KIRKLAND'S, INC
Form 8-K
February 10, 2014

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

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of Earliest Event Reported): February 6, 2014

Kirkland's, Inc.

(Exact name of registrant as specified in its charter)

Tennessee	000-49885	621287151
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

2501 McGavock Pike, Suite 1000, Nashville, Tennessee	37214
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: 615-872-4800

Not Applicable

Former name or former address, if changed since last report

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

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 2.02 Results of Operations and Financial Condition.

On February 6, 2014, Kirkland's, Inc. (the "Company") issued a press release reporting sales results for its fourth fiscal quarter and year-to-date period ended February 1, 2014 (the "Press Release"). A copy of the Press Release is attached hereto as Exhibit 99.1 and is being furnished, not filed, under item 2.02 of this Report on Form 8-K.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

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SIGNATURES

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

	Kirkland's, Inc.
February 10, 2014	*By: /s/ W. Michael Madden*
	Name: W. Michael Madden *Title: Senior Vice President and Chief Financial Officer*

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Exhibit Index

Exhibit No.	Description
99.1	Press Release dated February 6, 2014 announcing the Company's fourth fiscal quarter sales results

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ASSETS

CURRENT ASSETS:

Cash and cash equivalents

$41,461 $ $ $41,461

Accounts receivable

93,826 93,826

Prepaid expenses and other current assets

16,955 16,955

Total current assets

152,242 152,242

RESTRICTED CASH

9,467 9,467

PROPERTY AND EQUIPMENT Net

117,840 32,298 d 150,138

GOODWILL

35,351 25,947 d, h 61,298

OTHER INTANGIBLE ASSETS Net

482 184,318 d 184,800

OTHER ASSETS

19,155 1,461 d, h 20,616

TOTAL ASSETS

$334,537 $ $244,024 $578,561

LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)

CURRENT LIABILITIES:

Accounts payable

$50,890 $ $ $50,890

Accrued interconnection costs

38,778 38,778

Deferred revenue

12,322 12,322

Accrued expenses and other current liabilities

53,982 (1,767) d 52,215

Accrued income taxes

20,986 20,986

Accrued interest

19 19

Current portion of long-term obligations

107,097 (91,100) g 15,997

Total current liabilities

284,074 (91,100) (1,767) 191,207

LONG-TERM OBLIGATIONS

25,740 214,572 e, g 240,312

OTHER LIABILITIES

2,557 b 57,162 h 59,719

Total liabilities not subject to compromise

309,814 126,029 55,395 491,238

LIABILITIES SUBJECT TO COMPROMISE

451,050 (451,050) a

Total Liabilities

760,864 (325,021) 55,395 491,238

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS EQUITY (DEFICIT):

Primus Telecommunications Group, Incorporated Stockholders Equity (Deficit):

Predecessor Common stock, $0.01 par value 300,000,000 shares authorized; 142,695,390 shares issued and outstanding

1,427 (1,427) c

Successor Common stock, $0.001 par value 80,000,000 shares authorized; 9,600,000 shares issued or outstanding

10 a 10

Predecessor Additional paid-in capital

718,983 (1,129) c, b (717,854) f

Successor Additional paid-in capital

84,382 a 84,382

Accumulated income (deficit)

(1,060,452) 243,185 a 817,267 d, f

Accumulated other comprehensive income (loss)

(89,216) 89,216 f

Total Primus Telecommunications Group, Incorporated stockholders income (deficit)

(429,258) 325,021 188,629 84,392

Noncontrolling interest

2,931 2,931

Total stockholders income (deficit)

(426,327) 325,021 188,629 87,323

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)

$334,537	$	$244,024	$578,561

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Notes to Plan of Reorganization and fresh-start accounting adjustments:

(a) This adjustment reflects the discharge of $451.1 million of liabilities subject to compromise (see Liabilities Subject to Compromise below), of which includes $123.5 million Senior Subordinated Secured Notes reclassed to long-term obligations, in accordance with the terms of the Plan and the issuance of 4.8 million shares of Successor Company common stock to the holders of each of the Senior Subordinated Secured Notes and the Holding Senior Notes.

(b) To record the issuance of Contingent Value Rights to the holders of the Old Common Stock.

(c) To record the cancellation of the Old Common Stock.

(d) To record assets and liabilities at their estimated fair values per fresh-start accounting. These amounts include adjustments to the estimated fair values from what was originally reported in the quarter ending September 30, 2009.

(e) To reclass Term Loan from current portion of long-term obligations to long-term obligations and record the issuance of the Senior Subordinated Secured Notes.

(f) To reset additional paid-in capital, accumulated other comprehensive loss and accumulated deficit to zero.

(g) To reclass long-term portion of the Term Loan to long-term obligations.

(h) To record the deferred tax attributes related to fresh-start accounting.

In the first six months of 2010, the Company made no further fresh-start accounting adjustments to the fair value of its assets or liabilities.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill reflects the excess of the reorganization value of the Successor over the fair value of tangible and identifiable intangible assets as determined upon the adoption of fresh-start accounting. The Company recorded goodwill of $61.3 million upon emergence from bankruptcy as well as intangible assets of $184.8 million, which includes $81.6 million of indefinite-lived trade names, $99.2 million of amortizable customer relationships, and $4.0 million of amortizable trade names.

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

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

The Company allocated goodwill to all of its reporting units as part of fresh-start accounting, excluding the wholesale reporting unit which had nominal value relative to the total value of the Company. The changes in the carrying amount of trade names and goodwill by reporting unit for the six months ended June 30, 2010 are as follows (in thousands):

Goodwill

	United States	Canada	Australia	Europe	Brazil	Total
Balance as of January 1, 2010	$ 29,960	$ 30,285	$ 1,714	$ 2,217	$ 44	$ 64,220
Effect of change in foreign currency exchange rates		29	(70)	(181)	(1)	(223)
Balance as of June 30, 2010	$ 29,960	$ 30,314	$ 1,644	$ 2,036	$ 43	$ 63,997

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Trade Names

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

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

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

Successor

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

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

Predecessor

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

5. LONG-TERM OBLIGATIONS

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

	June 30, 2010	December 31, 2009
Obligations under capital leases and other	$ 2,238	$ 3,178
Leased fiber capacity		2,809
Senior secured notes	130,000	130,000
Senior subordinated secured notes	114,015	123,472
Subtotal	246,253	259,459
Original issue discount on senior secured notes	(1,855)	(1,943)

Subtotal	244,398	257,516
Less: Current portion of long-term obligations	(1,163)	(4,274)
Total long-term obligations	$ 243,235	$ 253,242

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The following table reflects the contractual payments of principal and interest for the Company s long-term obligations as of June 30, 2010 as follows:

Year Ending December 31,	Capital Leases and Other	13% Senior Secured Notes	14 1/4% Senior Subordinated Secured Notes	Total
2010 (as of June 30, 2010)	$ 731	$ 8,450	$ 8,124	$ 17,305
2011	1,262	16,900	16,247	34,409
2012	314	16,900	16,247	33,461
2013	86	16,900	122,139	139,125
2014	3	16,900		16,903
Thereafter		163,847		163,847
Total Minimum Principal & Interest Payments	2,396	239,897	162,757	405,050
Less: Amount Representing Interest	(158)	(109,897)	(48,742)	(158,797)
Total Long Term Obligations	$ 2,238	$ 130,000	$ 114,015	$ 246,253

The foregoing table assumes that the 14 1/4% Senior Subordinated Secured Notes are refinanced before January 21, 2013. In the event the 14.25% Senior Secured Notes have not been refinanced in accordance with the terms of the 13% Senior Secured Notes indenture by January 21, 2013, then the Issuers will be required to redeem the full principal of the 13% Senior Secured Notes at a price equal to the then applicable optional redemption price on such date. In addition, the table assumes that the holders of 13% Senior Secured Notes do not accept any Excess Cash Flow Offer to purchase 13% Senior Secured Notes. In this regard, the Company must extend an offer annually to the holders of the 13% Senior Secured Notes to repurchase an applicable amount, (equal to 50% of Excess Cash Flow), of the 13% Senior Secured Notes at par, in the event the Company and certain subsidiaries have excess cash flow for any fiscal year commencing with the fiscal year ending December 31, 2010.

In May 2010, the Company paid $9.4 million in cash and retired $9.5 million in principal of its 14 1/4% Senior Subordinated Secured Notes. As a result, the Company recognized a $0.1 million gain from the early extinguishment of debt in its statement of operations for the three months ended June 30, 2010.

6. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments under capital leases and other (Vendor Financing), purchase obligations and non-cancellable operating leases as of June 30, 2010 are as follows (in thousands):

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

The Company has contractual obligations to utilize an external vendor for certain customer support functions and to utilize network facilities from certain carriers with terms greater than one year. Generally, the Company does not purchase or commit to purchase quantities in excess of normal usage or amounts that cannot be used within the contract term or at rates below or above market value.

Successor

Purchases made under purchase commitments were $8.3 million and $15.3 million, respectively, for the three months and six months ended June 30, 2010.

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

Predecessor

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

Rent expense under operating leases was $3.4 million and $6.7 million for the three months and six months ended June 30, 2009.

Litigation

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

7. SHARE-BASED COMPENSATION

Successor

The Management Compensation Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, and other stock-based or cash-based performance awards (collectively, awards).

Restricted Stock Units (RSU)

For the three months and six months ended June 30, 2010, the Company recognized $0.1 million and $0.2 million, respectively, of stock compensation expense related to the RSU.

Stock Options

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

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

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The following table summarizes information about the Company s stock options outstanding at June 30, 2010:

	Options Outstanding				Options Exercisable			
Range of Option Prices	Total Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value	Total Exercisable	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value
$12.22	385,008	9.00	$ 12.22	$	133,464	9.00	$ 12.22	$

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

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

Predecessor

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

8. INCOME TAXES

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

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

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

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

The Company adopted the uncertain tax position related provisions of ASC No. 740, Income Taxes, on January 1, 2007. It is expected that the amount of unrecognized tax benefits, reflected in the Company s financial statements, will change in the next twelve months; however, the Company does not expect the change to have a significant impact on the results of operations or the financial position of the Company. During the three months ended June 30, 2010, the Company recorded $.4 million of gross unrecognized tax benefit and $0.1 million of unrecognized tax benefit which impacted the rate including $0.1 of penalties and interest. As of June 30, 2010, the gross unrecognized tax benefit on the balance sheet was $89.9 million.

Pursuant to Section 382 of the Internal Revenue Code, the Company believes that it underwent an ownership change for tax purposes (i.e., a more than 50% change in stock ownership) on the July 1, 2009

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emergence date. As a result, the use of any of the Company s federal and state net operating loss carryforwards and tax credits generated prior to the ownership change that are not reduced will be subject to an annual limitation of approximately $1.7 million. The annual limitation will be determined based upon an Internal Revenue Code section that allows corporations emerging from bankruptcy to determine their section 382 limitation based upon the post emergence stock value. The Company has prepared its financial statements assuming the annual limitation will apply. However, Section 382 provides that a taxpayer emerging from bankruptcy can elect out of the annual limitation. If the Company elects not to apply the limitation, there are adverse consequences if an ownership change occurs before July 1, 2011. The election is not required to be made until the extended due date of the 2009 return, which is September 15, 2010. The company has reviewed its 13-G filings, as filed with the United States Securities Exchange Commission, subsequent to emergence from bankruptcy and believes that a change in ownership has not occurred during this period of July 1, 2009 to June 30, 2010.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS AND DERIVATIVES

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

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

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

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

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate fair value due to relatively short periods to maturity. The estimated aggregate fair value of the Successor Company s 13% Senior Secured Notes and 141/4% Senior Subordinated Secured Notes, based on quoted market prices, was $239.8 million and $244.7 million at June 30, 2010 and December 31, 2009, respectively.

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

		Fair Value as of June 30, 2010, using:		
	June 30, 2010	**Quoted prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Liabilities:				
Contingent Value Rights (CVR)	$ 7,787		$ 7,787	
Total	$ 7,787		$ 7,787	

The CVRs are marked to fair value at each balance sheet date. The change in value is reflected in our Statements of Operations. Estimates of fair value represent the Company s best estimates based on a Black-Scholes pricing model. During the three months and six months ended June 30, 2010, the Company recognized $0.4 million and $2.4 million, respectively, of expense as a result of marking the CVRs to their fair value.

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10. OPERATING SEGMENT AND RELATED INFORMATION

The Company has six reportable operating segments based on management s organization of the enterprise into geographic areas United States, Canada, Europe, Australia, Brazil and the wholesale business from the United States and Europe managed as a separate global segment. The Company evaluates the performance of its segments and allocates resources to them based upon net revenue and income (loss) from operations. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Corporate assets, capital expenditures and property and equipment-net are included in the United States segment, while corporate expenses are presented separately in Income (loss) from operations. The wholesale business assets are indistinguishable from the respective geographic segments. Therefore, any reporting related to the wholesale business for assets, capital expenditures or other balance sheet items is impractical.

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

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

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

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

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

Total	$ 128,828	$ 147,606

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

11. DISCONTINUED OPERATIONS

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

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

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

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

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

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

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

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

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

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

Successor

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

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

0.6 million shares issuable upon exercise of stock options and RSUs,

4.5 million shares issuable upon exercise of stock warrants, and

2.7 million shares issuable upon exercise of CVRs.

Predecessor

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

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

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

8.0 million shares issuable upon exercise of stock options,

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

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

13. REORGANIZATION ITEMS, NET

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

	Three Months Ended		Six Months Ended	
	June 30, 2010 Successor	June 30, 2009 Predecessor	June 30, 2010 Successor	June 30, 2009 Predecessor
Professional Fees	$	$ (8,271)	$ 1	$ (12,067)
Debt Premium, Discount and Deferred Financing Costs Write-off				(91)

Reversal of Future Interest Payments Recorded as Long Term Obligations							20,453
Interest Income							2
Reorganization Items, net	$		$	(8,271)	$ 1	$	8,297

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Predecessor

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

14. GUARANTOR/NON-GUARANTOR CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

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

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

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

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

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

AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income (loss) from continuing operations, net of tax	$ (13,038)	$ 1,738	$ (10,986)	$ (7,241)	$ 17,422	$ (12,105)
Income (loss) from discontinued operations				(1,126)		(1,126)
Gain (loss) from sale of discontinued operations				193		193
Net income (loss)	$ (13,038)	$ 1,738	$ (10,986)	$ (8,174)	$ 17,422	$ (13,038)

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

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

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

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

AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income (loss) from continuing operations, net of tax	$ (14,037)	$ 5,735	$ (8,782)	$ 1,017	$ 3,129	$ (12,937)
Income (loss) from discontinued operations				(1,293)		(1,293)
Gain (loss) from sale of discontinued operations				193		193
Net income (loss)	$ (14,037)	$ 5,735	$ (8,782)	$ (83)	$ 3,129	$ (14,037)

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

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

Loss from discontinued operations				(585)		(585)
Gain from sale of discontinued operations				251		251
Net income	$ 39,357	$ 47,401	$ 56,932	$ 27,053	$ (131,386)	$ 39,357

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED BALANCE SHEET

(in thousands)

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

Total Primus Telecommunications Group, Incorporated stockholders equity (deficit)	81,082	182,299	463,839	(17,028)	(629,109)	81,082
Noncontrolling interest				3,603		3,603
Total stockholders equity (deficit)	81,082	182,299	463,839	(13,425)	(629,109)	84,685
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 465,719	$ 330,002	$ 757,189	$ 418,344	$ (1,458,638)	$ 512,615

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED BALANCE SHEET

(in thousands)

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

Total Primus Telecommunications Group, Incorporated stockholders equity (deficit)	96,339	100,364	474,110	(19,849)	(554,625)	96,339
Noncontrolling interest				3,570		3,570
Total stockholders equity (deficit)	96,339	100,364	474,110	(16,279)	(554,625)	99,909
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 480,763	$ 257,615	$ 754,281	$ 461,394	$ (1,395,139)	$ 558,914

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

(in thousands)

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

Proceeds from (payments on) intercompany balance		(11,650)	(7,308)	99	18,860	
Net cash provided by (used in) financing activities		(21,035)	(7,501)	(3,499)	18,860	(13,175)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			(944)	(561)		(1,505)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(5,015)		1,841	(5,389)		(8,562)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,736		1,672	34,130		42,538
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,721	$	$ 3,513	$ 28,742	$	$ 33,976

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

(in thousands)

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

Net cash provided by (used in) financing activities		(12,918)	2,993	(15,725)	17,358	(8,292)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				1,202		1,202
NET CHANGE IN CASH AND CASH EQUIVALENTS	(121)		7,158	(2,576)		4,461
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	152		3,551	33,297		37,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 31	$	$ 10,709	$ 30,721	$	$ 41,461

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15. SUBSEQUENT EVENTS

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

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

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

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

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

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

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

Foreign Currency

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

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

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

Net Revenue by Location in USD

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

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Net Revenue by Location in Local Currencies

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

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

Critical Accounting Policies

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

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

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

Financial Presentation Background

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

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

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Fresh Start Accounting. As of July 1, 2009, the Company adopted fresh-start accounting in accordance with ASC No. 852. The adoption of fresh-start accounting resulted in the Company becoming a new entity for financial reporting purposes. Accordingly, the financial statements on or prior to July 1, 2009 are not comparable with the financial statements for periods after July 1, 2009. The consolidated condensed statements of operations, comprehensive income (loss) and any references to Successor or Successor Company for the three months and six months ended June 30, 2010, show the operations of the reorganized Company. References to Predecessor or Predecessor Company refer to the operations of the Company prior to July 1, 2009. See Note 3 Fresh-Start Accounting in the notes to these Consolidated Condensed Financial Statements for further details.

Factors That Could Impact Reported Future Results

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

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

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

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

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Results of Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity and Capital Resources

Changes in Cash Flows

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

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

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

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

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

Short- and Long-Term Liquidity Considerations and Risks

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

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

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

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

The foregoing table assumes that the 14 1/4% Senior Subordinated Secured Notes are refinanced before January 21, 2013. In the event the 14.25% Senior Secured Notes have not been refinanced in accordance with the terms of the 13% Senior Secured Notes indenture by January 21, 2013, then the Issuers will be required to redeem the full principal of the 13% Senior Secured Notes at a price equal to the then applicable optional redemption price on such date. In addition, the table assumes that the holders of 13% Senior Secured Notes do not accept any Excess Cash Flow Offer to purchase 13% Senior Secured Notes. In this regard, the Company must extend an offer annually to the holders of the 13% Senior Secured Notes to repurchase an applicable amount, (equal to 50% of Excess Cash Flow), of the 13% Senior Secured Notes at par, in the event the Company and certain subsidiaries have excess cash flow for any fiscal year commencing with the fiscal year ending December 31, 2010. See Item 1A. Risks Associated with our Liquidity Needs and Debt Securities, for certain risks and uncertainties related thereto.

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

New Accounting Pronouncements

New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by FASB and are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued accounting pronouncements that are not discussed will not have a material impact on consolidated financial position, results of operations, and cash flows, or do not apply to our operations.

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

In April 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-12, *Income Taxes (Topic 740): Accounting for Certain Tax Effects of the 2010 Health Care Reform Acts*, which contains an SEC staff announcement addressing a potential accounting issue specific to companies with period ends between March 23 and March 30, 2010. On March 30, 2010, the President signed the Health Care and Education Reconciliation Act

of 2010, which is a reconciliation bill that amends the Patient Protection and Affordable Care Act that was signed by the President on March 23, 2010 (collectively the Acts). Recently, questions have arisen about the effect, if any, that the different signing dates might have on the accounting for these two Acts. The FASB staff and the Office of the Chief Accountant have concluded that they would not object to a view that the two Acts should be considered together for accounting purposes. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this guidance did not have an impact on the Company s condensed consolidated financial statements.

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

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

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

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

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

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

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

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Special Note Regarding Forward Looking Statements

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

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

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

the occurrence of a default or event of default under our indentures or other financing agreements;

an inability to fully fund and repurchase holder acceptances of offers to repurchase 13% Notes that we are obligated to make annually, subject to certain limitations, in connection with Excess Cash Flow Offers;

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an inability to fully fund and repurchase holder acceptances of offers to repurchase debt securities that we may be obligated to make following certain change in control developments affecting the Company and certain of its subsidiaries;

customer, vendor, carrier and third-party responses to our completed Reorganization;

changes in business conditions causing changes in the business direction and strategy by management;

heightened competitive pricing and bundling pressures in the markets in which we operate;

the ability to service substantial indebtedness;

accelerated decrease in minutes of use on wireline phones;

fluctuations in the exchange rates of currencies, particularly of the USD relative to foreign currencies of the countries where we conduct our foreign operations;

difficulty in maintaining or increasing customer revenues and margins through our product initiatives and bundled service offerings, and difficulties in migrating and provisioning broadband and local customers to digital subscriber line (DSL) networks;

inadequate financial resources to promote and to market product initiatives, whether due to acceptance of Excess Cash Flow Offers or otherwise;

fluctuations in prevailing trade credit terms or revenues due to the adverse impact of, among other things, further telecommunications carrier bankruptcies or adverse bankruptcy related developments affecting our large carrier customers;

the possible inability to raise additional capital when needed, on attractive terms, or at all;

possible claims under our existing debt instruments which could impose constraints and limit our flexibility;

the inability to service substantial indebtedness and to reduce, refinance, extend, exchange, tender for or restructure debt significantly, or in amounts sufficient to conduct regular ongoing operations;

further changes in the telecommunications or Internet industry, including rapid technological changes, regulatory and pricing changes in our principal markets and the nature and degree of competitive pressure that we may face;

adverse tax or regulatory rulings from applicable authorities;

enhanced broadband, DSL, Internet, wireless, VOIP, date and hosting and local and long distance voice telecommunications competition;

changes in financial, capital market and economic conditions;

changes in service offerings or business strategies, including the need to modify business models if performance is below expectations;

difficulty in retaining existing long distance wireline and dial-up ISP customers;

difficulty in migrating or retaining customers associated with acquisitions of customer bases, or integrating other assets;

difficulty in selling new services in the marketplace;

difficulty in providing broadband, DSL, local, VOIP, data and hosting or wireless services;

changes in the regulatory schemes or requirements and regulatory enforcement in the markets in which we operate;

restrictions on our ability to execute certain strategies or complete certain transactions as a result of our inexperience with new products, or limitations imposed by available cash resources, our capital structure or debt covenants;

risks associated with our limited DSL, Internet, VOIP, data and hosting and wireless experience and expertise, including effectively utilizing new marketing channels such as interactive marketing employing the Internet;

entry into developing markets;

aggregate margin contribution from the new products is not sufficient in amount or timing to offset the margin decline in our legacy long distance voice and dial-up ISP businesses;

the possible inability to hire and/or retain qualified executive management, sales, technical and other personnel;

risks and costs associated with our effort to locate certain activities and functions off-shore;

risks associated with international operations;

dependence on effective information and billing systems;

possible claims for patent infringement on products or processes employed in providing our services;

dependence on third parties for access to their networks to enable us to expand and manage our global network and operations and to offer broadband, DSL, local, VOIP and wireless services, including dependence upon the cooperation of incumbent carriers relating to the migration of customers;

dependence on the performance of our global standard asynchronous transfer mode and Internet-based protocol (ATM+IP) communications network; risks associated with maintaining and upgrading networks; and

adverse regulatory rulings or actions affecting our operations, including the imposition of taxes and fees, the imposition of obligations upon VOIP providers to provide enhanced 911 (E911) services and restricting access to broadband networks owned and operated by others, including the development of a national broadband network in Australia.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign currency can have a major impact on our financial results. Approximately 85% of our net revenue is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the USD. The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive the majority of our net revenue and incur a significant portion of our operating costs from outside the United States, and therefore changes in exchange rates have had and may continue to have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding

foreign currency exchange rate risk is caused primarily by fluctuations in the following exchange rates: USD/CAD, USD/AUD, USD/GBP, USD/EUR and USD/BRL. Due to the large percentage of our revenue derived outside of the United States, changes in the USD relative to one or more of the foregoing currencies could have an adverse impact on our future results of operations. We have agreements with certain subsidiaries for repayment of a portion of the investments and advances made to these subsidiaries. As we anticipate repayment in the foreseeable future, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations. We historically have not engaged in hedging transactions.

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

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

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

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

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

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

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

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

Changes in Internal Control.

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

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

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

Continuing global economic conditions could adversely affect our business.

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

Potential risk in refinancing outstanding debts: Although none of our major debt instruments are scheduled to mature before 2013, at the earliest, if the volatility in the global capital markets were to continue, our ability to refinance our existing indebtedness when due could be severely constrained. See Risks Associated with Our Liquidity Needs and Debt Securities. Any such refinancing could require significantly more expensive interest rates and covenants that restrict our operations to a significantly greater extent.

Negative impacts from increased financial pressures on customers: Uncertainty about current and future global economic conditions and credit markets may cause consumers, business and governments

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

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

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

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

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

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

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

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

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

Australia: Telstra Corporation Limited (Telstra), SingTel Optus Pty Limited, Telecom New Zealand Limited, iiNet Limited, SP Telemedia Limited (known as TPG), Macquarie Telecom Group Ltd. and other smaller national and regional service providers and resellers.; and

Canada: TELUS Corporation (TELUS), BCE Inc. (Bell Canada), MTS Allstream, Inc., Saskatchewan Telecommunications, wireless providers, including Rogers Communications Inc. (Rogers), TELUS, Bell Canada, Bragg Communications Inc., COGECO Inc., Quebecor Inc. and Shaw Communications, Inc., cable companies, and other service providers and resellers including Globalive Communications Corp. in Canada.

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

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

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

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

We have accelerated initiatives to become an integrated wireline, wireless and broadband service provider in order to counter competitive pricing pressures initiated by large incumbent providers in certain of the principal markets where we operate and to stem the loss of certain of our wireline voice and dial-up ISP customers to our competitors bundled wireline, wireless and broadband service offerings. Our primary competitors include incumbent telecommunications providers, cable companies and other ISPs that have a significant national or international presence. Many of these operators have substantially greater resources, capital and operational experience than we do. We are experiencing increased competition from traditional telecommunications carriers,

cable companies and other new entrants that have expanded into the market for broadband, VoIP, Internet services, data and hosting and traditional voice services. In addition, regulatory developments may impair our ability to compete. Therefore, future operations involving these individual or bundled services may not succeed in the competitive environment, and we (1) may not be able to expand successfully; (2) may experience margin pressure; (3) may face quarterly revenue and operating results variability; (4) may have limited resources to develop and to market the new services; and (5) have heightened difficulty in establishing future revenues or results. As a result, there can be no assurance that we will reverse revenue declines in our traditional long-distance voice and dial-up ISP services or maintain or increase revenues or be able to generate sufficient income from operations or net income in the future or on any predictable or timely basis.

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

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

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

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

As of July 1, 2009, Predecessor had an accumulated deficit of $1.06 billion. Predecessor incurred net losses of $10.6 million in 2004, $149.2 million in 2005, $238.0 million in 2006 and $25.0 million in 2008. During the year ended December 31, 2007, Predecessor recognized net income of $15.7 million, of which $32.7 million of revenue was related to the positive impact of foreign currency transaction gains, and during the Successor s

six-month period ended December 31 2009, Successor recognized net income of $6.7 million, of which $18.3 million was related to the positive impact of foreign currency transaction gains. For the first six months of 2010, Successor incurred net losses of $14.0 million. Even with the elimination of our significant accumulated deficit and the reduction in indebtedness through our recent reorganization under Chapter 11, future losses may continue. We cannot make assurances that we will recognize net income in future periods. If we cannot generate net income or sufficient operating profitability, we may not be able to meet our debt service or working capital requirements.

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

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

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

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

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

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

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

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

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

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

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

Our ability to compete depends, in part, on our ability to use intellectual property in the U.S. and internationally. We rely on a combination of trade secrets, trademarks and licenses to protect our intellectual property. We are also subject to the risks of claims and litigation alleging infringement of the intellectual

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

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

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

RISKS ASSOCIATED WITH OUR FINANCIAL STATEMENTS

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

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

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

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

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

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

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

RISKS ASSOCIATED WITH OUR LIQUIDITY NEEDS AND DEBT SECURITIES

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

Our ability to satisfy our debt obligations will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, many of which are beyond our control. We cannot make assurances that our

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

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

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

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

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

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

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

The scheduled maturity of the 14 1/4% Notes is earlier than the scheduled maturity of the 13% Notes. While we expect to refinance the 14 1/4% Notes, we may not be able to do so or refinancing may not be available on commercially reasonable terms. Our ability to complete a refinancing of the 14 1/4% Notes prior to their maturity

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is subject to a number of conditions beyond our control. For example, if disruption in the financial markets were to occur at the time that we intended to refinance the 14 1/4% Notes, we might be restricted in our ability to refinance that indebtedness. If we are unable to refinance the 14 1/4% Notes our alternatives would consist of negotiating an extension of such indebtedness with the holders and seeking or raising new capital. If we were unsuccessful, the holders of the 14 1/4% Notes could demand repayment of the indebtedness owed to them on May 20, 2013. As a result, our ability to pay the principal of and interest on such indebtedness would be adversely affected.

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

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

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

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

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

These restrictions could limit the ability of us and our subsidiaries to finance future operations or capital needs, make acquisitions or pursue available business opportunities. We may be required to take action to reduce their debt or act in a manner contrary to our business objectives to satisfy these covenants. Events beyond our control, including changes in economic and business conditions in the markets in which we operate, may affect our ability to do so. We may not be able to satisfy these covenants. A breach of any of the covenants in our debt could result in a

default under such debt, which could lead to that debt becoming immediately due and payable and, if such debt is secured, foreclosure on our assets that secure that obligation. A default under a debt instrument could, in turn, result in a default under other obligations and result in other creditors accelerating the payment of other obligations and foreclosing on asset security such debt, if any. Any such defaults could materially impair our financial conditions and liquidity.

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

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

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

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

ADDITIONAL RISKS RELATED TO REGULATION

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

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

In the U.S., the Communications Act of 1934, as amended (the Communications Act), and associated FCC regulations, require that every provider of interstate telecommunications carrier contribute, on an equitable and non-discriminatory basis, to federal universal service mechanisms established by the FCC, which affects our cost of providing services. At present, these contributions are calculated based on contributors interstate and international revenue derived from U.S. end users for telecommunications or telecommunications services, as those terms are defined under FCC regulations. On April 21, 2010, the FCC issued certain specific new proposals

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regarding contributions to the universal service fund that, if adopted, could materially affect our own contributions to the fund. These new proposals would affect most of our competitors, but not all of our competitors would be affected in the same way or to the same degree as we would be. The FCC has also announced its intention to propose new rules regarding the universal service program during the fourth quarter of calendar year 2010. It is impossible to predict the impact of these new proposals, if adopted, on our operations and financial results. In addition, AT&T Inc. filed a Petition for Immediate Commission Action on July 10, 2009, requesting that the FCC adopt a new mechanism for calculating federal universal service fund contribution that would be applicable to all contributors, including us. The specific proposal, which has been pending at the FCC for some time, is to determine contributions to the Universal Service Fund (USF) based on assessable telephone numbers rather than interstate and international revenues. This AT&T proposal remains pending. We cannot predict whether the FCC will adopt this or some other contribution methodology, nor can we predict the potential impact on our business at this time. But a revised contribution methodology could increase our contribution obligation, including increasing our contribution disproportionately compared to some of our competitors. In such event, we may need to either raise the total amount of our consumer s bills, potentially making us less competitive with other providers of communications services, or reduce our profit margins.

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

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

- Rules with respect to the use of customer proprietary network information (CPNI) requiring VoIP providers to adhere to particular customer approval processes when using CPNI outside of pre-defined limits and when using CPNI for marketing purposes, and requiring VoIP providers to take certain steps to verify a customer s identity before releasing any CPNI over the telephone or the Internet, and to report unauthorized disclosures of CPNI. In April 2010, the FCC adopted a Notice of Inquiry regarding the possible establishment of a voluntary cyber security certification program. At present it is not possible to predict whether any new formal or informal requirements will arise from this proceeding or how any such requirements might affect our business.

- The disability access requirements of Sections 225 and 255 of the Communications Act, which have been interpreted by the FCC to require interconnected VoIP providers to contribute to the telecommunications relay services fund and offer 711 abbreviated dialing access to relay services, and to ensure that VoIP services are accessible to persons with disabilities, if reasonably achievable. In April 2010 the FCC announced plans to adopt, during the third quarter of 2010, a further order with respect to hearing aid compatibility requirements applicable to various services. We cannot predict at this time what new requirements the FCC will establish, if any, or how any such new requirements may affect us.

- Rules requiring VoIP providers to configure VoIP networks in a manner that facilitates lawful surveillance under CALEA.

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Rules requiring VoIP providers to permit customers to retain their assigned telephone numbers when changing carriers including newly established requirements to process customer carrier changes on an expedited basis.

Rules requiring VoIP providers to provide access to E911 emergency services on terms generally similar to those provided by traditional landline carriers. In April 2010 the FCC adopted a Notice of Inquiry regarding the survivability of broadband infrastructure, including in the case of damage due to natural or human-caused disasters or public emergencies. In addition, also in April 2010 the FCC announced its intention to initiate, during the fourth quarter of calendar year 2010, a Notice of Inquiry regarding Next Generation 911 service. It is uncertain whether the FCC will adopt specific requirements arising from these proceedings or, if it does, how and whether any such requirements will affect us.

Rules requiring VoIP providers to pay regulatory fees based on reported interstate and international revenues, including universal service fees.

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

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

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

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

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

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

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

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

- ongoing regulatory proceedings regarding efforts by Telstra in Australia to increase prices and charges and to deny access to essential facilities and services needed by us to compete;

- the ultimate outcome of the process launched by the Australian government to help fund the construction of a new national broadband network, including whether and the terms upon which (a) we will have access to such network, and (b) the duration for which the copper wire based last mile infrastructure we use to furnish broadband services using our DSLAM network infrastructure will be continued;

- a regulatory reform package recently announced by the Australian government that, if enacted, will (a) separate Telstra s retail arm from its wholesale business (via either functional or structural separation); and (b) provide the ACCC with greater powers to set access prices;

- general changes in access charges and contribution payments could adversely affect our cost of providing long-distance, wireless, broadband, VoIP, local and other services; and

- regulatory proceedings in Canada determining whether and the extent to which regulation should mandate access to networks and interconnection including intra-exchange transport services which we use to interconnect our DSLAM collocation sites and high speed access to residential and business services.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits (see index)

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SIGNATURES

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

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

Date: August 16, 2010	By:	/s/ Thomas R. Kloster **Thomas R. Kloster** **Chief Financial Officer (Principal Financial Officer)**
Date: August 16, 2010	By:	/s/ James C. Keeley **James C. Keeley** **Vice President Corporate Controller (Principal Accounting Officer)**

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EXHIBIT INDEX

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

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