |
|---|---|---|---|---|
| Balance as of January 1, 2008 | $ 208 | $ 27,287 | $ 12,639 | $ 40,134 |
| Effect of change in foreign currency exchange rates | (14) | (1,477) | (617) | (2,108) |
| Balance as of September 30, 2008 | $ 194 | $ 25,810 | $ 12,022 | $ 38,026 |

### 4. LONG-TERM OBLIGATIONS

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

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| Obligations under capital leases | $ 5,735 | $ 7,350 |
| Leased fiber capacity | 2,666 | 5,201 |
| Senior secured term loan facility | 96,500 | 97,250 |
| Financing facility | 35,000 | 35,000 |
| Senior notes | 200,186 | 255,270 |
| Senior secured notes | 206,378 | 113,947 |
| Exchangeable senior notes | 25,706 | 63,363 |

| | | |
|---|---|---|
| Convertible senior notes | 33,980 | 76,196 |
| Step up convertible subordinated debentures | 8,370 | 20,326 |
| Subtotal | 614,521 | 673,903 |
| Less: Current portion of long-term obligations | (12,737) | (11,228) |
| Total long-term obligations | $ 601,784 | $ 662,675 |

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Payments of principal and interest are due as follows (in thousands):

| Year Ending December 31, | Vendor Financing | Senior Secured Term Loan Facility (1) | Financing Facility | Senior Notes | Convertible and Exchangeable Senior Notes (2) | Step Up Convertible Subordinated Debentures | Senior Secured Notes (2) | Total |
|---|---|---|---|---|---|---|---|---|
| 2008 (as of September 30, 2008) | $ 824 | $ 2,614 | $ 761 | $ 904 | $ 584 | | $ 13,486 | $ 19,173 |
| 2009 | 2,804 | 10,396 | 3,043 | 30,875 | 2,451 | 9,332 | 24,980 | 83,881 |
| 2010 | 5,718 | 10,298 | 3,043 | 14,880 | 59,436 | | 24,980 | 118,355 |
| 2011 | 160 | 94,250 | 3,043 | 14,880 | | | 186,789 | 299,122 |
| 2012 | 103 | | 35,760 | 14,880 | | | | 50,743 |
| Thereafter | 100 | | | 208,320 | | | | 208,420 |
| Total Minimum Principal & Interest Payments | 9,709 | 117,558 | 45,650 | 284,739 | 62,471 | 9,332 | 250,235 | 779,694 |
| Less: Amount Representing Interest | (1,308) | (21,058) | (10,650) | (84,553) | (4,902) | (691) | (74,934) | (198,096) |
| Face Value of Long-Term Obligations | 8,401 | 96,500 | 35,000 | 200,186 | 57,569 | 8,641 | 175,301 | 581,598 |
| Amount Representing Premium (Discount) | | | | | (220) | (271) | 4,672 | 4,181 |
| Add: Exchangeable Senior Notes and Senior Secured Notes Interest Treated as Long-Term Obligations | | | | | 2,337 | | 26,405 | 28,742 |
| Book Value of Long Term Obligations | $ 8,401 | $ 96,500 | $ 35,000 | $ 200,186 | $ 59,686 | $ 8,370 | $ 206,378 | $ 614,521 |

(1) For preparation of this table, the Company has assumed the interest rate of the Senior Secured Term Loan Facility to be 9.8%, which is the interest rate at September 30, 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 2008, 2009 and 2010 is $0.6 million, $1.2 million and $0.6 million, respectively. The interest due on this portion of the 14 1/4% Senior Secured Notes in 2008, 2009, 2010 and 2011 is $5.4 million, $8.8 million, $8.8 million and $3.4 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 September 30, 2008 (see discussion regarding the Financing Facility below).

**Senior Secured Term Loan Facility**

In February 2005, a direct wholly-owned subsidiary of the Company, Primus Telecommunications Holding, Inc. (PTHI), 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 PTHI 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 6.0%). The Facility contains no financial maintenance covenants. The Company borrowed $100 million under this Facility in February 2005.

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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 PTHI s option at any time after February 18, 2006. The Facility is guaranteed by the Company and certain of PTHI s subsidiaries and is secured by certain assets of PTHI and its guarantor subsidiaries and stock pledges.

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. Pursuant to this authorization, the Company has issued certain secured second lien notes ( 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 September 30, 2008 was 9.8%.

**Financing Facility**

In March 2007, the Company through its Canadian subsidiaries entered into a Senior Secured Credit Agreement ( Credit Agreement ) with a financial institution, to refinance an existing Canadian credit facility. The Credit Agreement 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 Credit Agreement is secured by the assets of the Company s Canadian operations and certain guarantees. At September 30, 2008, the Company had an outstanding liability of $35.0 million under the Credit Agreement.

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 Credit Agreement 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 Credit Agreement 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. September and October 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. Unless cured within a proper notice period, an event of default under the swap agreement will have been deemed to have occurred. However, there have not been any notices delivered by Primus, Lehman SFI or a bankruptcy administrator for Lehman SFI which notices any such default or which would result in termination of the swap agreement. These events call into question whether a hedging agreement has been maintained as required by the Credit Agreement.

While the covenant language is arguably ambiguous, management believes that the hedging agreement with Lehman SFI continues to be in force with respect to the requirements under the Credit Agreement and, accordingly, that no breach or event of default has occurred. The lender, as a third party beneficiary to the hedging agreement, is fully aware that Lehman SFI is the counterparty. To date, the Company has received no communication or notice from the lender asserting a breach or event of default. Should the existing hedging agreement with Lehman SFI be terminated, the Company would be required per the terms of the Credit Agreement to replace such agreement within 10 days or be in default of the Credit Agreement. A default of the Credit Agreement could, with passage of time after entry of a final judgment, also trigger cross default provisions with respect to other long-term debt agreements. Based upon the uncertain future of the existing hedging agreement with Lehman SFI, the Company has begun to explore possible replacement instruments.

*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 in exchange for $49.0 million principal amount of the Company s 8% senior notes due 2014 ( 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 due 2010 ( 3 3/4% Convertible Senior Notes ), $5.3 million principal amount of the Company s 12 3/4% senior notes due 2009 ( 12 3/4% Senior Notes ), and $4.7 million in cash. 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 September 30, 2008 was 12.4% for those amounts not related to the troubled debt restructuring discussed above. (see Note 12 Guarantor/Non-Guarantor Consolidating Condensed Financial Information. )

*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 PTHI 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, in the aggregate, into 19,474,167 shares of the Company s common stock at a conversion price of $1.20 per share of common stock, subject to adjustment. 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 September 30, 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 (PTGI) (see Note 12 Guarantor/Non-Guarantor Consolidating Condensed Financial Information ).

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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.

*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 Company s step up convertible subordinated debentures due August 2009 ( 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. 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 September 30, 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 of 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.

*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.

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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 September 30, 2008, the carrying value of the Step Up Convertible Subordinated Debentures (face value of $8.6 million) was $8.4 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 September 30, 2008 were 11.1% and 7.3%, respectively.

*8% Senior Notes*

In January 2004, PTHI, 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 PTHI 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 September 30, 2008 was 8.4%. During specified periods, PTHI 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 PTGI (see Note 12 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.

*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. The outstanding notes are convertible in the aggregate into 3,668,190 shares of the Company s common stock. 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.

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*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 15$^{th}$ and April 15$^{th}$ 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 of 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.

**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 $8.1 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 $2.6 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 September 30, 2008 and December 31, 2007, the Company had a liability recorded in the amount of $2.6 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 September 30, 2008 and December 31, 2007, the Company had a liability recorded under this agreement in the amount $3.7 million (4.5 million AUD) and $4.7 million (5.4 million AUD), respectively.

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**5. 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 September 30, 2008 are as follows (in thousands):

| Year Ending December 31, | Vendor Financing | Purchase Obligations | Operating Leases |
|---|---|---|---|
| 2008 (as of September 30, 2008) | $ 824 | $ 7,735 | $ 3,980 |
| 2009 | 2,804 | 30,303 | 13,089 |
| 2010 | 5,718 | 16,495 | 10,018 |
| 2011 | 160 | 2,307 | 7,288 |
| 2012 | 103 | 1,445 | 5,692 |
| Thereafter | 100 | | 12,174 |
| Total minimum lease payments | 9,709 | 58,285 | 52,241 |
| Less: Amount representing interest | (1,308) | | |
| | $ 8,401 | $ 58,285 | $ 52,241 |

The Company has contractual obligations to utilize an external vendor for certain customer support functions and to utilize network facilities from certain carriers with terms greater than one year. 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 $8.7 million and $7.1 million for the three months ended September 30, 2008 and September 30, 2007, respectively. The Company made purchases under purchase commitments of $27.7 million and $7.2 million for the nine months ended September 30, 2008 and 2007, respectively.

Rent expense under operating leases was $4.0 million and $4.5 million for the three months ended September 30, 2008 and 2007, respectively. Rent expense under operating leases was $13.1 million and $12.6 million for the nine months ended September 30, 2008 and 2007, respectively.

*Litigation*

The Company is subject to claims and legal proceedings that arise in the ordinary course of its business. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be decided unfavorably to the Company. The Company believes that any aggregate liability that may result from the resolution of these matters will not have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows. (See Note 2 Summary of Significant Accounting Policies ).

**6. 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

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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 nine months ended September 30 is as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Options outstanding January 1 | 7,368,262 | $ 2.09 | 7,919,267 | $ 2.15 |
| Granted | 1,042,000 | $ 0.35 | 105,000 | $ 0.96 |
| Exercised | | $ | | $ |
| Forfeitures | (471,274) | $ 1.84 | (613,522) | $ 2.61 |
| Outstanding September 30 | 7,938,988 | $ 1.86 | 7,410,745 | $ 2.10 |
| Eligible for exercise end of quarter | 6,808,945 | $ 2.09 | 6,548,726 | $ 2.26 |

The following table summarizes information about stock options outstanding at September 30, 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 | 47,000 | 9.62 | $ 0.27 | $ | | 0.00 | $ | $ |
| $ 0.36 to $0.65 | 1,148,167 | 8.52 | $ 0.41 | $ | 329,831 | 6.75 | $ 0.49 | $ |
| $ 0.73 to $0.88 | 724,333 | 6.95 | $ 0.79 | $ | 612,665 | 6.86 | $ 0.79 | $ |
| $ 0.90 | 755,654 | 2.77 | $ 0.90 | $ | 755,654 | 2.77 | $ 0.90 | $ |
| $ 0.92 | 738,000 | 7.10 | $ 0.92 | $ | 614,961 | 7.10 | $ 0.92 | $ |
| $ 0.93 to $0.99 | 110,000 | 4.39 | $ 0.98 | $ | 80,000 | 4.64 | $ 0.98 | $ |
| $ 1.33 to $1.61 | 19,500 | 5.05 | $ 1.47 | $ | 19,500 | 5.05 | $ 1.47 | $ |
| $ 1.65 | 1,470,273 | 4.22 | $ 1.65 | $ | 1,470,273 | 4.22 | $ 1.65 | $ |
| $ 1.90 to $2.38 | 1,707,211 | 4.25 | $ 1.97 | $ | 1,707,211 | 4.25 | $ 1.97 | $ |
| $ 3.03 to $6.30 | 1,194,500 | 5.84 | $ 4.96 | $ | 1,194,500 | 5.84 | $ 4.96 | $ |
| $ 12.31 to $17.44 | 16,800 | 0.76 | $ 15.09 | $ | 16,800 | 0.76 | $ 15.09 | $ |
| $ 31.94 | 7,550 | 1.34 | $ 31.94 | $ | 7,550 | 1.34 | $ 31.94 | $ |
| | 7,938,988 | 5.50 | $ 1.86 | $ | 6,808,945 | 4.97 | $ 2.09 | $ |

The number of unvested options expected to vest is 0.5 million shares, with a weighted average remaining life of 8.7 years, a weighted average exercise price of $0.46, and no intrinsic value.

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In 2007, 100,000 restricted stock units were granted, which is the only grant to date. None have vested as their vesting schedule is to vest 100% three years from grant date or earlier, upon involuntary termination without cause. The fair market value of the stock units at the grant date was $0.40 per share. In the third quarter of 2008, the Company recognized $3 thousand expense related to this grant.

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 three months and nine months ended September 30, 2008 and September 30, 2007. As of September 30, 2008, 54,000 shares have been issued, and none are considered restricted.

**7. GAIN OR LOSS ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT**

In May 2008, the Company exchanged $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, $43.1 million principal amount of the Company s $^3$/4 % Convertible Senior Notes, $5.3 million principal amount of the Company s 12 $^3$/4% 1999 Senior Notes, and $4.7 million of cash for $67.1 million principal amount of the Company s 14 $^1$/4% Senior Secured Notes, resulting in a gain on restructuring of debt of $32.3 million including the expensing of $0.5 million of related financing costs. In the third quarter 2008, the Company adjusted the total gain to include an additional $0.1 million.

In the first quarter 2008, the Company made open market purchases of $0.8 million 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 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, discount and effective interest.

During the third quarter 2007, the Company made open market purchases of $3.2 million principal amount of its October 1999 Senior Notes resulting in a $43 thousand gain on early extinguishment of debt including the write-off of related deferred financing costs. The Company also recognized $0.5 million gain on forgiveness of equipment financing.

In June 2007, the Company 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.

In March 2007, 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.

In February 2007, 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. The Company recognized a loss on restructuring of debt of $5.1 million in connection with this exchange.

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**8. INCOME TAXES**

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

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

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

During the second quarter of 2008 the Company concluded the Canadian audits for years 2000, 2001 and 2002. The final settlement of the audits resulted in a FIN No. 48, Accounting for Uncertainty in Income Taxes, release of liability of $3.2 million which impacted the effective rate. Upon conclusion of the prior year audits, Canada initiated audits for years 2004 and 2005 with expected completion during the first half of 2009. The Company is undergoing an examination in the Netherlands for the years 2002, 2003, 2004, and 2005 with an expected completion before year end 2008. The Company is also currently under examination in other foreign tax jurisdictions, none of which are individually material. As of September 30, 2008, $102.8 million of unrecognized tax benefits have been recorded in accordance with FIN No. 48.

The Company adopted the provisions of FIN No. 48 on January 1, 2007. It is expected that the amount of unrecognized tax benefits, reflected in the Company s financial statements as a result of the adoption of FIN No. 48, will change in the next twelve months; however, the Company does not expect the change to have a significant impact on the results of operations or the financial position of the Company.

On an ongoing basis, the Company monitors activity in its 5% shareholder base for substantial changes in ownership as defined under Internal Revenue Code Section 382 ( Section 382 ). In 2007 and the rest of the testing periods under Section 382, the Company has had significant activity in this shareholder base, but upon review of the 13G filings and other available data the Company believes that an ownership change did not occur during 2007 or during the nine months ended September 30, 2008. If a change is to occur, the resulting Section 382 limitation would place severe limits on the Company s ability to utilize the United States net operating losses.

**9. OPERATING SEGMENT AND RELATED INFORMATION**

The Company has five reportable operating segments based on management s organization of the enterprise into geographic areas United States, Canada, Europe and Asia-Pacific, with the wholesale business within each region managed as a separate global segment. The Company evaluates the performance of its segments and allocates resources to them based upon net revenue and income (loss) from operations. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. 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.

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| **Net Revenue by Geographic Region** | | | | |
| United States | | | | |
| *United States* | $ 43,247 | $ 39,399 | $ 128,411 | $ 128,155 |
| *Other* | 2,761 | 2,328 | 7,599 | 4,994 |
| Total United States | 46,008 | 41,727 | 136,010 | 133,149 |
| Canada | | | | |
| *Canada* | 66,811 | 66,730 | 204,248 | 193,101 |
| Total Canada | 66,811 | 66,730 | 204,248 | 193,101 |
| Europe | | | | |
| *United Kingdom* | 22,383 | 22,665 | 61,964 | 72,638 |
| *Italy* | 7,286 | 3,996 | 16,299 | 11,087 |
| *France* | 6,604 | 4,615 | 18,926 | 13,229 |
| *Germany* | 5,619 | 5,804 | 15,367 | 15,920 |
| *Other* | 5,829 | 7,261 | 18,816 | 21,821 |
| Total Europe | 47,721 | 44,341 | 131,372 | 134,695 |
| Asia-Pacific | | | | |
| *Australia* | 70,715 | 70,744 | 220,782 | 212,895 |
| *Other* | 519 | 857 | 1,904 | 2,992 |
| Total Asia-Pacific | 71,234 | 71,601 | 222,686 | 215,887 |
| Total net revenue | $ 231,774 | $ 224,399 | $ 694,316 | $ 676,832 |
| **Net Revenue by Segment** | | | | |
| United States | $ 23,799 | $ 27,053 | $ 74,215 | $ 82,797 |
| Canada | 66,811 | 66,728 | 204,248 | 192,890 |
| Europe | 15,915 | 16,513 | 48,605 | 54,985 |
| Asia-Pacific | 71,234 | 71,400 | 222,512 | 214,951 |
| Wholesale | 54,015 | 42,705 | 144,736 | 131,209 |
| Total | $ 231,774 | $ 224,399 | $ 694,316 | $ 676,832 |
| **Provision for Doubtful Accounts Receivable** | | | | |
| United States | $ 960 | $ 613 | $ 2,595 | $ 1,347 |
| Canada | 1,015 | 775 | 1,892 | 2,056 |
| Europe | 128 | 410 | 527 | 553 |
| Asia-Pacific | 875 | 461 | 3,103 | 2,811 |
| Wholesale | 271 | 214 | 828 | 594 |
| Total | $ 3,249 | $ 2,473 | $ 8,945 | $ 7,361 |

| | | | | |
|---|---|---|---|---|
| **Income (Loss) from Operations** | | | | |
| United States | $ (2,200) | $ (1,681) | $ (3,669) | $ (5,623) |
| Canada | 10,158 | 8,841 | 33,523 | 27,523 |
| Europe | (1,500) | (3,184) | (4,971) | (7,263) |
| Asia-Pacific | 1,136 | 4,868 | 9,025 | 11,854 |
| Wholesale | (441) | (120) | (1,738) | (1,789) |
| Total | $ 7,153 | $ 8,724 | $ 32,170 | $ 24,702 |

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| | Three months ended September 30, 2008 | Three months ended September 30, 2007 | Nine months ended September 30, 2008 | Nine months ended September 30, 2007 |
|---|---|---|---|---|
| **Capital Expenditures** | | | | |
| United States | $ 731 | $ 737 | $ 1421 | $ 1,566 |
| Canada | 2,315 | 6,636 | 7,638 | 15,973 |
| Europe | 88 | 856 | 769 | 3,385 |
| Asia-Pacific | 3,023 | 4,447 | 10,928 | 8,793 |
| Total | $ 6,157 | $ 12,676 | $ 20,756 | $ 29,717 |

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

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| **Property and Equipment Net** | | |
| United States | | |
| *United States* | $ 16,270 | $ 18,430 |
| *Other* | 620 | 597 |
| Total United States | 16,890 | 19,027 |
| Canada | | |
| *Canada* | 52,174 | 54,787 |
| Total Canada | 52,174 | 54,787 |
| Europe | | |
| *United Kingdom* | 7,174 | 8,718 |
| *Germany* | 556 | 700 |
| *Other* | 877 | 970 |
| Total Europe | 8,607 | 10,388 |
| Asia-Pacific | | |
| *Australia* | 55,809 | 60,233 |
| *Other* | 108 | 164 |
| Total Asia-Pacific | 55,917 | 60,397 |
| Total | $ 133,588 | $ 144,599 |

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| **Assets** | | |
| United States | | |
| *United States* | $ 42,964 | $ 71,782 |
| *Other* | 5,091 | 5,429 |
| Total United States | 48,055 | 77,211 |

| | | |
|---|---|---|
| Canada | | |
| *Canada* | 144,867 | 166,817 |
| Total Canada | 144,867 | 166,817 |

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| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| Europe | | |
| *United Kingdom* | 25,331 | 21,434 |
| *Italy* | 13,593 | 11,501 |
| *France* | 6,692 | 6,710 |
| *Germany* | 5,523 | 5,803 |
| *Other* | 33,475 | 34,217 |
| Total Europe | 84,614 | 79,665 |
| Asia-Pacific | | |
| *Australia* | 111,415 | 132,948 |
| *Other* | 3,727 | 3,762 |
| Total Asia-Pacific | 115,142 | 136,710 |
| Total | $ 392,678 | $ 460,403 |

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Voice | $ 147,352 | $ 149,379 | $ 439,865 | $ 453,687 |
| Data/Internet | 46,299 | 45,104 | 142,691 | 133,253 |
| VOIP | 38,123 | 29,916 | 111,760 | 89,892 |
| Total | $ 231,774 | $ 224,399 | $ 694,316 | $ 676,832 |

**10. DISCONTINUED OPERATIONS AND OTHER DISPOSITIONS**

**Discontinued Operations**

During the second quarter 2008, the Company determined to sell its German retail operations, and therefore, is reporting this unit as discontinued operations.

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.

As a result of these events, the Company s consolidated financial statements reflect the German retail operations, discontinued German subsidiary and Planet Domain operations as discontinued operations for the three and nine months ended September 30, 2008 and 2007. 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.

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Summarized operating results of German retail operations, the discontinued German subsidiary and Planet Domain operations for the three and nine months ended September 30, 2008 and 2007 are as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Net revenues | $ 388 | $ 1,908 | $ 1,384 | $ 6,635 |
| Operating expenses | 866 | 1,762 | 2,042 | 6,742 |
| Income (loss) from operations | (478) | 146 | (658) | (107) |
| Interest expense | | (10) | | (26) |
| Interest income and other income | | 0 | | 3 |
| Income (loss) from discontinued operations | $ (478) | $ 136 | $ (658) | $ (130) |

**Other Dispositions**

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 entity, but requires unanimous shareholder consent for a dividend distribution.

**11. 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.

For the three months ended September 30, 2008, 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:

8.0 million shares issuable upon exercise of stock options,

19.5 million shares issuable upon conversion of the 5% Exchangeable Senior Notes,

7.3 million shares issuable upon 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 nine months ended September 30, 2008, 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:

8.0 million shares issuable upon exercise of stock options,

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10.4 million shares issuable upon conversion of the Step Up Convertible Subordinated Debentures, and

6.0 million shares issuable upon conversion of the 3 $^3/4$% Convertible Senior Notes.

For the three months ended September 30, 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:

6.6 million shares issuable upon exercise of stock options, and

8.3 million shares issuable upon conversion of the 3 $^3/4$% Convertible Senior Notes.

For the nine months ended September 30, 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:

7.2 million shares issuable upon exercise of stock options,

8.3 million shares issuable upon conversion of the 3 $^3/4$% Convertible Senior Notes, and

0.1 million shares issuable upon conversion of the 2000 Convertible Subordinated Debentures.

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

| | Three months ended September 30, 2008 | Three months ended September 30, 2007 | Nine months ended September 30, 2008 | Nine months ended September 30, 2007 |
|---|---|---|---|---|
| Income (loss) from continuing operations | $ (32,742) | $ 4,453 | $ 10,963 | $ 8,220 |
| Income (loss) from discontinued operations, net of tax | (478) | 136 | (658) | (130) |
| Gain from sale of discontinued operations, net of tax | | 174 | | 6,132 |
| Income (loss) attributable to common stockholders basic and diluted | (33,220) | 4,763 | 10,305 | 14,222 |
| Adjustment for interest expense on Step Up Convertible Subordinated Debentures | | 435 | | 1,411 |
| Income (loss) attributable to common stockholders diluted | $ (33,220) | $ 5,198 | $ 10,305 | $ 15,633 |
| Weighted average common shares outstanding basic | 142,633 | 142,143 | 142,633 | 124,100 |
| In-the-money options exercisable under stock option compensation plans | | 24 | | 14 |
| 5% Exchangeable Senior Notes | | 46,936 | 33,505 | 46,936 |
| Step Up Convertible Subordinated Debentures | | 18,939 | | 21,362 |
| Weighted average common shares outstanding diluted | 142,633 | 208,042 | 176,138 | 192,412 |
| Basic income (loss) per common share: | | | | |
| Income from continuing operations | $ (0.23) | $ 0.03 | $ 0.07 | $ 0.06 |
| Income from discontinued operations | (0.00) | 0.00 | (0.00) | (0.00) |
| Gain from sale of discontinued operations | | 0.00 | | 0.05 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net income (loss) | $ | (0.23) | $ | 0.03 | $ | 0.07 | $ | 0.11 |
| Diluted income (loss) per common share: | | | | | | | | |
| Income (loss) from continuing operations | $ | (0.23) | $ | 0.02 | $ | 0.06 | $ | 0.05 |
| Income from discontinued operations | | (0.00) | | 0.00 | | (0.00) | | (0.00) |
| Gain from sale of discontinued operations | | | | 0.00 | | | | 0.03 |
| Net income (loss) | $ | (0.23) | $ | 0.02 | $ | 0.06 | $ | 0.08 |

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**12. GUARANTOR/NON-GUARANTOR CONDENSED CONSOLIDATED 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, PTGI and PTHI. 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 three months and nine months ended September 30, 2007, the consolidating condensed statements of cash flows for the nine months ended September 30, 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 PTGI and PTHI on intercompany notes issued in 2007. The effects of this correction on the consolidating condensed statements of operations and cash flows for the year ended December 31, 2007 will be presented in future filings.

| | PTGI | PTHI | Other | PTGI | PTHI | Other |
|---|---|---|---|---|---|---|
| | For the nine months ended September 30, 2007 | | | For the year ended December 31, 2007 | | |
| **Statements of Operations:** | | | | | | |
| Intercompany interest | $ (2,835) | $ (5,331) | $ 8,166 | $ (4,037) | $ (7,881) | $ 11,918 |
| Equity in net income (loss) of subsidiaries | $ 2,835 | $ 8,166 | $ | $ 4,037 | $ 11,918 | $ |
| Net income | $ | $ 2,835 | $ 8,166 | $ | $ 4,037 | $ 11,918 |
| **Statements of Cash Flows:** | | | | | | |
| Net cash provided by (used in) operating activities | $ (2,835) | $ (5,331) | $ 8,166 | $ (4,037) | $ (7,881) | $ 11,918 |
| Net cash provided by investing activities | 2,835 | 5,331 | | 4,037 | 7,881 | |
| Net cash used in financing activities | | | (8,166) | | | (11,918) |
| Net change in cash and cash equivalents | $ | $ | $ | $ | $ | $ |

| | PTGI | PTHI | Other |
|---|---|---|---|
| | 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 | PTGI | IHC | Guarantor Subsidiaries |
|---|---|---|---|---|---|---|
| | For the nine months ended September 30, 2007 | | | For the year ended December 31, 2007 | | |
| **Statements of Operations:** | | | | | | |
| Intercompany interest | $ (2,835) | $ 8,166 | $ (5,331) | $ (4,037) | $ 11,918 | $ (7,881) |
| Equity in net income (loss) of subsidiaries | $ 2,835 | $ | $ 8,166 | $ 4,037 | $ | $ 11,918 |
| Net income | $ | $ 8,166 | $ 2,835 | $ | $ 11,918 | $ 4,037 |
| **Statements of Cash Flows:** | | | | | | |
| Net cash provided by (used in) operating activities | $ (2,835) | $ 8,166 | $ (5,331) | $ (4,037) | $ 11,918 | $ (7,881) |
| Net cash provided by investing activities | 2,835 | | 5,331 | 4,037 | | 7,881 |
| Net cash used in financing activities | | (8,166) | | | (11,918) | |
| Net change in cash and cash equivalents | $ | $ | $ | $ | $ | $ |

| | PTGI | IHC | Guarantor Subsidiaries |
|---|---|---|---|
| | 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 |

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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.

The consolidating condensed statement of cash flows for the nine months ended September 30, 2007 has been restated to correct the presentation of transactions that are settled, on a net basis, through the Company s intercompany payables and receivables between PTGI (parent) and its subsidiaries and between PTHI and its subsidiaries. The Company had previously presented all such transactions as operating activities. Certain of these transactions should have been presented as investing and financing activities. Accordingly, the previous presentation of the statements of cash flows for the nine months ended September 30, 2007 as contained in this Note have been corrected to add the lines entitled Proceeds from intercompany balance to cash flows from investing activities and Proceeds from (payments on) intercompany balance to cash flows from financing activities. 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 PTHI Debt Issuances**

PTHI s 8% Senior Notes and 5% Exchangeable Senior Notes are fully and unconditionally guaranteed by PTGI on a senior basis as of September 30, 2008. PTGI has a 100% ownership in PTHI and no direct subsidiaries other than PTHI. Accordingly, the following consolidating condensed financial information as of September 30, 2008 and December 31, 2007 and for three months and nine months ended September 30, 2008 and September 30, 2007 are included for (a) PTGI on a stand-alone basis; (b) PTHI on a stand-alone basis; (c) PTGI s indirect non-guarantor subsidiaries on a combined basis; and (d) PTGI on a consolidated basis.

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**

(in thousands)

| | For the Three Months Ended September 30, 2008 | | | | |
|---|---|---|---|---|---|
| | **PTGI** | **PTHI** | **Other** | **Eliminations** | **Consolidated** |
| NET REVENUE | $ | $ | $ 231,774 | $ | $ 231,774 |
| OPERATING EXPENSES | | | | | |
| Cost of revenue (exclusive of depreciation included below) | | | 150,066 | | 150,066 |
| Selling, general and administrative | 1,181 | 371 | 68,228 | | 69,780 |
| Depreciation and amortization | | | 9,351 | | 9,351 |
| Loss on sale or disposal of assets | | | (4,576) | | (4,576) |
| Total operating expenses | 1,181 | 371 | 223,069 | | 224,621 |
| INCOME (LOSS) FROM OPERATIONS | (1,181) | (371) | 8,705 | | 7,153 |
| INTEREST EXPENSE | (996) | (6,444) | (5,370) | | (12,810) |
| ACCRETION ON DEBT PREMIUM (DISCOUNT) | (96) | | 365 | | 269 |
| GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT | 162 | | (41) | | 121 |
| INTEREST AND OTHER INCOME (EXPENSE) | 3 | | (2,944) | | (2,941) |
| FOREIGN CURRENCY TRANSACTION GAIN (LOSS) | (4,199) | 336 | (19,182) | | (23,045) |
| INTERCOMPANY INTEREST | (2,114) | (4,446) | 6,560 | | |
| MANAGEMENT FEE | | 1,483 | (1,483) | | |
| LOSS BEFORE INCOME TAXES AND EQUITY IN NET LOSS OF SUBSIDIARIES | (8,421) | (9,442) | (13,390) | | (31,253) |
| INCOME TAX EXPENSE | | | (1,489) | | (1,489) |
| LOSS BEFORE EQUITY IN NET LOSS OF SUBSIDIARIES | (8,421) | (9,442) | (14,879) | | (32,742) |
| EQUITY IN NET LOSS OF SUBSIDIARIES | (24,799) | (15,357) | | 40,156 | |
| LOSS FROM CONTINUING OPERATIONS | (33,220) | (24,799) | (14,879) | 40,156 | (32,742) |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax | | | (478) | | (478) |
| NET LOSS | $ (33,220) | $ (24,799) | $ (15,357) | $ 40,156 | $ (33,220) |

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**

(in thousands)

| | For the Nine Months Ended September 30, 2008 | | | | |
|---|---|---|---|---|---|
| | **PTGI** | **PTHI** | **Other** | **Eliminations** | **Consolidated** |
| NET REVENUE | $ | $ | $ 694,316 | $ | $ 694,316 |
| OPERATING EXPENSES | | | | | |
| Cost of revenue (exclusive of depreciation included below) | | | 434,584 | | 434,584 |
| Selling, general and administrative | 3,755 | 3,980 | 201,461 | | 209,196 |
| Depreciation and amortization | | | 25,407 | | 25,407 |
| Gain on sale or disposal of assets | | | (7,041) | | (7,041) |
| Total operating expenses | 3,755 | 3,980 | 654,411 | | 662,146 |
| INCOME (LOSS) FROM OPERATIONS | (3,755) | (3,980) | 39,905 | | 32,170 |
| INTEREST EXPENSE | (4,304) | (21,245) | (16,008) | | (41,557) |
| ACCRETION ON DEBT PREMIUM (DISCOUNT) | (608) | | 1,064 | | 456 |
| GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT | 12,232 | 22,784 | (408) | | 34,608 |
| INTEREST AND OTHER INCOME (EXPENSE) | 18 | | (2) | | 16 |
| FOREIGN CURRENCY TRANSACTION GAIN (LOSS) | (1,504) | 808 | (12,508) | | (13,204) |
| INTERCOMPANY INTEREST | (7,276) | (7,629) | 14,905 | | |
| MANAGEMENT FEE | | 4,474 | (4,474) | | |
| INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES | (5,197) | (4,788) | 22,474 | | 12,489 |
| INCOME TAX BENEFIT (EXPENSE) | 210 | 1,087 | (2,823) | | (1,526) |
| INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES | (4,987) | (3,701) | 19,651 | | 10,963 |
| EQUITY IN NET INCOME OF SUBSIDIARIES | 15,292 | 18,993 | | (34,285) | |
| INCOME FROM CONTINUING OPERATIONS | 10,305 | 15,292 | 19,651 | (34,285) | 10,963 |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax | | | (658) | | (658) |
| NET INCOME | $ 10,305 | $ 15,292 | $ 18,993 | $ (34,285) | $ 10,305 |

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**

(in thousands)

| | For the Three Months Ended September 30, 2007 | | | | |
|---|---|---|---|---|---|
| | PTGI | PTHI | Other | Eliminations | Consolidated |
| NET REVENUE | $ | $ | $ 224,399 | $ | $ 224,399 |
| OPERATING EXPENSES | | | | | |
| Cost of revenue (exclusive of depreciation included below) | | | 135,900 | | 135,900 |
| Selling, general and administrative | 1,326 | 1,747 | 69,374 | | 72,447 |
| Depreciation and amortization | | | 7,328 | | 7,328 |
| Total operating expenses | 1,326 | 1,747 | 212,602 | | 215,675 |
| INCOME (LOSS) FROM OPERATIONS | (1,326) | (1,747) | 11,797 | | 8,724 |
| INTEREST EXPENSE | (2,304) | (8,026) | (5,480) | | (15,810) |
| ACCRETION ON DEBT DISCOUNT | (360) | | 323 | | (37) |
| GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT | 42 | (104) | 426 | | 364 |
| INTEREST AND OTHER INCOME | 26 | | 1,115 | | 1,141 |
| FOREIGN CURRENCY TRANSACTION GAIN | 965 | 278 | 10,989 | | 12,232 |
| INTERCOMPANY INTEREST | (695) | (3,217) | 3,912 | | |
| MANAGEMENT FEE | | 1,400 | (1,400) | | |
| INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES | (3,652) | (11,416) | 21,682 | | 6,614 |
| INCOME TAX BENEFIT (EXPENSE) | (2,763) | (226) | 828 | | (2,161) |
| INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES | (6,415) | (11,642) | 22,510 | | 4,453 |
| EQUITY IN NET INCOME OF SUBSIDIARIES | 11,178 | 22,820 | | (33,998) | |
| INCOME FROM CONTINUING OPERATIONS | 4,763 | 11,178 | 22,510 | (33,998) | 4,453 |
| INCOME FROM DISCONTINUED OPERATIONS, net of tax | | | 136 | | 136 |
| GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax | | | 174 | | 174 |
| NET INCOME | $ 4,763 | $ 11,178 | $ 22,820 | $ (33,998) | $ 4,763 |

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**

(in thousands)

| | For the Nine Months Ended September 30, 2007 | | | | |
|---|---|---|---|---|---|
| | **PTGI** | **PTHI** | **Other** | **Eliminations** | **Consolidated** |
| NET REVENUE | $ | $ | $ 676,832 | $ | $ 676,832 |
| OPERATING EXPENSES | | | | | |
| Cost of revenue (exclusive of depreciation included below) | | | 421,559 | | 421,559 |
| Selling, general and administrative | 3,824 | 8,403 | 196,432 | | 208,659 |
| Depreciation and amortization | | | 21,228 | | 21,228 |
| Loss on sale or disposal of assets | | | 684 | | 684 |
| Total operating expenses | 3,824 | 8,403 | 639,903 | | 652,130 |
| INCOME (LOSS) FROM OPERATIONS | (3,824) | (8,403) | 36,929 | | 24,702 |
| INTEREST EXPENSE | (8,107) | (23,825) | (13,736) | | (45,668) |
| ACCRETION ON DEBT DISCOUNT | (1,151) | | 740 | | (411) |
| LOSS ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT | (2,269) | (108) | (5,533) | | (7,910) |
| INTEREST AND OTHER INCOME | 360 | | 3,335 | | 3,695 |
| FOREIGN CURRENCY TRANSACTION GAIN | 4,813 | 733 | 24,741 | | 30,287 |
| INTERCOMPANY INTEREST | (1,368) | (8,401) | 9,769 | | |
| MANAGEMENT FEE | | 4,657 | (4,657) | | |
| INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES | (11,546) | (35,347) | 51,588 | | 4,695 |
| INCOME TAX BENEFIT (EXPENSE) | (291) | (447) | 4,263 | | 3,525 |
| INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES | (11,837) | (35,794) | 55,851 | | 8,220 |
| EQUITY IN NET INCOME OF SUBSIDIARIES | 26,059 | 61,853 | | (87,912) | |
| INCOME FROM CONTINUING OPERATIONS | 14,222 | 26,059 | 55,851 | (87,912) | 8,220 |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax | | | (130) | | (130) |
| GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax | | | 6,132 | | 6,132 |
| NET INCOME | $ 14,222 | $ 26,059 | $ 61,853 | $ (87,912) | $ 14,222 |

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**CONSOLIDATING CONDENSED BALANCE SHEET**

(in thousands)

| | September 30, 2008 | | | | |
|---|---|---|---|---|---|
| | **PTGI** | **PTHI** | **Other** | **Eliminations** | **Consolidated** |
| **ASSETS** | | | | | |
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents | $ 92 | $ (39) | $ 47,577 | $ | $ 47,630 |
| Restricted cash | | | | | |
| Accounts receivable | | | 111,612 | | 111,612 |
| Prepaid expenses and other current assets | 31 | | 19,821 | | 19,852 |
| Total current assets | 123 | (39) | 179,010 | | 179,094 |
| INTERCOMPANY RECEIVABLES | 102,253 | 1,061,774 | | (1,164,027) | |
| INVESTMENTS IN SUBSIDIARIES | 23,028 | (628,823) | | 605,795 | |
| RESTRICTED CASH | | | 9,510 | | 9,510 |
| PROPERTY AND EQUIPMENT Net | | | 133,588 | | 133,588 |
| GOODWILL | | | 38,026 | | 38,026 |
| OTHER INTANGIBLE ASSETS Net | | | 1,188 | | 1,188 |
| OTHER ASSETS | 460 | 4,888 | 25,924 | | 31,272 |
| TOTAL ASSETS | $ 125,864 | $ 437,800 | $ 387,246 | $ (558,232) | $ 392,678 |
| **LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)** | | | | | |
| CURRENT LIABILITIES: | | | | | |
| Accounts payable | $ 202 | $ 470 | 64,032 | $ | $ 64,704 |
| Accrued interconnection costs | | | 38,474 | | 38,474 |
| Deferred revenue | | | 15,405 | | 15,405 |
| Accrued expenses and other current liabilities | 1,020 | 281 | 51,965 | | 53,266 |
| Accrued income taxes | 82 | | 26,730 | | 26,812 |
| Accrued interest | 954 | 4,770 | 5,507 | | 11,231 |
| Current portion of long-term obligations | 8,370 | 2,168 | 2,199 | | 12,737 |
| Total current liabilities | 10,628 | 7,689 | 204,312 | | 222,629 |
| INTERCOMPANY PAYABLES | 501,774 | 101,046 | 561,207 | (1,164,027) | |
| LONG-TERM OBLIGATIONS (net of premium of $4,181) | 48,166 | 306,037 | 247,581 | | 601,784 |
| OTHER LIABILITIES | | | 2,969 | | 2,969 |
| Total liabilities | 560,568 | 414,772 | 1,016,069 | (1,164,027) | 827,382 |
| COMMITMENTS AND CONTINGENCIES | | | | | |
| STOCKHOLDERS EQUITY (DEFICIT): | | | | | |
| Common stock | 1,426 | | | | 1,426 |
| Additional paid-in capital | 718,895 | 1,161,930 | 305,844 | (1,467,774) | 718,895 |
| Accumulated deficit | (1,064,473) | (1,049,151) | (853,621) | 1,902,772 | (1,064,473) |
| Accumulated other comprehensive loss | (90,552) | (89,751) | (81,046) | 170,797 | (90,552) |
| Total stockholders equity (deficit) | (434,704) | 23,028 | (628,823) | 605,795 | (434,704) |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT) | $ | 125,864 | $ | 437,800 | $ | 387,246 | $ | (558,232) | $ | 392,678 |

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**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 (net of premium of $2,528) | 116,792 | 391,797 | 154,086 | | 662,675 |
| OTHER LIABILITIES | | | 52 | | 52 |
| Total liabilities | 545,476 | 440,584 | 1,099,495 | (1,177,612) | 907,943 |
| COMMITMENTS AND CONTINGENCIES | | | | | |
| 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 stockholders equity (deficit) | (447,540) | 5,404 | (650,148) | 644,744 | (447,540) |

| | | | | | |
|---|---|---|---|---|---|
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT) | $ 97,936 | $ 445,988 | $ 449,347 | $ (532,868) | $ 460,403 |

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**

(in thousands)

| | For Nine Months Ended September 30, 2008 | | | | |
|---|---|---|---|---|---|
| | **PTGI** | **PTHI** | **Other** | **Eliminations** | **Consolidated** |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Net income | $ 10,305 | $ 15,292 | $ 18,993 | $ (34,285) | $ 10,305 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Provision for doubtful accounts receivable | | | 8,945 | | 8,945 |
| Stock compensation expense | | 199 | | | 199 |
| Depreciation and amortization | | | 25,407 | | 25,407 |
| Gain on sale or disposal of assets | | | (7,041) | | (7,041) |
| Accretion of debt (premium) discount | 608 | | (1,064) | | (456) |
| Equity in net income of subsidiary | (15,292) | (18,993) | | 34,285 | |
| Deferred income taxes | | 450 | 2,751 | | 3,201 |
| (Gain) loss on early extinguishment or restructuring of debt | (12,232) | (22,784) | 408 | | (34,608) |
| Minority interest share of income | | | 2,838 | | 2,838 |
| Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt | 1,518 | (823) | 12,892 | | 13,587 |
| Changes in assets and liabilities, net of acquisitions: | | | | | |
| Increase in accounts receivable | | | (12,276) | | (12,276) |
| Decrease in prepaid expenses and other current assets | 277 | | 8,584 | | 8,861 |
| Decrease in other assets | 455 | 854 | 119 | | 1,428 |
| Increase (decrease) in accounts payable | (604) | 62 | (6,695) | | (7,237) |
| Decrease in accrued interconnection costs | | | (4,473) | | (4,473) |
| Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities, and other liabilities | 812 | (952) | 349 | | 209 |
| Decrease in accrued income taxes | (224) | (1,522) | (1,757) | | (3,503) |
| Increase (decrease) in accrued interest | (929) | (3,920) | 4,158 | | (691) |
| Net cash provided by (used in) operating activities | (15,306) | (32,137) | 52,138 | | 4,695 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Purchase of property and equipment | | | (20,756) | | (20,756) |
| Sale of property and equipment and intangible assets | | | 5,741 | | 5,741 |
| 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 | | | (100) | | (100) |
| Proceeds from intercompany balance | 26,516 | 24,356 | | (50,872) | |
| Net cash provided by (used in) investing activities | 26,516 | 24,356 | (14,022) | (50,872) | (14,022) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| Purchase of the Company s debt securities | (11,217) | | | | (11,217) |
| Principal payments on long-term obligations | (1,200) | (5,482) | (3,854) | | (10,536) |
| Proceeds from (payments on) intercompany balance | | 13,259 | (64,131) | 50,872 | |
| Net cash provided by (used in) financing activities | (12,417) | 7,777 | (67,985) | 50,872 | (21,753) |
| | | | (2,572) | | (2,572) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | | | | | | | | |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | | (1,207) | | (4) | | (32,441) | | | | (33,652) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | | 1,299 | | (35) | | 80,018 | | | | 81,282 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ | 92 | $ | (39) | $ | 47,577 | $ | | $ | 47,630 |

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**

(in thousands)

| | For Nine Months Ended September 30, 2007 | | | | |
|---|---|---|---|---|---|
| | **PTGI** | **PTHI** | **Other** | **Eliminations** | **Consolidated** |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Net income | $ 14,222 | $ 26,059 | $ 61,853 | $ (87,912) | $ 14,222 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Provision for doubtful accounts receivable | | | 7,358 | | 7,358 |
| Stock compensation expense | | 184 | | | 184 |
| Depreciation and amortization | | | 21,288 | | 21,288 |
| Gain on sale or disposal of assets | | | (5,447) | | (5,447) |
| Accretion of debt discount | 1,151 | | (740) | | 411 |
| Equity in net income of subsidiary | (26,059) | (61,853) | | 87,912 | |
| Deferred income taxes | | (860) | | | (860) |
| Loss on early extinguishment or restructuring of debt | 2,269 | 108 | 5,533 | | 7,910 |
| Other | | | | | |
| Unrealized foreign currency transaction gain on intercompany and foreign debt | (8,417) | (2,552) | (21,660) | | (32,629) |
| Changes in assets and liabilities, net of acquisitions: | | | | | |
| Decrease in accounts receivable | | | 293 | | 293 |
| Decrease in prepaid expenses and other current assets | 123 | | 2,475 | | 2,598 |
| (Increase) decrease in other assets | 680 | 1,045 | (412) | | 1,313 |
| (Increase) decrease in intercompany balance | | | | | |
| Increase in accounts payable | 589 | 312 | 1,928 | | 2,829 |
| Decrease in accrued interconnection costs | | | (8,245) | | (8,245) |
| Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities, accrued income taxes and other liabilities | (1,019) | 1,174 | (1,172) | | (1,017) |
| Increase (decrease) in accrued interest | (1,865) | (4,733) | 4,555 | | (2,043) |
| Net cash provided by (used in) operating activities | (18,326) | (41,116) | 67,607 | | 8,165 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Purchase of property and equipment | | | (29,717) | | (29,717) |
| Cash from disposition of business, net of cash disposed | | | 6,140 | | 6,140 |
| Cash used for business acquisitions, net of cash acquired | | | (200) | | (200) |
| Decrease in restricted cash | | | (340) | | (340) |
| Proceeds from intercompany balance | 55,559 | 48,156 | | (103,715) | |
| Net cash used in investing activities | 55,559 | 48,156 | (24,117) | (103,715) | (24,117) |
| 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 | (58,057) | (2,137) | (4,673) | | (64,867) |
| Proceeds from sale of common stock | 19,170 | | | | 19,170 |
| Payment on intercompany balance | | (4,886) | (98,829) | 103,715 | |
| Net cash provided by (used in) financing activities | (38,887) | (7,023) | (797) | 103,715 | 57,008 |

| | | | | | |
|---|---|---|---|---|---|
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | | 3,351 | | 3,351 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (1,654) | 17 | 46,044 | | 44,407 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 3,764 | (28) | 60,581 | | 64,317 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 2,110 | $ (11) | $ 106,625 | $ | $ 108,724 |

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**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 PTGI on a senior basis as of September 30, 2008 and by PTHI, 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 PTGI (collectively, the Other Guarantors ). PTGI has a 100% ownership in PTHI and no direct subsidiaries other than PTHI. Accordingly, the following consolidating condensed financial information as of September 30, 2008 and December 31, 2007 and for three months and nine months ended September 30, 2008 and September 30, 2007 are included for (a) PTGI 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) PTGI s indirect non-guarantor subsidiaries on a combined basis and (e) PTGI 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.

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**

(in thousands)

| | For Three Months Ended September 30, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | PTGI | IHC | Guarantor Subsidiaries | Non Guarantor Subsidiaries | Eliminations | Consolidated |
| NET REVENUE | $ | $ | $ 36,321 | $ 195,453 | $ | $ 231,774 |
| OPERATING EXPENSES | | | | | | |
| Cost of revenue (exclusive of depreciation included below) | | | 29,125 | 120,941 | | 150,066 |
| Selling, general and administrative | 1,181 | 28 | 7,599 | 60,972 | | 69,780 |
| Depreciation and amortization | | | 809 | 8,542 | | 9,351 |
| (Gain) loss on sale or disposal of assets | | | | (4,576) | | (4,576) |
| Total operating expenses | 1,181 | 28 | 37,533 | 185,879 | | 224,621 |
| INCOME (LOSS) FROM OPERATIONS | (1,181) | (28) | (1,212) | 9,574 | | 7,153 |
| INTEREST EXPENSE | (996) | (4,050) | (6,446) | (1,318) | | (12,810) |
| ACCRETION ON DEBT PREMIUM (DISCOUNT) | (96) | 365 | | | | 269 |
| INCOME (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT | 162 | (41) | | | | 121 |
| INTEREST AND OTHER INCOME (EXPENSE) | 3 | | | (2,944) | | (2,941) |
| FOREIGN CURRENCY TRANSACTION GAIN | (4,199) | (7,712) | 290 | (11,424) | | (23,045) |
| INTERCOMPANY INTEREST | (2,114) | 7,408 | (4,446) | (848) | | |
| MANAGEMENT FEE | | | 1,567 | (1,567) | | |
| ROYALTY FEE | | 3,509 | | (3,509) | | |
| LOSS BEFORE INCOME TAXES AND EQUITY IN NET LOSS OF SUBSIDIARIES | (8,421) | (549) | (10,247) | (12,036) | | (31,253) |
| INCOME TAX BENEFIT (EXPENSE) | | (344) | 165 | (1,310) | | (1,489) |
| LOSS BEFORE EQUITY IN NET LOSS OF SUBSIDIARIES | (8,421) | (893) | (10,082) | (13,346) | | (32,742) |
| EQUITY IN NET LOSS OF SUBSIDIARIES | (24,799) | | (15,357) | | 40,156 | |
| LOSS FROM CONTINUING OPERATIONS | (33,220) | (893) | (25,439) | (13,346) | 40,156 | (32,742) |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax | | | | (478) | | (478) |
| NET LOSS | $ (33,220) | $ (893) | $ (25,439) | $ (13,824) | $ 40,156 | $ (33,220) |

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**

(in thousands)

| | For Nine Months Ended September 30, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | PTGI | IHC | Guarantor Subsidiaries | Non Guarantor Subsidiaries | Eliminations | Consolidated |
| NET REVENUE | $ | $ | $ 106,018 | $ 588,298 | $ | $ 694,316 |
| OPERATING EXPENSES | | | | | | |
| Cost of revenue (exclusive of depreciation included below) | | | 84,715 | 349,869 | | 434,584 |
| Selling, general and administrative | 3,755 | 146 | 25,675 | 179,620 | | 209,196 |
| Depreciation and amortization | | | 2,490 | 22,917 | | 25,407 |
| Loss on sale or disposal of assets | | | (805) | (6,236) | | (7,041) |
| Total operating expenses | 3,755 | 146 | 112,075 | 546,170 | | 662,146 |
| INCOME (LOSS) FROM OPERATIONS | (3,755) | (146) | (6,057) | 42,128 | | 32,170 |
| INTEREST EXPENSE | (4,304) | (11,854) | (21,418) | (3,981) | | (41,557) |
| ACCRETION ON DEBT PREMIUM (DISCOUNT) | (608) | 1,064 | | | | 456 |
| INCOME (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT | 12,232 | (516) | 22,784 | 108 | | 34,608 |
| INTEREST AND OTHER INCOME (EXPENSE) | 18 | | (5) | 3 | | 16 |
| FOREIGN CURRENCY TRANSACTION GAIN (LOSS) | (1,504) | (4,224) | 804 | (8,280) | | (13,204) |
| INTERCOMPANY INTEREST | (7,276) | 13,267 | (7,629) | 1,638 | | |
| MANAGEMENT FEE | | | 4,818 | (4,818) | | |
| ROYALTY FEE | | 10,815 | | (10,815) | | |
| INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES | (5,197) | 8,406 | (6,703) | 15,983 | | 12,489 |
| INCOME TAX BENEFIT (EXPENSE) | 210 | 126 | 790 | (2,652) | | (1,526) |
| INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES | (4,987) | 8,532 | (5,913) | 13,331 | | 10,963 |
| EQUITY IN NET INCOME OF SUBSIDIARIES | 15,292 | | 18,993 | | (34,285) | |
| INCOME FROM CONTINUING OPERATIONS | 10,305 | 8,532 | 13,080 | 13,331 | (34,285) | 10,963 |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax | | | | (658) | | (658) |
| NET INCOME | $ 10,305 | $ 8,532 | $ 13,080 | $ 12,673 | $ (34,285) | $ 10,305 |

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**

(in thousands)

| | For the Three Months Ended September 30, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | PTGI | IHC | Guarantor Subsidiaries | Non Guarantor Subsidiaries | Eliminations | Consolidated |
| NET REVENUE | $ | $ | $ 32,067 | $ 192,332 | $ | $ 224,399 |
| OPERATING EXPENSES | | | | | | |
| Cost of revenue (exclusive of depreciation included below) | | | 22,562 | 113,338 | | 135,900 |
| Selling, general and administrative | 1,326 | 29 | 10,129 | 60,963 | | 72,447 |
| Depreciation and amortization | | | 907 | 6,421 | | 7,328 |
| Loss on sale or disposal of assets | | | (8) | 8 | | |
| Total operating expenses | 1,326 | 29 | 33,590 | 180,730 | | 215,675 |
| INCOME (LOSS) FROM OPERATIONS | (1,326) | (29) | (1,523) | 11,602 | | 8,724 |
| INTEREST EXPENSE | (2,304) | (3,870) | (8,042) | (1,594) | | (15,810) |
| ACCRETION ON DEBT PREMIUM (DISCOUNT) | (360) | 323 | | | | (37) |
| GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT | 42 | (85) | (104) | 511 | | 364 |
| INTEREST AND OTHER INCOME | 26 | | 14 | 1,101 | | 1,141 |
| FOREIGN CURRENCY TRANSACTION GAIN | 965 | 3,156 | 303 | 7,808 | | 12,232 |
| INTERCOMPANY INTEREST | (695) | 5,353 | (3,217) | (1,441) | | |
| MANAGEMENT FEE | | | 1,564 | (1,564) | | |
| ROYALTY FEE | | 3,612 | (139) | (3,473) | | |
| INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES | (3,652) | 8,460 | (11,144) | 12,950 | | 6,614 |
| INCOME TAX BENEFIT (EXPENSE) | (2,763) | (86) | (275) | 963 | | (2,161) |
| INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES | (6,415) | 8,374 | (11,419) | 13,913 | | 4,453 |
| EQUITY IN NET INCOME OF SUBSIDIARIES | 11,178 | | 22,820 | | (33,998) | |
| INCOME FROM CONTINUING OPERATIONS | 4,763 | 8,374 | 11,401 | 13,913 | (33,998) | 4,453 |
| INCOME FROM DISCONTINUED OPERATIONS, net of tax | | | | 136 | | 136 |
| GAIN ON SALE OF DISCONTINUED OPERATIONS, net of tax | | | | 174 | | 174 |
| NET INCOME | $ 4,763 | $ 8,374 | $ 11,401 | $ 14,223 | $ (33,998) | $ 4,763 |

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**

(in thousands)

| | For the Nine Months Ended September 30, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | PTGI | IHC | Guarantor Subsidiaries | Non Guarantor Subsidiaries | Eliminations | Consolidated |
| NET REVENUE | $ | $ | $ 106,063 | $ 570,769 | $ | $ 676,832 |
| OPERATING EXPENSES | | | | | | |
| Cost of revenue (exclusive of depreciation included below) | | | 75,667 | 345,892 | | 421,559 |
| Selling, general and administrative | 3,824 | 83 | 33,320 | 171,432 | | 208,659 |
| Depreciation and amortization | | | 2,803 | 18,425 | | 21,228 |
| Loss on sale or disposal of assets | | | | 684 | | 684 |
| Total operating expenses | 3,824 | 83 | 111,790 | 536,433 | | 652,130 |
| INCOME (LOSS) FROM OPERATIONS | (3,824) | (83) | (5,727) | 34,336 | | 24,702 |
| INTEREST EXPENSE | (8,107) | (8,598) | (23,847) | (5,116) | | (45,668) |
| ACCRETION ON DEBT PREMIUM (DISCOUNT) | (1,151) | 740 | | | | (411) |
| LOSS ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT | (2,269) | (5,135) | (108) | (398) | | (7,910) |
| INTEREST AND OTHER INCOME | 360 | | 43 | 3,292 | | 3,695 |
| FOREIGN CURRENCY TRANSACTION GAIN | 4,813 | 7,642 | 789 | 17,043 | | 30,287 |
| INTERCOMPANY INTEREST | (1,368) | 9,582 | (8,401) | 187 | | |
| MANAGEMENT FEE | | | 5,086 | (5,086) | | |
| ROYALTY FEE | | 10,757 | (436) | (10,321) | | |
| INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES | (11,546) | 14,905 | (32,601) | 33,937 | | 4,695 |
| INCOME TAX BENEFIT (EXPENSE) | (291) | (1,109) | (684) | 5,609 | | 3,525 |
| INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES | (11,837) | 13,796 | (33,285) | 39,546 | | 8,220 |
| EQUITY IN NET INCOME OF SUBSIDIARIES | 26,059 | | 61,853 | | (87,912) | |
| INCOME FROM CONTINUING OPERATIONS | 14,222 | 13,796 | 28,568 | 39,546 | (87,912) | 8,220 |
| INCOME FROM DISCONTINUED OPERATIONS, net of tax | | | | (130) | | (130) |
| GAIN ON SALE OF DISCONTINUED OPERATIONS, net of tax | | | | 6,132 | | 6,132 |
| NET INCOME | $ 14,222 | $ 13,796 | $ 28,568 | $ 45,548 | $ (87,912) | $ 14,222 |

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**CONSOLIDATING CONDENSED BALANCE SHEET**

(in thousands)

| | September 30, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | PTGI | IHC | Guarantor Subsidiaries | Non Guarantor Subsidiaries | Eliminations | Consolidated |
| **ASSETS** | | | | | | |
| CURRENT ASSETS: | | | | | | |
| Cash and cash equivalents | $ 92 | $ | $ 3,423 | $ 44,115 | $ | $ 47,630 |
| Restricted cash | | | | | | |
| Accounts receivable | | | 13,902 | 97,710 | | 111,612 |
| Prepaid expenses and other current assets | 31 | | 1,283 | 18,538 | | 19,852 |
| Total current assets | 123 | | 18,608 | 160,363 | | 179,094 |
| INTERCOMPANY RECEIVABLES | 102,253 | 299,728 | 580,390 | 76,571 | (1,058,942) | |
| INVESTMENTS IN SUBSIDIARIES | 23,028 | | (53,408) | | 30,380 | |
| RESTRICTED CASH | | | 314 | 9,196 | | 9,510 |
| PROPERTY AND EQUIPMENT Net | | | 14,434 | 119,154 | | 133,588 |
| GOODWILL | | | | 38,026 | | 38,026 |
| OTHER INTANGIBLE ASSETS Net | | | | 1,188 | | 1,188 |
| OTHER ASSETS | 460 | 253 | 5,948 | 24,611 | | 31,272 |
| TOTAL ASSETS | $ 125,864 | $ 299,981 | $ 566,286 | $ 429,109 | $ (1,028,562) | $ 392,678 |
| **LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)** | | | | | | |
| CURRENT LIABILITIES: | | | | | | |
| Accounts payable | $ 202 | $ | $ 3,609 | $ 60,893 | $ | $ 64,704 |
| Accrued interconnection costs | | | 13,267 | 25,207 | | 38,474 |
| Deferred revenue | | | 1,166 | 14,239 | | 15,405 |
| Accrued expenses and other current liabilities | 1,020 | | 6,075 | 46,171 | | 53,266 |
| Accrued income taxes | 82 | 4,046 | 1,007 | 21,677 | | 26,812 |
| Accrued interest | 954 | 5,419 | 4,770 | 88 | | 11,231 |
| Current portion of long-term obligations | 8,370 | | 2,261 | 2,106 | | 12,737 |
| Total current liabilities | 10,628 | 9,465 | 32,155 | 170,381 | | 222,629 |
| INTERCOMPANY PAYABLES | 501,774 | | 204,923 | 352,245 | (1,058,942) | |
| LONG-TERM OBLIGATIONS | 48,166 | 206,378 | 306,180 | 41,060 | | 601,784 |
| OTHER LIABILITIES | | | | 2,969 | | 2,969 |
| Total liabilities | 560,568 | 215,843 | 543,258 | 566,655 | (1,058,942) | 827,382 |
| COMMITMENTS AND CONTINGENCIES | | | | | | |
| STOCKHOLDERS EQUITY (DEFICIT): | | | | | | |
| Common stock | 1,426 | | | | | 1,426 |
| Additional paid-in capital | 718,895 | | 1,161,930 | 305,662 | (1,467,592) | 718,895 |
| Retained earnings (accumulated deficit) | (1,064,473) | 84,138 | (1,049,151) | (357,417) | 1,322,430 | (1,064,473) |
| Accumulated other comprehensive loss | (90,552) | | (89,751) | (85,791) | 175,542 | (90,552) |
| Total stockholders equity (deficit) | (434,704) | 84,138 | 23,028 | (137,546) | 30,380 | (434,704) |

| | | | | | | |
|---|---|---|---|---|---|---|
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT) | $ 125,864 | $ 299,981 | $ 566,286 | $ 429,109 | $ (1,028,562) | $ 392,678 |

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**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 | | | | 52 | | 52 |
| Total liabilities | 545,476 | 119,931 | 559,640 | 587,071 | (904,175) | 907,943 |
| COMMITMENTS AND CONTINGENCIES | | | | | | |
| 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 stockholders equity (deficit) | (447,540) | 75,606 | 5,404 | (152,551) | 71,541 | (447,540) |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT) | $ | 97,936 | $ | 195,537 | $ | 565,044 | $ | 434,520 | $ | (832,634) | $ | 460,403 |

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**

(in thousands)

| | For Nine Months Ended September 30, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | PTGI | IHC | Guarantor Subsidiaries | Non Guarantor Subsidiaries | Eliminations | Consolidated |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | | |
| Net income | $ 10,305 | $ 8,532 | $ 13,080 | $ 12,673 | $ (34,285) | $ 10,305 |
| Adjustments to reconcile net incometo net cash provided by operating activities: | | | | | | |
| Provision for doubtful accounts receivable | | | 1,786 | 7,159 | | 8,945 |
| Stock compensation expense | | | 199 | | | 199 |
| Depreciation and amortization | | | 2,491 | 22,916 | | 25,407 |
| Gain on sale or disposal of assets | | | (805) | (6,236) | | (7,041) |
| Accretion of debt (premium) discount | 608 | (1,065) | | 1 | | (456) |
| Equity in net income of subsidiary | (15,292) | | (18,993) | | 34,285 | |
| Deferred income taxes | | | 591 | 2,610 | | 3,201 |
| (Gain) loss on early extinguishment or restructuring of debt | (12,232) | 515 | (22,784) | (107) | | (34,608) |
| Minority interest share of income | | | | 2,838 | | 2,838 |
| Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt | 1,518 | 4,708 | (823) | 8,184 | | 13,587 |
| Changes in assets and liabilities, net of acquisitions: | | | | | | |
| Increase in accounts receivable | | | (1,687) | (10,589) | | (12,276) |
| (Increase) decrease in prepaid expenses and other current assets | 277 | | (28) | 8,612 | | 8,861 |
| Decrease in other assets | 455 | 29 | 820 | 124 | | 1,428 |
| (Increase) decrease in intercompany balance | | (8,857) | (2,423) | 11,280 | | |
| Decrease in accounts payable | (604) | | (1,281) | (5,352) | | (7,237) |
| Decrease in accrued interconnection costs | | | (1,934) | (2,539) | | (4,473) |
| Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities and other liabilities | 812 | (505) | (2,193) | 2,095 | | 209 |
| Decrease in accrued income taxes | (224) | (609) | (1,271) | (1,399) | | (3,503) |
| Increase (decrease) in accrued interest | (929) | 4,091 | (3,920) | 67 | | (691) |
| Net cash provided by (used in) operating activities | (15,306) | 6,839 | (39,175) | 52,337 | | 4,695 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | | |
| Purchase of property and equipment | | | (1,044) | (19,712) | | (20,756) |
| Sale of property and equipment and intangible assets | | | 805 | 4,936 | | 5,741 |
| Cash from disposition of business, net of cash disposed | | | | 1,676 | | 1,676 |
| Cash used for business acquisitions, net of cash acquired | | | | (583) | | (583) |
| Decrease in restricted cash | | | | (100) | | (100) |
| Proceeds from intercompany balance | 26,516 | | 20,693 | | (47,209) | |
| Net cash provided by (used in) investing activities | 26,516 | | 20,454 | (13,783) | (47,209) | (14,022) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | | |
| Purchase of the Company s debt securities | (11,217) | | | | | (11,217) |
| Principal payments on other long-term obligations | (1,200) | (3) | (5,502) | (3,831) | | (10,536) |
| Proceeds from (payments on) intercompany balance | | (6,836) | 26,976 | (67,349) | 47,209 | |
| Net cash provided by (used in) financing activities | (12,417) | (6,839) | 21,474 | (71,180) | 47,209 | (21,753) |
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | | | (2,572) | | (2,572) |

| | | | | | | |
|---|---|---|---|---|---|---|
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (1,207) | | 2,753 | (35,198) | | (33,652) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 1,299 | | 670 | 79,313 | | 81,282 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 92 | $ | $ 3,423 | $ 44,115 | $ | $ 47,630 |

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**

(in thousands)

| | For the Nine Months Ended September 30, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | **PTGI** | **IHC** | **Guarantor Subsidiaries** | **Non Guarantor Subsidiaries** | **Eliminations** | **Consolidated** |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | | |
| Net income | $ 14,222 | $ 13,796 | $ 28,568 | $ 45,548 | $ (87,912) | $ 14,222 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | |
| Provision for doubtful accounts receivable | | | 1,058 | 6,300 | | 7,358 |
| Stock compensation expense | | | 184 | | | 184 |
| Depreciation and amortization | | | 2,803 | 18,485 | | 21,288 |
| Gain on sale or disposal of assets | | | | (5,447) | | (5,447) |
| Accretion of debt (premium) discount | 1,151 | (740) | | | | 411 |
| Equity in net income of subsidiary | (26,059) | | (61,853) | | 87,912 | |
| Deferred income taxes | | | (860) | | | (860) |
| Loss on early extinguishment or restructuring of debt | 2,269 | 5,135 | 108 | 398 | | 7,910 |
| Unrealized foreign currency transaction gain on intercompany and foreign debt | (8,417) | (6,418) | (2,552) | (15,242) | | (32,629) |
| Changes in assets and liabilities, net of acquisitions: | | | | | | |
| (Increase) decrease in accounts receivable | | | 3,125 | (2,832) | | 293 |
| (Increase) decrease in prepaid expenses and other current assets | 123 | | (158) | 2,633 | | 2,598 |
| (Increase) decrease in other assets | 680 | 35 | 1,715 | (1,117) | | 1,313 |
| (Increase) decrease in intercompany balance | | (13,534) | 251 | 13,283 | | |
| Increase (decrease) in accounts payable | 589 | | (1,841) | 4,081 | | 2,829 |
| Decrease in accrued interconnection costs | | | (5,723) | (2,522) | | (8,245) |
| Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities, accrued income taxes and other liabilities | (1,019) | 1,124 | 615 | (1,737) | | (1,017) |
| Increase (decrease) in accrued interest | (1,865) | 5,183 | (4,733) | (628) | | (2,043) |
| Net cash provided by (used in) operating activities | (18,326) | 4,581 | (39,293) | 61,203 | | 8,165 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | | |
| Purchase of property and equipment | | | (973) | (28,744) | | (29,717) |
| 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 | (881) | | (340) |
| Increase (decrease) in intercompany balance | 55,559 | | 43,869 | | (99,428) | |
| Net cash provided by (used in) investing activities | 55,559 | | 43,237 | (23,485) | (99,428) | (24,117) |
| 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 | (58,057) | | (2,192) | (4,618) | | (64,867) |
| Proceeds from sale of common stock | 19,170 | | | | | 19,170 |
| Increase (decrease) in intercompany balance | | (105,986) | (1,573) | 8,131 | 99,428 | |
| Net cash provided by (used in) financing activities | (38,887) | (4,581) | (3,765) | 4,813 | 99,428 | 57,008 |
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | | | 3,351 | | 3,351 |

| | | | | | | |
|---|---|---|---|---|---|---|
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (1,654) | | | 179 | 45,882 | | 44,407 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 3,764 | | | (35) | 60,588 | | 64,317 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 2,110 | $ | $ | 144 | $ 106,470 | $ | $ 108,724 |

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

**Third Quarter 2008 Results**

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. It now seems distant when we reported last quarter that we had attained our second consecutive quarter of net revenue growth. That momentum caused us to

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revise upward our revenue guidance for 2008, although this was expressly premised on the stability of currency exchange rates. That assumption has become a casualty of recent global events.

More than 80% 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 our report last quarter, 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 September 30, 2008 the Canadian dollar declined by 3%, the Australian dollar by 15%, the Euro by 9%, and the British Pound by 9%. The currency trends experienced from September 30, 2008 to October 31, 2008 perhaps foretell of more dramatic effects from currency for the fourth quarter 2008 with declines in the Canadian dollar of an additional 14%, the Australian dollar of an additional 17%, the Euro of an additional 10% and the British Pound of an additional 9%. 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 PRIMUS from its foreign operating subsidiaries. At October 31, 2008 exchange rate levels, approximately $2.5 million less US dollars per quarter would be generated than if currency exchange rates remained constant from rates at June 30, 2008.

This material adverse currency development also, in effect, could dramatically reduce the impact of significant cost reductions that we had implemented in late September and early October 2008. After reporting results for the second quarter, 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. If the recent adverse change in currency exchange rates is maintained or worsens, these factors could dramatically reduce or offset the benefits that these cost reductions would have otherwise had on our future operating results.

The combined impact of the recent global financial turmoil and the strengthening US dollar have, thus, put strains on our liquidity. The global re-pricing 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 discussed in Note 2 to the Consolidated Condensed Financial Statements, the factors described above 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.

Under the current circumstances, our immediate priorities are focused on improving our liquidity through the following actions:

- Pursue additional cost reductions beyond the $15 million overall SG&A reductions recently implemented;
- Reduce capital expenditures in 2009 by $10 million from the current expected level of $25 million in 2008;
- Continue to pursue the sale of select assets in an admittedly difficult environment;
- Negotiate an extension of near-term debt maturities; and
- Confer with our bondholders to seek alternatives to deleverage our balance sheet through debt and interest reductions.

Our objective is to enhance our liquidity and to position ourselves to take advantage of market opportunities which may arise as a result of the global economic dislocation.

In this regard, the Board of Directors of the Company has created a Special Committee comprised of two current directors, Messrs. Paul Pizzani and Douglas Karp, to oversee and direct the pursuit of these initiatives.

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**Other 2008 Events and Accomplishments**

During the first quarter, we purchased and retired $15 million principal amount of the Company s outstanding debt maturing in the latter half of 2009. We also completed the sales of a minority equity investment in a Japanese entity and surplus fiber assets for an aggregate $2.6 million in cash proceeds. During the second quarter, we reduced outstanding debt principal by $63.2 million through private exchange transactions. We successfully issued $67.1 million principal amount of new debt plus $4.7 million in cash in exchange for $130.3 million principal amount of outstanding debt. These transactions and normal debt amortization payments reduced overall debt principal levels from $664.3 million at December 31, 2007 to $585.0 million at the end of the second quarter 2008, reduced debt maturing in the latter half of 2009 from $28.1 million to $22.8 million, and reduced debt maturing in the latter half of 2010 from $133.6 million to $57.6 million.

In April 2008, the Australian Competition and Consumer Commission (ACCC) issued a Final Determination related to unconditional local loop services connection and call diversion charges ( 2008 ACCC Ruling ). As a result, we received a $6.2 million ($6.5 million AUD) cash refund in June 2008 of a portion of fees previously paid, plus interest. Of the $6.2 million refund, $5.8 million was recognized as a reduction to cost of revenue.

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 entity, but requires unanimous shareholder consent for a dividend distribution.

**Foreign Currency**

Foreign currency can have a major impact on our financial results. Currently in excess of 82% 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 Credit Agreement and an interest rate swap. The counter party to this hedging agreement has filed for bankruptcy. See discussion regarding the Senior Secured Credit Agreement within Management s Discussion and Analysis Short- and Long-Term Liquidity Considerations and Risks. 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. Given the recent volatility in exchange rates affecting the functional currencies in our major markets as compared to the USD, we will continue to explore whether hedging activities may provide benefit to us.

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

In the three months ended September 30, 2008, as compared to the three months ended September 30, 2007, the USD was weaker on average as compared to the CAD, AUD and EUR, and stronger on average as compared to the GBP. In the nine months ended September 30, 2008, as compared to the nine months ended September 30, 2007, the USD was weaker on average as compared to the CAD, AUD, GBP and EUR. The following tables demonstrate the impact of currency fluctuations on our net revenue for the three months and nine months ended September 30, 2008 and 2007 (in thousands, except percentages):

Net Revenue by Location  in USD

| | For the three months ended September 30, | | | | For the nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | **2007** | **Variance** | **Variance %** | **2008** | **2007** | **Variance** | **Variance %** |
| Canada | $ 66,811 | $ 66,730 | $ 81 | 0% | $ 204,248 | $ 193,101 | $ 11,147 | 6% |
| Australia | $ 70,715 | $ 70,744 | $ (29) | 0% | $ 220,782 | $ 212,895 | $ 7,887 | 4% |
| United Kingdom | $ 22,383 | $ 22,665 | $ (282) | (1)% | $ 61,964 | $ 72,638 | $ (10,674) | (15)% |
| Europe* | $ 24,801 | $ 20,963 | $ 3,838 | 18% | $ 67,455 | $ 59,956 | $ 7,499 | 13% |

Net Revenue by Location  in Local Currencies

| | For the three months ended September 30, | | | | For the nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | **2007** | **Variance** | **Variance %** | **2008** | **2007** | **Variance** | **Variance %** |
| Canada (in CAD) | 69,502 | 69,891 | (389) | (1)% | 207,975 | 213,432 | (5,456) | (3)% |
| Australia (in AUD) | 79,372 | 83,572 | (4,200) | (5)% | 241,865 | 259,598 | (17,733) | (7)% |
| United Kingdom (in GBP) | 11,815 | 11,566 | 249 | 2% | 31,869 | 38,354 | (6,485) | (17)% |
| Europe* (in EUR) | 16,428 | 15,260 | 1,168 | 8% | 44,271 | 44,602 | (331) | (1)% |

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

**Critical Accounting Policies**

See  Management s Discussion and Analysis of Financial Condition and Results of Operations  in our Form 10-K for the year ended December 31, 2007 for a detailed discussion of our critical accounting policies. These policies include revenue recognition, determining our allowance for doubtful accounts receivable, accounting for cost of revenue, valuation of long-lived assets and goodwill and accounting for income taxes. No significant changes in our critical accounting policies have occurred since December 31, 2007.

**Results of Operations**

***Results of operations for the three months ended September 30, 2008 as compared to the three months ended September 30, 2007***

*Net revenue* increased $7.4 million or 3.3% to $231.8 million for the three months ended September 30, 2008 from $224.4 million for the three months ended September 30, 2007. Our revenue from broadband, VOIP, local, wireless, data and hosting services contributed $59.4 million for the three months ended September 30, 2008, as compared to $54.6 million for the three months ended September 30, 2007. Our wholesale carrier and prepaid services contributed $54.0 million and $11.0 million, respectively, for the three months ended September 30, 2008, as compared to $42.7 million and $10.8 million, respectively, for the three months ended September 30, 2007.

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United States: United States retail net revenue decreased $3.3 million or 12.2% to $23.8 million for the three months ended September 30, 2008 from $27.1 million for the three months ended September 30, 2007. The decrease is primarily attributed to a decrease of $3.1 million in retail voice services and a decrease of $0.2 million in Internet services.

Canada: Canada retail net revenue increased $0.1 million to $66.8 million for the three months ended September 30, 2008 from $66.7 million for the three months ended September 30, 2007. The increase is primarily attributed to an increase of $2.6 million in Internet, data and hosting services, an increase of $1.1 million in local service, an increase of $0.2 million in VOIP services, and an increase of $1.1 million in prepaid services. These increases were partially offset by a decrease of $5.0 million in retail voice services. The strengthening of the CAD against the USD accounted for a $0.5 million increase to revenue, which is included in the explanations above, and which reflects changes in the exchange rates for the three months ended September 30, 2008 as compared to the three months ended September 30, 2007.

The following table reflects net revenue for each major country in North America (in thousands, except percentages):

Revenue by Country (Excluding Wholesale) in USD

| | For the Three Months Ended | | Year-over-Year | |
|---|---|---|---|---|
| | September 30, 2008 Net Revenue | September 30, 2007 Net Revenue | Variance | Variance % |
| United States | $ 21,038 | $ 24,724 | $ (3,686) | (15)% |
| Canada | $ 66,811 | $ 66,729 | $ 82 | 0% |
| Other | $ 2,761 | $ 2,328 | $ 433 | 19% |

Europe: European retail net revenue decreased $0.6 million or 3.6% to $15.9 million for the three months ended September 30, 2008 from $16.5 million for the three months ended September 30, 2007. The decrease is primarily attributable to a decrease of $0.7 million in prepaid services and a $0.4 million decrease in wireless services, offset by a $0.5 million increase in retail VOIP. The strengthening of the European currencies against the USD accounted for a $0.3 million increase to revenue, which is included in the explanations above, and which reflects changes in the exchange rates for the three months ended September 30, 2008 as compared to the three months ended September 30, 2007.

The following table reflects net revenue for each major country in Europe (in thousands, except percentages):

Revenue by Country (Excluding Wholesale) in USD

| | For the Three Months Ended September 30, 2008 | | For the Three Months Ended September 30, 2007 | | Year-over-Year | |
|---|---|---|---|---|---|---|
| | Net Revenue | % of Europe | Net Revenue | % of Europe | Variance | Variance % |
| United Kingdom | $ 6,480 | 41% | $ 8,717 | 53% | $ (2,237) | (26)% |
| France | 5,062 | 32% | 2,922 | 18% | 2,140 | 73% |
| Belgium | 1,928 | 12% | 2,253 | 14% | (325) | (14)% |
| Spain | 911 | 6% | 898 | 5% | 13 | 1% |
| Other | 1,534 | 9% | 1,723 | 10% | (189) | (11)% |
| Europe Total | $ 15,915 | 100% | $ 16,513 | 100% | $ (598) | (4)% |

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Asia-Pacific: Asia-Pacific net revenue decreased $0.2 million to $71.2 million for the three months ended September 30, 2008 from $71.4 million for the three months ended September 30, 2007. The decrease is primarily attributable to a $1.7 million decrease in dial-up Internet services. The decrease was partially offset by $0.6 million increase in Australia business and residential voice services and a $0.9 million increase in DSL and wireless services. The strengthening of the AUD against the USD accounted for a $3.7 million increase to revenue, which is included in the explanations above, and which reflects changes in the exchange rates for the three months ended September 30, 2008 as compared to the three months ended September 30, 2007.

The following table reflects net revenue for each major country in Asia-Pacific (in thousands, except percentages):

Revenue by Country (Excluding Wholesale) in USD

| | For the Three Months Ended September 30, 2008 | | For the Three Months Ended September 30, 2007 | | Year-over-Year | |
|---|---|---|---|---|---|---|
| | Net Revenue | % of Asia-Pacific | Net Revenue | % of Asia-Pacific | Variance | Variance % |
| Australia | $ 70,715 | 99% | $ 70,744 | 99% | $ (29) | 0% |
| Other | 519 | 1% | 656 | 1% | (137) | (21)% |
| Asia-Pacific Total | $ 71,234 | 100% | $ 71,400 | 100% | $ (166) | 0% |

Wholesale: Wholesale net revenue increased $11.3 million or 26.5% to $54.0 million for the three months ended September 30, 2008 from $42.7 million for the three months ended September 30, 2007. The strengthening of the foreign currencies against the USD accounted for a $0.5 million increase to revenue, which reflects changes in the exchange rates for the three months ended September 30, 2008 as compared to the three months ended September 30, 2007. The remaining increase occurred due to an increase in the wholesale business in the United States, United Kingdom and Italy. Total network capacity has increased with the installation of the new soft switches, allowing the wholesale segment more flexibility to sell additional and more profitable wholesale traffic.

The following table reflects net revenue for each major country (in thousands, except percentages):

Wholesale Revenue by Country in USD

| | For the Three Months Ended September 30, 2008 | | For the Three Months Ended September 30, 2007 | | Year-over-Year | |
|---|---|---|---|---|---|---|
| | Net Revenue | % of Total Wholesale | Net Revenue | % of Total Wholesale | Variance | Variance % |
| United States | $ 22,210 | 41% | $ 14,675 | 34% | $ 7,535 | 51% |
| United Kingdom | 15,903 | 29% | 13,948 | 33% | 1,955 | 14% |
| Germany | 5,619 | 10% | 5,804 | 14% | (185) | (3)% |
| Spain | 1,968 | 4% | 2,895 | 7% | (927) | (32)% |
| Italy | 6,775 | 13% | 3,488 | 8% | 3,287 | 94% |
| Other | 1,540 | 3% | 1,895 | 4% | (355) | (19)% |
| Total | $ 54,015 | 100% | $ 42,705 | 100% | $ 11,310 | 26% |

*Cost of revenue* increased $14.2 million to $150.1 million, or 64.8% of net revenue, for the three months ended September 30, 2008 from $135.9 million, or 60.6% of net revenue, for the three months ended September 30, 2007. Significant increases in our wholesale revenue with lower margins than retail and increases to our provision for doubtful accounts receivable have caused cost of revenue to increase as a percentage of net revenue.

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United States: United States cost of revenue decreased $1.0 million or 7.6% to $12.2 million for the three months ended September 30, 2008 from $13.2 million for the three months ended September 30, 2007. The decrease is primarily due to a decrease of $1.3 million in retail voice services, which is partially offset by a $0.3 million decrease in retail VOIP.

Canada: Canada cost of revenue increased $0.7 million or 2.4% to $29.7 million for the three months ended September 30, 2008 from $29.0 million for the three months ended September 30, 2007. This increase in cost is due to an increase of $2.2 million in Internet services and a $1.7 million increase in prepaid services. These increases were offset by a $1.7 million decrease in data and hosting services, a $1.0 million decrease in retail voice services, and a $0.5 million decrease in local services. The strengthening of the CAD against the USD accounted for a $0.2 million increase to cost of revenue, which reflects changes in the exchange rates for the three months ended September 30, 2008 as compared to the three months ended September 30, 2007.

Europe: European cost of revenue decreased by $0.2 million primarily due to the changes in net revenue.

Asia-Pacific: Asia-Pacific cost of revenue increased by $2.6 million. The strengthening of the AUD against the USD accounted for a $2.2 million increase to cost of revenue and which reflects changes in the exchange rates for the three months ended September 30, 2008 as compared to the three months ended September 30, 2007.

Wholesale: Wholesale cost of revenue increased $11.8 million or 29.1% to $52.3 million for the three months ended September 30, 2008 from $40.5 million for the three months ended September 30, 2007 in line with the revenue increase. These increases in cost were due to an increase of $8.0 million in United States carrier services and a $4.0 million increases in Europe carrier services, offset by $0.2 million decrease in Japan carrier services. The strengthening of the foreign currencies against the USD accounted for a $0.5 million increase to cost of revenue, which is included in the above variance, and which reflects changes in the exchange rates for the three months ended September 30, 2008 as compared to the three months ended September 30, 2007.

*Selling, general and administrative expenses* decreased $2.6 million to $69.8 million, or 30.1% of net revenue, for the three months ended September 30, 2008 from $72.4 million, or 32.3% of net revenue, for the three months ended September 30, 2007. The decrease in selling, general and administrative expenses is attributable to a decrease of $2.8 million in salaries and benefits, a decrease of $1.3 million in advertising expenses, a decrease of $1.2 million in professional fees, and a $0.5 million decrease in occupancy, and travel and entertainment expenses. These decreases were partially offset by $1.4 million in severance charges and an increase of $1.6 million in general and administrative expenses, primarily due to the accrual for completed and potential tax audit obligations.

United States: United States selling, general and administrative expenses decreased $1.6 million to $12.7 million for three months ended September 30, 2008 from $14.3 million for the three months ended September 30, 2007. The decrease is attributable to a decrease of $0.9 million in salaries and benefits, a decrease of $0.6 million in professional fees, and a decrease of $0.3 million in occupancy, and sales and marketing. These decreases were offset by an increase of $0.3 million in advertising expenses.

Canada: Canada selling, general and administrative expense increased $2.0 million to $28.6 million for the three months ended September 30, 2008 from $26.6 million for three months ended September 30, 2007. The increase is attributable to an increase of $1.2 million in salaries and benefits due to severance charges, an increase of $1.3 million in sales and marketing, and an increase of $1.5 million in general and administrative expenses for accrual of completed and potential non-income tax obligations. These increases were partially offset by a decrease of $1.8 million in advertising expense and a decrease of $0.2 million in professional fees.

Europe: Europe selling, general and administrative expense decreased $2.3 million to $5.4 million for the three months ended September 30, 2008 from $7.8 million for the three months ended September 30, 2007. The decrease is attributable to a decrease of $0.9 million in salaries and benefits, a decrease of $0.4 million in sales

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and marketing expenses, a decrease of $0.6 million in occupancy expenses, and a decrease of $0.4 million in general and administrative expenses.

Asia-Pacific: Asia-Pacific selling, general and administrative expense decreased $0.7 million to $20.9 million for the three months ended September 30, 2008 from $21.6 million for the three months ended September 30, 2007. The decrease is attributable to a decrease of $0.9 million in salaries and benefits expenses, a decrease of $0.8 million in sales and marketing, and a decrease of $0.2 million in professional fees. These decreases were offset by an increase of $0.3 million in advertising expenses, an increase of $0.3 in occupancy expenses, and an increase of $0.6 million in general and administrative expenses.

Wholesale: Wholesale selling, general and administrative expense remained unchanged at $2.2 million for the three months ended September 30, 2008 from the three months ended September 30, 2007.

*Depreciation and amortization expense* increased $2.1 million to $9.4 million for the three months ended September 30, 2008 from $7.3 million for the three months ended September 30, 2007. The increase consists of an increase in depreciation expense of $2.1 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* is $4.6 million gain for the three months ended September 30, 2008 from the sale of certain primarily rural Canadian WIMAX spectrum assets.

*Interest expense and accretion on debt premium (discount), net* decreased $3.3 million to $12.5 million for the three months ended September 30, 2008 from $15.8 million for the three months ended September 30, 2007. The decrease has mainly resulted from our debt restructuring activities.

*Gain (loss) on early extinguishment or restructuring of debt* was a $0.1 million gain for the three months ended September 30, 2008 as compared to a $0.4 million gain for the three months ended September 30, 2007.

*Interest and other income (expense)* of $2.9 million expense for the three months ended September 30, 2008 was primarily comprised of minority interest expense recognized for the gain from the sale of the Canadian WIMAX spectrum assets.

*Foreign currency transaction gain (loss)* was $23.0 million loss for the three months ended September 30, 2008 as compared to $12.2 million gain for the three months ended September 30, 2007. These amounts 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)* was $1.5 million expense for the three months ended September 30, 2008 as compared to $2.2 million expense for the three months ended September 30, 2007. The expense consists of withholding tax on intercompany interest and royalty fees owed to United States subsidiaries by our Canadian and Australian subsidiaries.

***Results of operations for the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007***

*Net revenue* increased $17.5 million or 2.6% to $694.3 million for the nine months ended September 30, 2008 from $676.8 million for the nine months ended September 30, 2007. Our revenue from broadband, VOIP, local, wireless, data and hosting services contributed $181.3 million for the nine months ended September 30, 2008, as compared to $158.6 million for the nine months ended September 30, 2007. Our wholesale carrier and prepaid services contributed $144.7 million and $30.6 million, respectively, for the nine months ended September 30, 2008, as compared to $131.2 million and $35.7 million, respectively, for the nine months ended September 30, 2007.

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United States: United States retail net revenue decreased $8.6 million or 10.4% to $74.2 million for the nine months ended September 30, 2008 from $82.8 million for the nine months ended September 30, 2007. The decrease is primarily attributed to a decrease of $10.2 million in retail voice services (for residential and small businesses) and a decrease of $0.9 million in Internet services, partially offset by an increase of $2.5 million in retail VOIP.

Canada: Canada retail net revenue increased $11.3 million or 5.9% to $204.2 million for the nine months ended September 30, 2008 from $192.9 million for the nine months ended September 30, 2007. The increase is primarily attributed to an increase of $8.9 million in Internet, data and hosting services, an increase of $5.6 million in local service, an increase of $1.2 million in VOIP services, an increase of $2.0 in Internet services, and an increase of $0.7 million in wireless services. These increases were partially offset by decreases of $1.2 million in prepaid services and $5.9 million in voice services. The strengthening of the CAD against the USD accounted for a $16.6 million increase to revenue, which is included in the explanations above, and which reflects changes in the exchange rates for the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007.

The following table reflects net revenue for each major country in North America (in thousands, except percentages):

Revenue by Country (Excluding Wholesale) in USD

| | For the Nine Months Ended | | Year-over-Year | |
|---|---|---|---|---|
| | September 30, 2008 Net Revenue | September 30, 2007 Net Revenue | Variance | Variance % |
| United States | $ 66,616 | $ 77,803 | $ (11,187) | (14)% |
| Canada | $ 204,248 | $ 192,890 | $ 11,358 | 6% |
| Other | $ 7,599 | $ 4,994 | $ 2,605 | 52% |

Europe: European retail net revenue decreased $6.4 million or 11.6% to $48.6 million for the nine months ended September 30, 2008 from $55.0 million for the nine months ended September 30, 2007. The decrease is primarily attributable to a $2.6 million decrease in low margin prepaid services, a $4.3 million decrease in retail voice services and a $1.3 million decrease in wireless services. These decreases were partially offset by an increase of $1.6 million in VOIP services. The strengthening of the European currencies against the USD accounted for a $2.9 million increase to revenue, which is included in the explanations above, when comparing the exchange rates for the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007.

The following table reflects net revenue for each major country in Europe (in thousands, except percentages):

Revenue by Country (Excluding Wholesale) in USD

| | For the Nine Months Ended September 30, 2008 | | For the Nine Months Ended September 30, 2007 | | Year-over-Year | |
|---|---|---|---|---|---|---|
| | Net Revenue | % of Europe | Net Revenue | % of Europe | Variance | Variance % |
| United Kingdom | $ 20,081 | 41% | $ 32,479 | 59% | $ (12,398) | (38)% |
| France | 14,015 | 29% | 7,536 | 14% | 6,479 | 86% |
| Belgium | 6,211 | 13% | 7,092 | 13% | (881) | (12)% |
| Spain | 3,223 | 7% | 3,647 | 7% | (424) | (12)% |
| Other | 5,075 | 10% | 4,231 | 7% | 844 | 20% |
| Europe Total | $ 48,605 | 100% | $ 54,985 | 100% | $ (6,380) | (12)% |

Asia-Pacific: Asia-Pacific net revenue increased $7.5 million or 3.5% to $222.5 million for the nine months ended September 30, 2008 from $215.0 million for the nine months ended September 30, 2007. The increase is primarily attributable to a $4.7 million increase in Australia DSL services, a $6.4 million increase in Australia business and residential voice services, a $0.2 million increase in VOIP services and a $0.8 million increase in wireless services, partially offset by a $3.7 million decrease in dial-up Internet services and a $0.5 million decrease in prepaid services. The strengthening of the AUD against the USD accounted for a $24.2 million increase to revenue, which is included in the explanations above, which reflects changes in the exchange rates for the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007.

The following table reflects net revenue for each major country in Asia-Pacific (in thousands, except percentages):

Revenue by Country (Excluding Wholesale) in USD

| | For the Nine Months Ended September 30, 2008 | | For the Nine Months Ended September 30, 2007 | | Year-over-Year | |
|---|---|---|---|---|---|---|
| | Net Revenue | % of Asia-Pacific | Net Revenue | % of Asia-Pacific | Variance | Variance % |
| Australia | $ 220,782 | 99% | $ 212,895 | 99% | $ 7,887 | 4% |
| Other | 1,730 | 1% | 2,056 | 1% | (326) | (16)% |
| Asia-Pacific Total | $ 222,512 | 100% | $ 214,951 | 100% | $ 7,561 | 4% |

Wholesale: Wholesale net revenue increased $13.5 million or 10.3% to $144.7 million for the nine months ended September 30, 2008 from $131.2 million for the nine months ended September 30, 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 foreign currencies against the USD accounted for a $4.6 million increase to revenue, which is included in the above explanation, and which reflects changes in the exchange rates for the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007.

The following table reflects net revenue for each major country (in thousands, except percentages):

Wholesale Revenue by Country in USD

| | For the Nine Months Ended September 30, 2008 | | For the Nine Months Ended September 30, 2007 | | Year-over-Year | |
|---|---|---|---|---|---|---|
| | Net Revenue | % of Total Wholesale | Net Revenue | % of Total Wholesale | Variance | Variance % |
| United States | $ 61,795 | 43% | $ 50,351 | 39% | $ 11,444 | 23% |
| United Kingdom | 41,884 | | | | | |