PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-Q
May 20, 2009
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended March 31, 2009

OR

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

THE SECURITIES EXCHANGE ACT OF 1934.

Commission File No. 0-29092

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

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

(703) 902-2800

(Registrant s telephone number, including area code)

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

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

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

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

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

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

Class	Outstanding as of April 30, 2009
Common Stock $0.01 par value	142,695,390

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-in-Possession)

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended March 31,	
	2009	2008
NET REVENUE	$ 194,474	$ 225,434
OPERATING EXPENSES		
Cost of revenue (exclusive of depreciation included below)	129,374	141,484
Selling, general and administrative	45,436	68,858
Depreciation and amortization	6,096	7,959
Gain on sale or disposal of assets	(59)	(2,580)
Total operating expenses	180,847	215,721
INCOME FROM OPERATIONS	13,627	9,713
INTEREST EXPENSE (contractual interest for the 3 months ended March 31, 2009 was $12,214)	(10,776)	(15,193)
ACCRETION ON DEBT DISCOUNT, net	189	(30)
GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT		2,310
INTEREST AND OTHER INCOME	235	1,062
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	(3,049)	1,707
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	226	(431)
REORGANIZATION ITEMS, net	16,568	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	16,794	(431)
INCOME TAX EXPENSE	(2,797)	(2,420)
INCOME (LOSS) FROM CONTINUING OPERATIONS	13,997	(2,851)
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(393)	(45)
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax	251	
NET INCOME (LOSS)	13,855	(2,896)
Less: Net (income) loss attributable to the noncontrolling interest	136	(103)
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 13,991	$ (2,999)
BASIC INCOME (LOSS) PER COMMON SHARE:		
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ 0.10	$ (0.02)
Loss from discontinued operations	(0.00)	(0.00)
Gain from sale of discontinued operations	0.00	
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ 0.10	$ (0.02)

DILUTED INCOME (LOSS) PER COMMON SHARE:		
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ 0.08	$ (0.02)
Loss from discontinued operations	(0.00)	(0.00)
Gain from sale of discontinued operations	0.00	
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ 0.08	$ (0.02)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	142,695	142,633
Diluted	169,449	142,633
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED		
Income (loss) from continuing operations, net of tax	$ 14,133	$ (2,954)
Loss from discontinued operations	(393)	(45)
Gain from sale of discontinued operations	251	
Net income (loss)	$ 13,991	$ (2,999)

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except share amounts)

(unaudited)

	March 31, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 32,036	$ 37,000
Restricted cash	320	
Accounts receivable (net of allowance for doubtful accounts receivable of $8,274 and $9,710)	90,153	99,483
Prepaid expenses and other current assets	17,067	15,846
Total current assets	139,576	152,329
RESTRICTED CASH	7,897	8,133
PROPERTY AND EQUIPMENT Net	107,987	112,152
GOODWILL	32,003	32,688
OTHER INTANGIBLE ASSETS Net	522	746
OTHER ASSETS	18,033	24,396
TOTAL ASSETS	$ 306,018	$ 330,444
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 49,836	$ 58,671
Accrued interconnection costs	38,996	41,422
Deferred revenue	12,551	13,303
Accrued expenses and other current liabilities	42,055	42,440
Accrued income taxes	18,441	18,213
Accrued interest	825	10,248
Current portion of long-term obligations	105,847	564,797
Total current liabilities	268,551	749,094
LONG-TERM OBLIGATIONS	29,798	40,040
OTHER LIABILITIES		35
Total liabilities not subject to compromise	298,349	789,169
LIABILITIES SUBJECT TO COMPROMISE	451,050	
Total Liabilities	749,399	789,169
COMMITMENTS AND CONTINGENCIES (See Note 6.)		
STOCKHOLDERS DEFICIT:		
Primus Telecommunications Group, Incorporated Stockholders Deficit:		
Preferred stock: Not Designated, $0.01 par value 1,410,050 shares authorized; none issued and outstanding; Series A and B, $0.01 par value 485,000 shares authorized; none issued and outstanding; Series C, $0.01 par value 559,950 shares authorized; none issued and outstanding		

Common stock, $0.01 par value 300,000,000 shares authorized; 142,695,390 shares issued and outstanding	1,427	1,427
Additional paid-in capital	718,972	718,956
Accumulated deficit	(1,085,818)	(1,099,809)
Accumulated other comprehensive loss	(80,575)	(82,113)
Total Primus Telecommunications Group, Incorporated stockholders deficit	(445,994)	(461,539)
Noncontrolling interest	2,613	2,814
Total stockholders deficit	(443,381)	(458,725)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	$ 306,018	$ 330,444

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2009	**2008**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 13,855	$ (2,896)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Reorganization items, net	(16,568)	
Provision for doubtful accounts receivable	2,230	2,828
Stock compensation expense	16	62
Depreciation and amortization	6,096	7,961
Gain on sale or disposal of assets	(310)	(2,580)
Accretion of debt discount	(189)	30
Deferred income taxes		450
Gain on early extinguishment or restructuring of debt		(2,310)
Unrealized foreign currency transaction gain (loss) on intercompany and foreign debt	3,143	(1,501)
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	5,101	(1,818)
(Increase) decrease in prepaid expenses and other current assets	(1,421)	9,777
Decrease in other assets	2,270	342
Decrease in accounts payable	(7,375)	(10,458)
Decrease in accrued interconnection costs	(1,838)	(314)
Increase (decrease) in accrued expenses, deferred revenue, other current liabilities and other liabilities, net	37	(6,099)
Increase in accrued income taxes	390	502
Decrease in accrued interest	(794)	(1,504)
Net cash provided by (used in) operating activities before reorganization items	4,643	(7,528)
Cash effect of reorganization items	(3,794)	
Net cash provided by (used in) operating activities	849	(7,528)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,786)	(6,858)
Sale of property and equipment	59	800
Cash from disposition of business, net of cash disposed	232	1,765
Cash used in business acquisitions, net of cash acquired	(199)	
Increase in restricted cash	(215)	(888)
Net cash used in investing activities	(2,909)	(5,181)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of the Company s debt securities		(11,217)
Principal payments on long-term obligations	(3,008)	(1,536)
Net cash used in financing activities	(3,008)	(12,753)

EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	104	55
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,964)	(25,407)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	37,000	81,282
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 32,036	$ 55,875
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 11,099	$ 16,051
Cash paid for taxes	$ 469	$ 295
Non-cash investing and financing activities:		
Capital lease additions	$ 537	$ 35

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2009	**2008**
NET INCOME (LOSS)	$ 13,855	$ (2,896)
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation adjustment	1,473	(1,062)
COMPREHENSIVE INCOME (LOSS)	15,328	(3,958)
Comprehensive (income) loss attributable to the noncontrolling interest	201	(68)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 15,529	$ (4,026)

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

1. PROCEEDINGS UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

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

On March 16, 2009, Primus Telecommunications Group, Incorporated (Group or PTGI) and three of its subsidiaries, Primus Telecommunications Holding, Inc. (Holding or PTHI), Primus Telecommunications International, Inc. (PTII) and Primus Telecommunications IHC, Inc., (IHC and together with Group, Holding and PTII, collectively, the Debtors) each filed a voluntary petition (the Chapter 11 Cases) in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court) for reorganization relief (Reorganization) under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.*, as amended (the Bankruptcy Code). Subsequently, the Debtors sought and received an order directing the joint administration of the Chapter 11 Cases under the caption In re: Primus Telecommunications Group, Incorporated, et al., Debtors, Case No. 09-10867. On April 8, 2009, April 20, 2009, and April 24, 2009, filings were made by the Debtors in the Bankruptcy Court concerning amended Disclosure Statements and Joint Plans of Reorganization of Primus Telecommunications Group, Incorporated and its Affiliate Debtors. On April 24, 2009, an unsecured creditors committee was appointed by the United States Trustee.

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 Disclosure Statement was distributed to holders of record (as of April 27, 2009) of claims against, and interests in, the Debtors who are entitled to vote on the Plan (the Record Date).

The order approving the Disclosure Statement also (i) established the Record Date and a voting deadline of June 5, 2009, (ii) established June 5, 2009 as the last date and time for filing and serving objections to confirmation of the Plan (and related requirements and procedures set forth in such order), and (iii) fixed June 1, 2009 as the deadline for claimants and interest holders to file and serve motions under Bankruptcy Rule 3018(a) requesting temporary allowance of the movant s claim or interest for purposes of voting.

The hearing concerning confirmation of the Plan has been scheduled before the Bankruptcy Court on June 12, 2009.

The Plan provides for a plan of reorganization of the Debtors on terms that are summarized below:

Holding s Term Loan facility due February 2011 will be reinstated and improved (as described in the description of the Term Loan Modification Term Sheet below), subject to the consent of the requisite

holders of IHC s 14 1/4% Senior Secured Notes and Holding s 5% Exchangeable Senior Notes and 8% Senior Notes (collectively, the Holding Senior Notes);

holders of IHC s 14 1/4% Senior Secured Notes will receive (a) their pro rata reinstatement of $123.5 million of 14 1/4% Senior Secured Notes, subject to certain modifications, (b) their pro rata share of 50% of the new outstanding equity of Group upon its emergence from bankruptcy (Reorganized Group) (excluding the management shares described below), and (c) all reasonable fees, expenses and disbursements;

holders of the Holding Senior Notes will receive (a) their pro rata share of 50% of the new outstanding equity of Reorganized Group (excluding the management shares described below), (b) their pro rata share of warrants to purchase up to 30% of the new outstanding equity of Reorganized Group (including the management shares described below) on terms described further in the Plan Term Sheet, and (c) all reasonable fees, expenses and disbursements;

holders of the 3 3/4% Senior Notes due September 2010, 12 3/4% Senior Notes due October 2009 and Step Up Convertible Subordinated Debentures due August 2009 issued by Group (collectively, the Group Notes) (i) will be entitled to receive, following approval by holders of Group Notes (Group Note Approval) in accordance with Section 1126(c) of the Bankruptcy Code and confirmation of the Plan, a pro rata share of warrants to purchase up to 15% of the new outstanding equity of Reorganized Group (including the management shares described below) on terms described further in the Plan or (ii) will not receive or retain any property under the Plan in respect of claims regarding the Group Notes if Group Note Approval is not obtained;

holders of Group s outstanding common stock, subject to the provisos below, will receive their pro rata share of contingent value rights (CVRs) to acquire up to approximately 15% of the fully diluted new equity of Reorganized Group after the enterprise value of Reorganized Group reaches or exceeds $700 million; provided, however, that in no case shall the issuance of common stock of Reorganized Group in respect of the CVRs lower the recovery for the holders of 14 1/4% Senior Secured Notes, Senior Notes or Group Notes to less than the recovery to such holders prior to the conversion of the CVRs into common stock; provided, further, however that such common stockholders shall not receive or retain property under the Plan in respect of claims regarding the common stock if Group Note Approval is not obtained or such holders of common stock do not approve the Plan in accordance with Section 1126(c) of the Bankruptcy Code; and

restricted stock units comprising 4% of the outstanding new equity of Reorganized Group will be issued to the senior management of the Debtors on terms set forth in an exhibit to the Plan, and warrants to acquire up to 6% of the new outstanding equity of Reorganized Group (including the management shares described above) will be available for distribution to the management of the Debtors through a management compensation plan.

On April 14, 2009, certain lenders under the Term Loan agreed to a term sheet (the Term Loan Modification Term Sheet) concerning a Term Loan amendment that is to be documented and executed upon satisfaction of a number of conditions precedent, including replacement of the Administrative Agent under the Term Loan and receipt of replacement Administrative Agent approval. Additionally, on April 14, 2009, certain lenders under the Term Loan entered into a forbearance agreement and agreed to forbear certain remedies arising out of the Chapter 11 Cases, subject to certain conditions and potential termination of forbearance (the Term Loan Forbearance Agreement). The Plan provides for treatment of the Term Loan as provided for under the Term Loan Modification Term Sheet so long as the Lenders and the Administrative Agent forbear and support the Plan.

The Term Loan Modification Term Sheet and the Term Loan Forbearance Agreement reflect the elevated nature of negotiations with the senior secured Term Loan lenders concerning support by the Term Loan lenders of the Plan; however, a definitive amendment to the Term Loan has not been negotiated and documented in full,

and such amendment is subject to consent by certain noteholders and ultimately must be approved by the Bankruptcy Court.

A summary of the terms of the proposed Term Loan amendment as provided for under the Term Loan Modification Term Sheet and Term Loan Forbearance Agreement are set forth under Note 5 Long-Term Obligations and Liabilities Subject to Compromise; Senior Secured Term Loan Facility Term Loan Modification Term Sheet and under Forbearance Agreement.

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

Current Impact on Group s Subsidiaries that have not sought Reorganization. Group s subsidiaries other than Holding, IHC and PTII are not part of the Reorganization; operating subsidiary companies, including those in the United States, Australia, Canada, India, Europe and Brazil (the Operating Subsidiaries), are not party to the Reorganization and are expected to continue to manage and to operate their businesses without interruption; and employees, customers, suppliers and partners of these Operating Subsidiaries should be unaffected by the filing of the Chapter 11 Cases.

Status of the Reorganization. The Plan and certain agreements, which are subject to conditions and contingencies, and ongoing negotiations with creditors concerning certain outstanding indebtedness of the Debtors and the Reorganization have progressed substantially between the Petition Date and the filing of this Form 10-Q; however, definitive support from all creditors for the Plan has not yet been achieved and in any case would be subject to Bankruptcy Court approval.

2. BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements of Primus Telecommunications Group, Incorporated and subsidiaries (the Company or Primus) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and Securities and Exchange Commission (SEC) regulations. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such principles and regulations. In the opinion of management, the financial statements reflect all adjustments (all of which are of a normal and recurring nature), which are necessary to present fairly the financial position, results of operations, cash flows and comprehensive income (loss) for the interim periods. The results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

In accordance with Statement of Position (SOP) No. 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code, all pre-petition liabilities subject to compromise are segregated in the unaudited Consolidated Condensed Balance Sheets and classified as liabilities subject to compromise, at management s estimate of the amount of allowable claims. Liabilities not subject to compromise are separately classified as current and non-current in the unaudited Consolidated Condensed Balance Sheet as of March 31, 2009. Revenues, expenses, realized gains and losses, and provisions for losses that result from the reorganization are reported separately as reorganization items, net, in the unaudited Consolidated Condensed Statements of Operations for the three months ended March 31, 2009. Net cash used for reorganization items is disclosed separately in the unaudited Consolidated Condensed Statements of Cash Flows. The outcome of the plan of

reorganization could materially change the amounts reported in the financial statements, which do not give effect to all adjustments of the carrying value of assets or liabilities that might be necessary as a consequence of the plan, or the effect of any operational changes that may be made in the business.

On emergence from bankruptcy, the amounts reported in the Company s subsequent financial statements may materially change. The Company anticipates that it will be required to adopt the fresh start provisions of SOP No. 90-7, which require that all assets and liabilities be restated to their fair value. Certain of these fair values may differ materially from the values recorded on the accompanying Consolidated Condensed Balance Sheets. Additionally, the Company must also adopt any changes in generally accepted accounting principles (GAAP) that it is otherwise required to adopt within twelve months of such date. Furthermore, it may opt to make other changes in accounting principles and policies upon adoption of fresh start. For all of these reasons, the Company s financial statements for periods subsequent to its emergence from bankruptcy will not be comparable to previous periods.

The results for the three months ended March 31, 2009 reflect the activities of certain operations as discontinued operations (see Note 10 Discontinued Operations).

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The consolidated financial statements include the Company s accounts, its wholly-owned subsidiaries and all other subsidiaries over which the Company exerts control. The Company owns 45.6% of Globility Communications Corporations (GCC) through direct and indirect ownership structures. The results of GCC and its subsidiary are consolidated with the Company s results based on guidance from Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46 (R), Consolidation of Variable Interest Entities an Interpretation of Accounting Research Bulletins (ARB) No. 51. All intercompany profits, transactions and balances have been eliminated in consolidation. In the first quarter 2009, the Company sold certain assets of its Japan retail operations. Therefore, the Company reported Japan retail operations as a discontinued operation. During the second quarter of 2008, the Company intended and had the authority to sell certain assets of its German retail operations, and therefore, reported this unit as a discontinued operation.

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Effective January 1, 2009, the Company adopted SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment to ARB No. 51, Consolidated Financial Statements. This statement changes the presentation of outstanding noncontrolling interests in one or more subsidiaries or the deconsolidation of those subsidiaries. As noted above, the Company owns 45.6% of Globility Communications Corporations (GCC) through direct and indirect ownership structures. The results of GCC and its subsidiary are consolidated with the Company s results based on guidance from FIN No. 46 (R). Reconciliations at the beginning and the end of the period of the total equity, equity attributable to the Company and equity attributable to the noncontrolling interest (in thousands) for the first quarter of 2008 and 2009 are as follows:

			As of March 31, 2008					
			Primus Telecommunications Group, Incorporated Shareholders					
			Common Stock				Accumulated	
					Additional		Other	
		Comprehensive			Paid-In	Accumulated	Comprehensive	Noncontrolling
	Total	Income	Shares	Amount	Capital	Deficit	Loss	Interest
Balance as of January 1, 2008	$ (446,701)		142,633	$ 1,426	$ 718,695	$ (1,074,778)	$ (92,883)	$ 839
Stock Option Compensation Expense	62				62			
Comprehensive Loss								
Net income (loss)	(2,896)	(2,896)				(2,999)		103
Other comprehensive loss	(1,062)	(1,062)					(1,027)	(35)
Comprehensive Loss	(3,958)	$ (3,958)						
Balance as of March 31, 2008	$ (450,597)		142,633	$ 1,426	$ 718,757	$ (1,077,777)	$ (93,910)	$ 907

			As of March 31, 2009					
			Primus Telecommunications Group, Incorporated Shareholders					
			Common Stock				Accumulated	
					Additional		Other	
		Comprehensive			Paid-In	Accumulated	Comprehensive	Noncontrolling
	Total	Income	Shares	Amount	Capital	Deficit	Loss	Interest
Balance as of January 1, 2009	$ (458,725)		142,695	$ 1,427	$ 718,956	$ (1,099,809)	$ (82,113)	$ 2,814
Stock Option Compensation Expense	16				16			
Comprehensive Income								
Net income (loss)	13,855	13,855				13,991		(136)
Other comprehensive income (loss)	1,473	1,473					1,538	(65)
Comprehensive Income	15,328	$ 15,328						
Balance as of March 31, 2009	$ (443,381)		142,695	$ 1,427	$ 718,972	$ (1,085,818)	$ (80,575)	$ 2,613

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

Stock-Based Compensation The Company uses a Black-Scholes option valuation model to determine the fair value of stock-based compensation under Statements of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payments, consistent with that used for pro forma disclosures under SFAS No. 123. The Black-Scholes model incorporates various assumptions including the expected term of awards, volatility of stock price, risk-free rates of return and dividend yield. The expected term of an award is no less than the option vesting period and is based on the Company s historical experience. Expected volatility is based upon the historical volatility of the Company s stock price. The risk-free interest rate is approximated using rates available on U.S. Treasury securities with a remaining term similar to the option s expected life. The Company uses a dividend yield of zero in the Black-Scholes option valuation model as it does not anticipate paying cash dividends in the foreseeable future. The Company also had an Employee Stock Purchase Plan, which was suspended on July 27, 2006, and which allowed employees to elect to purchase stock at 85% of fair market value (determined monthly) and was considered compensatory under SFAS No. 123(R).

The Company recorded $16 thousand and $62 thousand stock-based compensation expenses for the three months ended March 31, 2009 and 2008, respectively, under guidance in SFAS No. 123(R).

The weighted average fair value at date of grant for options granted during the three months ended March 31, 2009 and 2008 was $0.01 and $0.11 per option, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	For the Three Months Ended March 31,	
	2009	**2008**
Expected dividend yield	0%	0%
Expected stock price volatility	130%	96%
Risk-free interest rate	1.6%	2.2%
Expected option term	4 years	4 years

As of March 31, 2009, the Company had 1.0 million unvested awards outstanding of which $0.1 million of compensation expense will be recognized over the weighted average remaining vesting period of 2.13 years. Under the Plan or Reorganization, as described in Note 1 *Going Concern and Voluntary Reorganization under Chapter 11* above, all unvested awards will be cancelled upon the confirmation of the plan by the Bankruptcy Court.

Use of Estimates The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of net revenue and expenses during the reporting period. Actual results may differ from these estimates. Significant estimates include allowance for doubtful accounts receivable, accrued interconnection cost disputes, the fair value of embedded derivatives, market assumptions used in estimating the fair values of certain assets and liabilities such as marketable securities, long-term obligations and liabilities subject to compromise, the calculation used in determining the fair value of the Company s stock options required by SFAS No. 123(R), various tax contingencies, asset impairment write-downs, and purchase price allocations.

Newly Adopted Accounting Principles

Effective January 1, 2009, the Company adopted FSP No. 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). FSP No. 14-1

requires issuers of convertible debt securities to separate securities into a debt component and an equity component, resulting in the debt component being recorded at fair value without consideration given to the conversion feature. Issuance costs are also allocated between the debt and equity components. FSP No. 14-1 requires that convertible debt within its scope reflect a company s nonconvertible debt borrowing rate when interest expense is recognized. The adoption did not have material effect on the Company s results of operations, financial position or cash flows.

Effective January 1, 2009, the Company adopted SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 identifies the sources of accounting principles and provides the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles in the United States. The adoption did not have material effect on the Company s results of operations, financial position or cash flows.

Effective January 1, 2009, the Company adopted SFAS No. 141R, Business Combinations. SFAS No. 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. The adoption did not have material effect on the Company s results of operations, financial position or cash flows as the Company did not enter into any business combinations during the three months ended March 31, 2009.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-1, Application of FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 1 and FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157. The provisions of SFAS No. 157, Fair Value Measurements , which provide guidance for, among other things, the definition of fair value and the methods used to measure fair value, where adopted January 1, 2008 for financial instruments. The provisions adopted in 2008 did not have a material impact on the Company s financial statements. FSP 157-1 and FSP 157-2 collectively delayed the effective date of SFAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and liabilities (except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis) until financial years beginning after November 15, 2008, and changed the scope of SFAS No. 157. On January 1, 2009, the Company adopted the provisions of SFAS No. 157 for nonrecurring fair value measurements of nonfinancial assets and liabilities. The provisions adopted in the first quarter 2009 did not have an impact on the Company s financial statements as the Company did not have any fair value measurements of nonfinancial assets and liabilities as of March 31, 2009.

The valuation techniques required by SFAS No. 157 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs create the following fair value hierarchy:

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

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

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

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

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging with the intent to provide users of financial statements with an enhanced understanding of the use of derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity s financial statements. SFAS No. 161 is effective for financial statements issued for fiscal years interim periods beginning after November 15, 2008. The adoption on January 1, 2009 did not have a material impact on the Company s results of operations, financial position and cash flows.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	As of March 31, 2009			As of December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer lists	$ 3,742	$ (3,273)	$ 469	$ 3,806	$ (3,150)	$ 656
Other	1,568	(1,515)	53	1,665	(1,575)	90
Total	$ 5,310	$ (4,788)	$ 522	$ 5,471	$ (4,725)	$ 746

Amortization expense for customer lists and other intangible assets for the three months ended March 31, 2009 and 2008 was $0.3 million and $0.5 million, respectively. The Company expects amortization expense for customer lists and other intangible assets for the remainder of 2009 and the year ended December 31, 2010 and 2011 to be approximately $0.2 million, $0.2 million and $0.1 million, respectively.

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

	As of March 31, 2009	As of December 31, 2008
Goodwill	$ 32,003	$ 32,688

The changes in the carrying amount of goodwill for the three months ended March 31, 2009 are as follows (in thousands):

	United States	Canada	Asia-Pacific	Total
Balance as of January 1, 2009				
Gross Goodwill	$ 198,140	$ 102,777	$ 30,775	$ 331,692
Accumulated impairment losses	(197,983)	(80,864)	(20,157)	(299,004)
Net Goodwill	157	21,913	10,618	32,688
Effect of change in foreign currency exchange rate	3	(470)	(218)	(685)
Balance as of March 31, 2009				
Gross Goodwill	198,143	102,307	30,557	331,007
Accumulated impairment losses	(197,983)	(80,864)	(20,157)	(299,004)
Net Goodwill	$ 160	$ 21,443	$ 10,400	$ 32,003

5. LONG-TERM OBLIGATIONS AND LIABILITIES SUBJECT TO COMPROMISE

On March 16, 2009, the Company and certain holding company subsidiaries filed for voluntary reorganization under Chapter 11 (see Note 1 Proceedings Under Chapter 11 of The Bankruptcy Code). The

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filings for bankruptcy constituted an event of default that triggered repayment obligations under a number of debt instruments. As a result of the event of default, all obligations under the affected debt agreements became automatically and immediately due and payable. Additionally, the filing of the Chapter 11 Cases constituted an event of default through a cross default provision of the Canadian Financing Facility; however a waiver of that default provision was obtained from the lender as described under the Canadian Financing Facility below. Certain other vendor and capital lease obligations are not in default because they are held in operating companies that were not part of the bankruptcy filings. The Debtors believe that any efforts to enforce the payment obligations under the defaulted debt agreements are stayed as a result of the filing of such Chapter 11 Cases in the Bankruptcy Court (subject to certain exceptions contemplated by the Term Loan Modification Term Sheet, described below, following Bankruptcy Court approval).

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

	March 31, 2009	December 31, 2008
Obligations under capital leases and other	$ 4,746	$ 4,851
Leased fiber capacity	2,149	2,172
Senior secured term loan facility*	96,000	96,250
Financing facility	32,750	35,000
Senior notes*		200,186
Senior secured notes*		198,960
Exchangeable senior notes*		25,122
Convertible senior notes*		34,006
Step up convertible subordinated debentures*		8,290
Subtotal	135,645	604,837
Less: Current portion of long-term obligations	(105,847)	(564,797)
Total long-term obligations	$ 29,798	$ 40,040

* As of March 31, 2009, certain liabilities are subject to compromise as part of the Plan and are classified as liabilities subject to compromise as described below. The senior secured term loan facility is expected to be fully reinstated as part of the Plan, and thus is not classified as a liability subject to compromise.

The following table reflects the contractual payments of principal and interest for all long-term obligations as of March 31, 2009 as follows (note this table only represents liabilities that are not subject to compromise as described below):

Year Ending December 31,	Vendor Financing and Other	Senior Secured Term Loan Facility (1)	Financing Facility	Total
2009 (as of March 31, 2009)	$ 2,022	$ 10,697	$ 7,831	$ 20,550
2010	5,019	16,616	7,685	29,320
2011	462	89,625	21,036	111,123
2012	90			90
2013	64			64
Thereafter	33			33
Total Minimum Principal & Interest Payments	7,690	116,938	36,552	161,180
Less: Amount Representing Interest	(795)	(20,938)	(3,802)	(25,535)
Total Long Term Obligations	$ 6,895	$ 96,000	$ 32,750	$ 135,645

(1) For preparation of this table, the Company has assumed the interest rate of the Senior Secured Term Loan Facility to be 12.0% and principal payments as according to the Term Loan Modification Term Sheet.

Liabilities Subject to Compromise

Under bankruptcy law, actions by creditors to collect upon liabilities of the Debtors incurred prior to the Petition Date are stayed and certain other pre-petition contractual obligations may not be enforced against the Debtors without approval of the Court. In accordance with SOP No. 90-7, these liabilities are adjusted to the amount of the allowed claim by the court and are classified as liabilities subject to compromise in the Consolidated Condensed Balance Sheet as of March 31, 2009, which are different than the prepetition amounts originally recorded on the financial statements due to certain debt premiums, discounts and future interest payments recorded as long-term obligations that were written off during the period. See Note 12 Reorganization Items, Net. Adjustments to the claims may result from negotiations, payments authorized by Court order or other events. It is anticipated that such adjustments, if any, could be material. Payment terms for the liabilities subject to compromise will be established in connection with a plan of reorganization. Liabilities subject to compromise are classified separately from long-term obligations and current liabilities.

The following table summarizes the components of liabilities subject to compromise in the Consolidated Condensed Balance Sheet as of March 31, 2009 (in thousands):

	March 31, 2009
8% Senior Notes of Holding due January 2014	$ 186,000
14 1/4% Senior Secured Notes of IHC due May 2011	173,157
3 3/4% Convertible Notes of Group due September 2010	34,200
5% Exchangeable Senior Notes of Holding due June 2010	23,369
12 3/4% Senior Notes of Group due October 2009	14,186
Step Up Convertible Subordinated Debentures	8,641
Accrued Interest	11,497
Liabilities Subject to Compromise	$ 451,050

Senior Secured Term Loan Facility

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

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

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

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

On April 14, 2009, Holding and certain affiliates who are party to the Term Loan (collectively, the Primus Term Loan Parties) agreed to a term sheet with a group of lenders under the Term Loan (the Term Loan Ad Hoc Committee) which comprise a requisite number to support and consent to an amendment to the Term Loan as part of the Company s Plan of Reorganization (the Term Loan Modification Term Sheet) and executed a forbearance agreement, as discussed below, whereby the Term Loan lenders have agreed to forbear from exercising rights and remedies related to certain defaults and events of default under the Term Loan (including events related to the Chapter 11 Cases and Reorganization) subject to the terms and conditions described below. The Term Loan Modification Term Sheet contemplates a waiver of defaults and events of default under the Term Loan, including those arising out of the Chapter 11 Cases and the Reorganization, subject to the satisfaction of certain conditions precedent to executing an amendment to the Term Loan and Plan confirmation accepting the amendment reflecting the Term Loan Modification Term Sheet.

Term Loan Modification Term Sheet. The Term Loan Modification Term Sheet is not an effective amendment to the Term Loan and reflects an agreement in principle with the Term Loan Ad Hoc Committee. The Company expects to finalize the terms of an amendment to the Term Loan on the terms set forth in the Term Loan Modification Term Sheet with the Term Loan Ad Hoc Committee and a replacement administrative agent and include such amendment in the Company s Plan of Reorganization, which would be subject to Bankruptcy Court approval and the requisite approval of the creditors in the Chapter 11 Cases.

In addition, the Term Loan Modification Term Sheet is subject to a number of conditions precedent, including the following:

- the release of Lehman Commercial Paper Inc. (LCPI) as Administrative Agent and the appointment of a replacement Administrative Agent;

- the bring-down of certain representations and warranties under the Term Loan agreement (excluding no default and bankruptcy representations and warranties);

- an accounting of borrowers and guarantors intercompany receivables and payables; and

- delivery of certain account control agreements and officer certificates.

The Term Loan Modification Term Sheet contemplates that the amortization schedule under the Term Loan will be modified so that principal payments will be due on the dates and in the amounts set forth below:

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

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

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The Term Loan Modification Term Sheet provides for:

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

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

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

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

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

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

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

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

modification of the restriction on certain purchases of Indebtedness covenant to preclude Group and each restricted subsidiary from repaying, prepaying or purchasing debt, excluding specified debt and other certain limited exceptions;

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

the Adjusted EBITDA covenant initially will be calculated beginning September 30, 2009 based on the trailing four quarters for the periods ended September 30, 2009 and December 31, 2009, and such calculations will be made using specified constant currency rates (e.g., CAD 0.80; AUD 0.65; EUR 1.275 and GBP 1.40);

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currency rates in effect on December 31, 2009 and June 30, 2010 will be used for purposes of calculating compliance for quarters ended during the next succeeding six month periods, but such currency rates will not be used retroactively for any periods prior to such date;

Minimum Adjusted EBITDA compliance shall be set at $50 million, calculated quarterly based upon the prior four quarters effective September 30, 2009. Failure to meet the Minimum Adjusted EBITDA covenant will not be an event of default, except in circumstances noted in the succeeding proviso, and would result in a financial penalty of $250,000 per quarter in incremental amortization plus a 50 basis point increase in the interest rate during the quarters of non-compliance, provided however that if the Adjusted EBITDA is below $42 million it will constitute an event of default. The minimum Adjusted EBITDA will be calculated quarterly based upon the last four quarters results in a manner consistent with the definition used by the Company in past earnings releases, subject to the addition of reorganization cost adjustments and adjustments for divestitures and acquisitions.

Maximum Debt shall be $270 million plus additional debt accrued from the use of PIK and for debt arising from acquisitions which debt would be limited to 2.5 times annual EBITDA acquired and as long as such debt satisfies Acquisition Debt standards; the Maximum Debt covenant will be required to be maintained at all times following substantial consummation of the plan of reorganization; and

Maximum Capex shall be $18 million in 2009 and $23 million in 2010, calculated annually effective December 31, 2009, and subject to adjustment for divestitures and acquisitions.

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

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

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

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

* On April 20, 2009, the Debtors filed the Plan and on April 27, 2009, the Bankruptcy Court entered Order approving the Amended Disclosure Statement. As a result, triggers of the first two Failure Events described above with regard to the Term Loan Forbearance Agreement were avoided.

** On May 15, 2009, the Debtors reached an agreement with the Term Loan Ad Hoc Committee to modify the Term Loan Forbearance Agreement to extend the date by which the Debtors and the Required Lenders are required to modify agreements under Term Loan consistent with Modified Loan Documents to May 25, 2009.

Termination of Forbearance also can occur in the event:

of certain noteholder, or indenture trustee, objection to Loan Document Payments;

any Chapter 11 Case is converted to case under Chapter 7 of Bankruptcy Code;

the Bankruptcy Court shall enter an order in the Chapter 11 Cases ordering the appointment of (i) a trustee, (ii) a responsible officer, or (iii) an examiner with enlarged powers relating to the operation of the business (powers beyond those set forth in subclauses (3) and (4) of Section 1106(a)) under Section 1106(b) of the Bankruptcy Code;

any of the Chapter 11 Cases are dismissed;

the Confirmation Order is reversed on appeal or vacated;

any Primus Term Loan Party has failed to perform any material provision of the Term Loan Forbearance Agreement or the Term Loan Modification Term Sheet subject to notice and cure;

any court or governmental authority shall enter a final, non-appealable judgment or order declaring the Term Loan Forbearance Agreement or any material portion thereof to be unenforceable or enjoining the consummation of a material portion of the transactions contemplated hereby;

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the Debtors shall withdraw the Amended Plan or publicly announce their intention not to support the Amended Plan, or propose a reorganization or plan under the Bankruptcy Code other than the Amended Plan;

the Debtors inform the Required Lenders in writing of their determination that there is sufficient risk of non-performance by the Debtors with respect to the financial obligations contemplated by the Amended Plan with respect to the Lenders and the Loan Documents such that the amendments to the Loan Documents contemplated by the Term Sheet are no longer in the best interests of the Debtors estates;

the Debtors lose the exclusive right to file and solicit acceptances of the Amended Plan;

the conditions precedent required to be met prior to the closing of the amendment to the Term Loan agreement, consistent with and as contemplated in the Term Loan Modification Term Sheet, including any modification or amendment thereof, have not been satisfied on or before the Plan Effective Date or waived by the Required Lenders;

the Debtors file any motion or pleading with the Bankruptcy Court that is not consistent in any material respect with the Term Loan Forbearance Agreement or the Term Loan Modification Term Sheet and such motion or pleading has not been withdrawn prior to the earlier of (i) two (2) business days of the Debtors receiving notice that such motion or pleading is inconsistent with the Term Loan Forbearance Agreement or the Term Loan Modification Term Sheet and (ii) entry of an order of the Bankruptcy Court approving such motion;

the Bankruptcy Court grants relief that is inconsistent with the Term Loan Forbearance Agreement or the Term Loan Modification Term Sheet in any material respect;

the commencement of an avoidance action by any or all of the Debtors affecting the rights of any Term Loan lender or the commencement of such an action by any other party;

the filing by any or all of the Debtors or by any other party of an objection to the allowance of the Term Loan lenders claims against the Debtors estates in respect of the Term Loan Agreement;

subject to the execution of an appropriate and otherwise reasonable confidentiality agreement, to the extent necessary, the failure by the Debtors to provide to the Required Lenders and their advisors (i) reasonable access to the books and records of the Debtors, and (ii) reasonable access to the respective management and advisors of the Debtors for the purposes of evaluating the Debtors respective business plans and participating in the plan process with respect to the Reorganization;

the occurrence of a Termination Event as that term is defined in the Plan Support Agreement (the PSA) entered into as of March 16, 2009 between the Second Lien Noteholders, the 8% Noteholder, the 5% Noteholders and the Debtors that has resulted in a termination of the PSA;

failure to replace LCPI with an administrative agent reasonably acceptable to the Company and the Required Lenders on or before the Plan Effective Date;

the failure of the Debtors or any non-Debtor subsidiaries to pay all reasonable invoiced and unpaid fees and expenses of the Required Lenders advisors on or before the Plan Effective Date;

the Bankruptcy Court shall enter an order approving the use of cash collateral or otherwise approving the Debtors use of cash to fund the Chapter 11 Cases without the prior written consent of the Required Lenders; or

the filing of a petition for relief under the Bankruptcy Court by a non-Debtor Guarantor.

While the Term Loan Forbearance Agreement is in effect, Forbearance shall be operative with respect to Forbearance Defaults and Covenants, but shall not constitute a forbearance with respect to any failure of the Company, Holding, PTII or any Guarantor to comply with any other covenant or other provision in the Term Loan Agreement or any of the Loan Documents or the occurrence of other present or future Default or Event of Default. None of these items has occurred.

Canadian Financing Facility

In March 2007, the Company entered into a Senior Secured Credit Agreement (Canadian Financing Facility) with a financial institution, to refinance an existing Canadian credit facility. The Canadian Financing Facility provides for a $35.0 million non-amortizing loan bearing interest at a rate of LIBOR plus 425 basis points and matures in March 2012. The loan proceeds were used to refinance the existing Canadian credit facility, including certain costs related to the transaction, and to finance certain capital expenditures. The Canadian Financing Facility is secured by the assets of the Company s Canadian operations and certain guarantees. At March 31, 2009, the Company had an outstanding liability of $32.8 million under the Canadian Financing Facility.

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

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

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

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

- the actions the guarantors have taken to authorize or effect certain actions related to the Reorganization; and

- the failure to deliver to the Administrative Agent an Officer s Certificate in connection with the events described in the preceding bullets.

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

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

On March 10, 2009, a principal prepayment of $1,750,000 was paid upon the execution of the Waiver and Amendment. On March 31, 2009 and April 30, 2009, respectively, principal payments of $500,000 were made as required under the Waiver and Amendment.

In connection with the Waiver and Amendment, the applicable margin under the Canadian Financing Facility was increased to LIBOR +4.50%, with a 2.50% LIBOR floor, and the maturity date was changed to May 21, 2011.

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

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

The Company is currently in compliance with each of these items.

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Senior Notes, Senior Secured Notes, Convertible Senior Notes, Exchangeable Senior Notes, Step Up Convertible Subordinated Debentures and Convertible Subordinated Debentures (see Liabilities Subject to Compromise above)

14 1/4% Senior Secured Notes

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

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

The 14 1/4% Senior Secured Notes will mature on May 20, 2011 with early redemption at a premium to par at IHC s option at any time after February 2008. During specified periods, IHC may redeem at par up to 35% of the aggregate principal amount of the 14 1/4% Senior Secured Notes with the net cash proceeds of certain equity offerings of the Company. Accrued interest will be paid each May 31st and November 30th, beginning May 31st, 2007. The effective interest rate for the 14 1/4% Senior Secured Notes at December 31, 2008 was 12.4% for those amounts not related to the troubled debt restructuring discussed above. (see Note 13 Guarantor/Non-Guarantor Consolidating Condensed Financial Information.)

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

5% Exchangeable Senior Notes

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

The 5% Exchangeable Senior Notes mature on June 30, 2010, as a result of the Company increasing its equity (through designated transactions) in the aggregate of $25 million during June and July 2007. Interest on the 5% Exchangeable Senior Notes is paid at the rate of 5% per annum on each June 30 and December 30, beginning on December 30, 2006. Under certain circumstances, the Company may elect to make interest

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payments in shares of common stock, although the holders of the 5% Exchangeable Senior Notes were entitled to receive the first two semi-annual interest payments wholly in cash. The 5% Exchangeable Senior Notes are exchangeable into the Company s common stock at a conversion price of $1.20 per share of common stock, subject to adjustment in certain circumstances. If the closing bid price of the Company s common stock, for at least 20 trading days in any consecutive 30 trading-day period, exceeds 150% of the conversion price then in effect, the Company may elect to exchange the senior notes for shares of the Company s common stock at the conversion price, subject to certain conditions, including that no more than 50% of the 5% Exchangeable Senior Notes may be exchanged by the Company within any 30-day period. As of March 31, 2009, such conversion trigger had not been met. In the event of a change in control, as defined, the holders may require the Company to repurchase the 5% Exchangeable Senior Notes at which time the Company has the option to settle in cash or common stock at an adjusted conversion price. The 5% Exchangeable Senior Notes are guaranteed by Primus Telecommunications Group, Incorporated (Group) (see Note 13 Guarantor/Non-Guarantor Consolidating Condensed Financial Information).

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

8% Senior Notes

In January 2004, Holding, a direct, wholly-owned subsidiary of the Company, completed the sale of $240 million in aggregate principal amount of 8% Senior Notes with semi-annual interest payments due on January 15th and July 15 th, with early redemption at a premium to par at Holding s option at any time after January 15, 2009. The Company recorded $6.7 million in costs associated with the issuance of the 8% Senior Notes, which have been recorded as deferred financing costs in other assets. The effective interest rate at December 31, 2008 was 8.4%. During specified periods, Holding may redeem up to 35% of the original aggregate principal amount with the net cash proceeds of certain equity offerings of the Company. The 8% Senior Notes are guaranteed by Group (see Note 13 Guarantor/Non-Guarantor Consolidating Condensed Financial Information).

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

Step Up Convertible Subordinated Debentures

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

The Step Up Convertible Subordinated Debentures will mature on August 15, 2009. Interest will be payable from February 27, 2006 to December 31, 2006 at the rate of 6% per annum; from January 1, 2007 to December 31, 2007 at the rate of 7% per annum; and from January 1, 2008 to maturity at the rate of 8% per annum. Accrued interest will be paid each February 15 and August 15, beginning August 15, 2006, to holders of record on the preceding February 1 and August 1, respectively. The Step Up Convertible Subordinated Debentures are convertible into the Company s common stock at a conversion price of $1.187 per share of common stock through August 15, 2009, subject to adjustment in certain circumstances. The Indenture permits the Company, at its sole option, to require conversion if the Company s stock trades at 150% of the conversion

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price for at least 20 days within a 30 day period, subject to certain conditions, including that no more than 25% of the notes may be exchanged within any 30 day trading period. As of March 31, 2009, such conversion trigger had not been met. In the event of a change in control, as defined, the holders may put the instrument to the Company at which time the Company has the option to settle in cash or common stock at an adjusted conversion price.

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

3 3/4% Convertible Senior Notes

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

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

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

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

vote, June 20, 2006, and added back the June 20, 2006 fair value of the embedded derivative into the debt balance. On July 27, 2006, the Board of Directors determined to increase the authorized shares of the common stock to 300,000,000.

The Company recorded a corresponding debt discount to the Step Up Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes in the amount of the fair value of the embedded derivative at the issue date. An additional debt discount of $1.7 million was recorded for the Step Up Convertible Subordinated Debentures to bring the carrying value to fair value. The carrying value of the Step Up Convertible Subordinated Debentures at issuance was approximately $14.3 million, and the carrying value of the 3 3/4% Convertible Senior Notes at issuance of the Step Up Convertible Subordinated Debentures was approximately $127.8 million. The Company is accreting the difference between the face values of the Step Up Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes and the corresponding carrying values to interest expense under the effective interest method on a monthly basis over the lives of the Step Up Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes. Prior to March 16, 2009, when Debtors filed bankruptcy petition, the carrying value of the Step Up Convertible Subordinated Debentures (face value of $8.6 million) was $8.4 million, and the carrying value of the 3 3/4% Convertible Senior Notes (face value of $34.2 million) was $34.0 million. The effective interest rates of the Step Up Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes at December 31, 2008 were 14.0% and 4.7%, respectively.

12 3/4% Senior Notes

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

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

Leased Fiber Capacity

In December 2000, the Company entered into a financing arrangement to purchase fiber optic capacity in Australia for 51.1 million Australian dollars (AUD) ($28.5 million at December 31, 2000) from Optus Networks Pty. Limited. As of December 31, 2001, the Company had fulfilled the total purchase obligation. The Company

signed a promissory note payable over a four-year term ending in April 2005 bearing interest at a rate of 14.31%. During the three months ended June 30, 2003, the Company renegotiated the payment terms extending the payment schedule through March 2007, and lowering the interest rate to 10.2%. In October 2006, the Company renegotiated the payment terms of its promissory note payable to Optus Networks Pty. Limited to defer principal payments from April 2006 through December 2006 and was obligated to pay the remaining balance in three equal monthly principal payments in the first quarter 2007. In February 2007, the Company again renegotiated the payment terms of its $6.9 million (10.1 million AUD) promissory note payable to Optus Networks Pty. Limited to extend the payment schedule through December 2008 in 24 equal monthly payments. During the third quarter 2008, the payment terms were again renegotiated to extend payment of the principal balance of $2.1 million (3.1 million AUD) to June 2010 with monthly payments of interest at a rate of 13.5%. If certain conditions are not met, including certain purchase targets by September 30, 2009, Optus Networks Pty. Limited may give 30 days notice requiring full payment of the principal balance. At March 31, 2009 and December 31, 2008, the Company had a liability recorded in the amount of $2.1 million (3.1 million AUD) and $2.2 million (3.1 million AUD), respectively.

Equipment Financing and Other Long-Term Obligations

In November 2005, Primus Australia entered into a financing arrangement for network equipment. Payments are made over a five-year term ending October 2010. The effective interest rate on the current borrowing is 9.3%. At March 31, 2009 and December 31, 2008, the Company had a liability recorded under this agreement in the amount $2.6 million (3.8 million AUD) and $2.9 million (4.2 million AUD), respectively. At December 31, 2007, the Company was in breach of a covenant under the financing arrangement. Breach of such covenant was waived by the lender on February 8, 2008. No such breach existed as of March 31, 2009.

6. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments under capital leases and leased fiber capacity financing (Vendor Financing), purchase obligations and non-cancelable operating leases as of March 31, 2009 are as follows (in thousands):

Year Ending December 31,	Vendor Financing	Purchase Obligations	Operating Leases
2009 (as of March 31, 2009)	$ 2,022	$ 19,154	$ 12,989
2010	5,019	13,812	13,724
2011	462	1,873	10,186
2012	90	1,178	8,559
2013	64		6,038
Thereafter	33		9,075
Total minimum lease payments	7,690	36,017	60,571
Less: Amount representing interest	(795)		
	$ 6,895	$ 36,017	$ 60,571

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. The Company made purchases under purchase commitments of $6.3 million and $8.8 million for the three months ended March 31, 2009 and 2008, respectively.

Rent expense under operating leases was $3.3 million and $4.3 million for the three months ended March 31, 2009 and 2008, respectively.

Litigation

Legal Proceedings Related to the Chapter 11 Cases

On March 16, 2009, each of Group, Holding, PTII and IHC filed Chapter 11 Cases in the United States Bankruptcy Court for the District of Delaware for reorganization relief under Chapter 11 of the Bankruptcy Code. Subsequently, the Debtors sought and received an order directing joint administration of the Debtors Chapter 11 Cases under the caption, In re: Primus Telecommunications Group, Incorporated, et al., Debtors Case No. 09-10867. On April 24, 2009, an unsecured creditors committee was appointed by the United States Trustee. On April 27, 2009, the Bankruptcy Court approved the use of the Debtor s Disclosure Statement, which attached thereto the Plan, to solicit votes for the Plan and set a Plan confirmation hearing date for June 12, 2009 (see Note 1 Proceedings Under Chapter 11 of The Bankruptcy Code).

The Plan is subject to a number of uncertainties and contingencies and is subject to Bankruptcy Court confirmation. The Company is unable to assess the ultimate outcome of the Chapter 11 Cases.

Other Legal Proceedings

Group and its subsidiaries are subject to claims and legal proceedings unrelated to the Chapter 11 Cases that arise in the ordinary course of its business (Other Proceedings). Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be decided unfavorably. The Company believes that any aggregate liability that may result from the resolution of the Other Proceedings will not have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

7. SHARE-BASED COMPENSATION

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

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

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A summary of stock option activity during the three months ended March 31 is as follows:

	2009		2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding Beginning of quarter	7,814,403	$ 1.85	7,368,262	$ 2.09
Granted	300,000	$ 0.04	910,000	$ 0.36
Exercised		$		$
Forfeitures	(276,641)	$ 2.25	(131,941)	$ 2.26
Outstanding end of quarter	7,837,762	$ 1.77	8,146,321	$ 1.89
Eligible for exercise end of quarter	6,854,423	$ 1.98	6,597,400	$ 2.21

The following table summarizes information about stock options outstanding at March 31, 2009:

	Options Outstanding				Options Exercisable			
Range of Option Prices	Total Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value	Total Exercisable	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value
$ 0.03 to $ 0.29	310,000	9.86	$ 0.04	$		0.00	$	$
$ 0.36 to $ 0.79	1,713,833	7.48	$ 0.53	$	1,070,494	6.75	$ 0.63	$
$ 0.87 to $ 0.88	110,000	6.75	$ 0.87	$	110,000	6.75	$ 0.87	$
$ 0.90	748,450	2.27	$ 0.90	$	748,450	2.27	$ 0.90	$
$ 0.92	592,500	6.61	$ 0.92	$	592,500	6.61	$ 0.92	$
$ 0.93 to $ 0.99	110,000	3.88	$ 0.98	$	80,000	4.14	$ 0.98	$
$ 1.33 to $ 1.65	1,454,505	3.73	$ 1.65	$	1,454,505	3.73	$ 1.65	$
$ 1.90 to $ 2.38	1,678,874	3.75	$ 1.97	$	1,678,874	3.75	$ 1.97	$
$ 3.03 to $ 6.30	1,101,500	5.35	$ 4.89	$	1,101,500	5.35	$ 4.89	$
$12.31 to $31.94	18,100	0.63	$ 22.49	$	18,100	0.63	$ 22.49	$
	7,837,762	5.14	$ 1.77	$	6,854,423	4.60	$ 1.98	$

The number of unvested options expected to vest is 0.4 million shares, with a weighted average remaining life of 8.9 years, a weighted average exercise price of $0.29, and an intrinsic value of $0.

Under the Plan of Reorganization, as described in Note 1 *Going Concern and Voluntary Reorganization under Chapter 11* above, all unvested awards will be cancelled upon the confirmation of the plan by the Bankruptcy Court.

In 2007, 100,000 restricted stock units were granted, which is the only grant to date. None have vested as their vesting schedule is to vest 100% three years from grant date. In October 2008, the stock units were fully vested upon involuntary termination without cause. The employee withholding tax was netted against the share issuance, and the Company issued 62,850 shares of common stock and accelerated the recognition of $28 thousand expense.

In December 1998, the Company established the 1998 Restricted Stock Plan (the Restricted Plan) to facilitate the grant of restricted stock to selected individuals (excluding executive officers and directors of the Company) who contribute to the development and success of the Company. The total number of shares of common stock that may be granted under the Restricted Plan is 750,000. The Company did not issue any restricted stock under the Restricted Plan for three months ended March 31, 2009 and 2008. As of March 31, 2009, 54,000 shares have been issued and none are considered restricted.

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8. INCOME TAXES

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

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

Jurisdiction	Open Tax Years
United States Federal	2000, 2002 - 2008
Australia	2001 - 2008
Canada	2003 - 2008
United Kingdom	2006 - 2008
Netherlands	2007 - 2008

The Company is currently under examination in other foreign tax jurisdictions, none of which are individually material.

The Company adopted the provisions of FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in 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.

On an ongoing basis, the Company monitors activity in its 5% shareholder base for substantial changes in ownership as defined under Internal Revenue Code Section 382 (Section 382). In 2009 and the rest of the testing periods under Section 382, the Company has had significant activity in this shareholder base, but upon review of the 13G filings and other available data the Company believes that an ownership change did not occur during the three months ended March 31, 2009. If a change is to occur, the resulting Section 382 limitation would place severe limits on the Company s ability to utilize the United States net operating losses.

As a result of the Company s March 16, 2009 petition to file for reorganization under Chapter 11 of Title 11 of the United States Code, certain United States tax attributes may be reduced upon reorganization emergence later this year.

9. OPERATING SEGMENT AND RELATED INFORMATION

The Company has five reportable operating segments based on management s organization of the enterprise into geographic areas United States, Canada, Europe and Australia, with the wholesale business within each region managed as a separate global segment. The Company evaluates the performance of its segments and allocates resources to them based upon net revenue and income (loss) from operations. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Net revenue by geographic segment is reported on the basis of where services are provided. The Company has no single customer representing greater than 10% of its revenues. Operations and assets of the United States segment include shared corporate functions and assets, which the Company does not allocate to its other geographic segments for management reporting purposes. The wholesale business assets are indistinguishable from the respective geographic segments. Therefore, any reporting related to the wholesale business for assets, capital expenditures or other balance sheet items is impractical.

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

	Three months ended March 31,	
	2009	2008
Net Revenue by Geographic Region		
United States		
United States	$ 41,455	$ 42,659
Other	3,267	2,157
Total United States	44,722	44,816
Canada		
Canada	53,245	68,449
Total Canada	53,245	68,449
Europe		
United Kingdom	25,300	17,377
Germany	5	4,909
France	7,757	5,766
Spain	2,285	3,403
Italy	6,627	3,340
Other	2,506	3,194
Total Europe	44,480	37,989
Australia		
Australia	52,027	74,075
Other		105
Total Australia	52,027	74,180
Total net revenue	$ 194,474	$ 225,434
Net Revenue by Segment		
United States	$ 21,362	$ 25,290
Canada	53,245	68,449
Europe	13,637	15,765
Australia	52,027	74,075
Wholesale	54,203	41,855
Total	$ 194,474	$ 225,434
Provision for Doubtful Accounts Receivable		
United States	$ 657	$ 804
Canada	566	346
Europe	116	198
Australia	618	1,268
Wholesale	273	212
Total	$ 2,230	$ 2,828

Income (Loss) from Operations				
United States	$	(551)	$	502
Canada		9,428		11,525
Europe		(205)		(1,465)
Australia		4,261		(81)
Wholesale		694		(768)
Total	$	13,627	$	9,713
Capital Expenditures				
United States	$	192	$	360
Canada		1,948		2,142
Europe		137		467
Australia		509		3,889
Total	$	2,786	$	6,858

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

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	March 31, 2009	December 31, 2008
Property and Equipment Net		
United States		
United States	$ 14,638	$ 15,590
Other	616	504
Total United States	15,254	16,094
Canada		
Canada	43,469	44,234
Total Canada	43,469	44,234
Europe		
United Kingdom	5,616	5,965
Other	499	577
Total Europe	6,115	6,542
Australia		
Australia	43,043	45,151
Other	106	131
Total Australia	43,149	45,282
Total	$ 107,987	$ 112,152

	March 31, 2009	December 31, 2008
Assets		
United States		
United States	$ 6,385	$ 28,230
Other	4,172	4,263
Total United States	10,557	32,493
Canada		
Canada	124,567	121,105
Total Canada	124,567	121,105
Europe		
United Kingdom	27,645	23,597
Germany	945	2,710
Italy	9,074	9,301
France	8,022	6,326
Other	32,943	33,262
Total Europe	78,629	75,196
Australia		
Australia	88,554	97,645

Other	3,711	4,005
Total Australia	92,265	101,650
Total	$ 306,018	$ 330,444

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

	For the Three Months Ended March 31, 2009	2008
Voice	$ 121,647	$ 143,203
Data/Internet	35,474	47,324
VOIP	37,353	34,907
Total	$ 194,474	$ 225,434

10. DISCONTINUED 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. The Company reported Japan retail operations as a discontinued operation.

In the second quarter 2008, the Company determined it would sell its German retail operations. However, buyers were not found; therefore the Company decided it would 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 reflect the Japan retail operations and German retail operations as discontinued operations for the three months ended March 31, 2009 and 2008. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as loss from discontinued operations.

Summarized operating results of the discontinued operations for the three months ended March 31, 2009 and 2008 are as follows (in thousands):

	For the Three Month Ended March 31, 2009	March 31, 2008
Net revenue	$ 293	$ 1,167
Operating expenses	705	1,217
Loss from operations	(412)	(50)
Interest expense		
Interest income and other income	19	5
Loss from discontinued operations	$ (393)	$ (45)

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

Basic income (loss) per common share is calculated by dividing income (loss) attributable to common stockholders by the weighted average common shares outstanding during the period.

Diluted income per common share adjusts basic income per common share for the effects of potentially dilutive common share equivalents. Potentially dilutive common shares primarily include the dilutive effects of common shares issuable under the Company s stock option compensation plans computed using the treasury stock method and the dilutive effects of shares issuable upon conversion of its 5% Exchangeable Senior Notes, the Step Up Convertible Subordinated Debentures, the 3 $^{3}/4$% Convertible Senior Notes and the 2000 Convertible Subordinated Debentures.

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For the three months ended March 31, 2009, 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:

7.8 million shares issuable under the Company s stock option compensation plans, and

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

The Company had no dilutive common share equivalents during the three months ended March 31, 2008. The following could potentially dilute income per common share in the future but were excluded from the calculation of diluted loss per common share for the three months ended March 31, 2008 due to their antidilutive effects:

8.1 million shares issuable under the Company s stock option compensation plans,

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

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

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

As described in Note 1 *Going Concern and Voluntary Reorganization under Chapter 11* above, the Plan provides that holders of the Company s outstanding common stock may be entitled to receive, following Plan confirmation, subject to certain conditions and provisions their pro rata share of CVRs that could enable such holders to acquire, subject to certain conditions and provisions, up to approximately 15% of the fully diluted new equity of Reorganized Group.

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

	For the Three Months Ended March 31,	
	2009	**2008**
Income (loss) from continuing operations	$ 14,133	$ (2,954)
Loss from discontinuing operations, net of tax	(393)	(45)
Gain from sale of discontinued operations, net of tax	251	
Income (loss) attributable to common stockholders - basic	13,991	(2,999)
Adjustment for interest expense on Step Up Convertible Subordinated Debentures	210	
Income (loss) attributable to common stockholders - diluted	$ 14,201	$ (2,999)
Weighted average common shares outstanding - basic	142,695	142,633
In-the-money options exercisable under stock option compensation plans		
5% Exchangeable Senior Notes	19,474	
Step Up Convertible Subordinated Debentures	7,280	
Weighted average common shares outstanding - diluted	169,449	142,633

Basic income (loss) per common share:				
Income (loss) from continuing operations	$	0.10	$	(0.02)
Loss from discontinued operations		(0.00)		(0.00)
Gain from sale of discontinued operations		0.00		
Net income (loss)	$	0.10	$	(0.02)
Diluted income (loss) per common share:				
Income (loss) from continuing operations	$	0.08	$	(0.02)
Loss from discontinued operations		(0.00)		(0.00)
Gain from sale of discontinued operations		0.00		
Net income (loss)	$	0.08	$	(0.02)

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12. REORGANIZATION ITEMS, NET

Reorganization items, net, represents amounts incurred as a direct result of the Chapter 11 filings and is presented separately in the Consolidated Condensed Statements of Operations. The following describes the components of reorganization items, net (in thousands):

	For the Three Months Ended March 31, 2009
Professional Fees	($ 3,796)
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	$ 16,568

Professional fees include financial and legal services directly associated with the reorganization process. Payments for the three months ended March 31, 2009 for professional fees and retainers were $3.8 million. In accordance with SOP No. 90-7, 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 Secured Notes and 5% Exchangeable Senior Notes as the issuance of these notes had been deemed troubled debt restructurings.

13. GUARANTOR/NON-GUARANTOR CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Consolidating Financial Statements for Holding Debt Issuances

Holding s 8% Senior Notes and 5% Exchangeable Senior Notes are fully and unconditionally guaranteed by Group on a senior basis as of March 31, 2009. As discussed in Note 1, on March 16, 2009, Holding, Group, IHC and PTII filed for bankruptcy. Group has a 100% ownership in Holding and no direct subsidiaries other than Holding. Accordingly, the following consolidating condensed financial information as of March 31, 2009 and 2008 are included for (a) Group on a stand-alone basis; (b) Holding on a stand-alone basis; (c) Group indirect non-guarantor subsidiaries on a combined basis; and (d) Group on a consolidated basis.

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

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Three Months Ended March 31, 2009				
	PTGI	PTHI	Other	Eliminations	Consolidated
NET REVENUE	$	$	$ 194,474	$	$ 194,474
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)			129,374		129,374
Selling, general and administrative	1,039	990	43,407		45,436
Depreciation and amortization			6,096		6,096
Gain on sale or disposal of assets			(59)		(59)
Total operating expenses	1,039	990	178,818		180,847
INCOME (LOSS) FROM OPERATIONS	(1,039)	(990)	15,656		13,627
INTEREST EXPENSE	(794)	(5,623)	(4,359)		(10,776)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(129)		318		189
INTEREST AND OTHER INCOME			235		235
FOREIGN CURRENCY TRANSACTION LOSS	(67)	(193)	(2,789)		(3,049)
INTERCOMPANY INTEREST	(2,078)	(4,367)	6,445		
MANAGEMENT FEE		1,049	(1,049)		
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(4,107)	(10,124)	14,457		226
REORGANIZATION ITEMS NET	(2,169)	(3,906)	22,643		16,568
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(6,276)	(14,030)	37,100		16,794
INCOME TAX EXPENSE			(2,797)		(2,797)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(6,276)	(14,030)	34,303		13,997
EQUITY IN NET INCOME OF SUBSIDIARIES	20,267	34,297		(54,564)	
INCOME FROM CONTINUING OPERATIONS	13,991	20,267	34,303	(54,564)	13,997
LOSS FROM DISCONTINUED OPERATIONS, net of tax			(393)		(393)
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax			251		251
NET INCOME	13,991	20,267	34,161	(54,564)	13,855
Less: Net loss attributable to the noncontrolling interest			136		136
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 13,991	$ 20,267	$ 34,297	$ (54,564)	$ 13,991

AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED					
Income from continuing operations, net of tax	$ 13,991	$ 20,267	$ 34,439	$ (54,564)	$ 14,133
Loss from discontinued operations			(393)		(393)
Gain from sale of discontinued operations			251		251
Net income	$ 13,991	$ 20,267	$ 34,297	$ (54,564)	$ 13,991

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Three Months Ended March 31, 2008				
	PTGI	PTHI	Other	Eliminations	Consolidated
NET REVENUE	$	$	$ 225,434	$	$ 225,434
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)			141,484		141,484
Selling, general and administrative	1,272	1,728	65,858		68,858
Depreciation and amortization			7,959		7,959
Loss on sale or disposal of assets			(2,580)		(2,580)
Total operating expenses	1,272	1,728	212,721		215,721
INCOME (LOSS) FROM OPERATIONS	(1,272)	(1,728)	12,713		9,713
INTEREST EXPENSE	(1,917)	(7,910)	(5,366)		(15,193)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(375)		345		(30)
GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	2,209		101		2,310
INTEREST AND OTHER INCOME	10		1,052		1,062
FOREIGN CURRENCY TRANSACTION GAIN	1,296	369	42		1,707
INTERCOMPANY INTEREST	(347)	(3,393)	3,740		
MANAGEMENT FEE		1,943	(1,943)		
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(396)	(10,719)	10,684		(431)
INCOME TAX EXPENSE	(84)	(471)	(1,865)		(2,420)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(480)	(11,190)	8,819		(2,851)
EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(2,519)	8,671		(6,152)	
INCOME (LOSS) FROM CONTINUING OPERATIONS	(2,999)	(2,519)	8,819	(6,152)	(2,851)
LOSS FROM DISCONTINUED OPERATIONS, net of tax			(45)		(45)
NET INCOME (LOSS)	(2,999)	(2,519)	8,774	(6,152)	(2,896)
Less: Net income attributable to the noncontrolling interest			(103)		(103)
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (2,999)	$ (2,519)	$ 8,671	$ (6,152)	$ (2,999)
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED					
Income (loss) from continuing operations, net of tax	$ (2,999)	$ (2,519)	$ 8,716	$ (6,152)	$ (2,954)
Loss from discontinued operations			(45)		(45)
Net income (loss)	$ (2,999)	$ (2,519)	$ 8,671	$ (6,152)	$ (2,999)

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED BALANCE SHEET

(in thousands)

	March 31, 2009				
	PTGI	PTHI	Other	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ (32)	$ 9	$ 32,059	$	$ 32,036
Restricted cash			320		320
Accounts receivable			90,153		90,153
Prepaid expenses and other current assets	1,406		15,661		17,067
Total current assets	1,374	9	138,193		139,576
INTERCOMPANY RECEIVABLES	85,334	1,116,897		(1,202,231)	
INVESTMENTS IN SUBSIDIARIES	24,441	(673,885)		649,444	
RESTRICTED CASH			7,897		7,897
PROPERTY AND EQUIPMENT Net			107,987		107,987
GOODWILL			32,003		32,003
OTHER INTANGIBLE ASSETS Net			522		522
OTHER ASSETS		1,312	16,721		18,033
TOTAL ASSETS	$ 111,149	$ 444,333	$ 303,323	$ (552,787)	$ 306,018
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)					
CURRENT LIABILITIES:					
Accounts payable	$ 59	$ 1	49,776	$	$ 49,836
Accrued interconnection costs			38,996		38,996
Deferred revenue			12,551		12,551
Accrued expenses and other current liabilities	248	1,095	40,712		42,055
Accrued income taxes	68		18,373		18,441
Accrued interest		825			825
Current portion of long-term obligations		96,000	9,847		105,847
Total current liabilities	375	97,921	170,255		268,551
INTERCOMPANY PAYABLES	498,278	109,834	594,119	(1,202,231)	
LONG-TERM OBLIGATIONS			29,798		29,798
Total liabilities not subject to compromise	498,653	207,755	794,172	(1,202,231)	298,349
LIABILITIES SUBJECT TO COMPROMISE	58,490	212,137	180,423		451,050
Total liabilities	557,143	419,892	974,595	(1,202,231)	749,399
COMMITMENTS AND CONTINGENCIES					
STOCKHOLDERS EQUITY (DEFICIT):					
Primus Telecommunications Group, Incorporated Stockholders Deficit:					
Common stock	1,427				1,427
Additional paid-in capital	718,972	1,161,930	232,294	(1,394,224)	718,972
Accumulated deficit	(1,085,818)	(1,057,715)	(835,110)	1,892,825	(1,085,818)
Accumulated other comprehensive loss	(80,575)	(79,774)	(71,069)	150,843	(80,575)
Total Primus Telecommunications Group, Incorporated stockholders deficit	(445,994)	24,441	(673,885)	649,444	(445,994)

Noncontrolling interest			2,613		2,613
Total stockholders deficit	(445,994)	24,441	(671,272)	649,444	(443,381)
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 111,149	$ 444,333	$ 303,323	$ (552,787)	$ 306,018

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED BALANCE SHEET

(in thousands)

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

Noncontrolling interest			2,814		2,814
Total stockholders deficit	(461,539)	2,636	(706,906)	707,084	(458,725)
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 96,842	$ 424,176	$ 324,873	$ (515,447)	$ 330,444

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

(in thousands)

	For the Three Month Ended March 31, 2009				
	PTGI	**PTHI**	**Other**	**Eliminations**	**Consolidated**
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 13,991	$ 20,267	$ 34,161	$ (54,564)	$ 13,855
Adjustments to reconcile net income to net cash provided by operating activities:					
Reorganization items, net	2,169	3,906	(22,643)		(16,568)
Provision for doubtful accounts receivable			2,230		2,230
Stock compensation expense		16			16
Depreciation and amortization			6,096		6,096
Gain on sale or disposal of assets			(310)		(310)
Accretion of debt (premium) discount	129		(318)		(189)
Equity in net income (loss) of subsidiary	(20,267)	(34,161)		54,428	
Gain on early extinguishment or restructuring of debt					
Minority interest share of income		(136)		136	
Unrealized foreign currency transaction loss on intercompany and foreign debt	68	193	2,882		3,143
Changes in assets and liabilities, net of acquisitions:					
Decrease in accounts receivable			5,101		5,101
(Increase) decrease in prepaid expenses and other current assets	(1,117)	149	(453)		(1,421)
Decrease in other assets	52	267	1,951		2,270
(Increase) decrease in intercompany balance					
Decrease in accounts payable	(1,500)	(153)	(5,722)		(7,375)
Increase in accrued interconnection costs			(1,838)		(1,838)
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities, and other liabilities	80	260	(303)		37
Decrease in accrued income taxes	(2)		392		390
Increase (decrease) in accrued interest	397	(4,367)	3,176		(794)
Net cash provided by (used in) operating activities before reorganization items	(6,000)	(13,759)	24,402		4,643
Cash effect of reorganization items	(1,412)	(2,384)	2		(3,794)
Net cash provided by (used in) operating activities	(7,412)	(16,143)	24,404		849
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment			(2,786)		(2,786)
Sale of property and equipment			59		59
Cash from disposition of business, net of cash disposed			232		232
Cash used in business acquisitions, net of cash acquired			(199)		(199)
Increase in restricted cash			(215)		(215)
Proceeds from intercompany balance	7,228	4,389		(11,617)	
Net cash provided by (used in) investing activities	7,228	4,389	(2,909)	(11,617)	(2,909)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Principal payments on long-term obligations		(250)	(2,758)		(3,008)
Proceeds from (payments on) intercompany balance		12,031	(23,648)	11,617	
Net cash provided by (used in) financing activities		11,781	(26,406)	11,617	(3,008)

EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			104		104
NET CHANGE IN CASH AND CASH EQUIVALENTS	(184)	27	(4,807)		(4,964)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	152	(18)	36,866		37,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ (32)	$ 9	$ 32,059	$	$ 32,036

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

(in thousands)

	For Three Months Ended March 31, 2008				
	PTGI	PTHI	Other	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	$ (2,999)	$ (2,519)	$ 8,774	$ (6,152)	$ (2,896)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Provision for doubtful accounts receivable			2,828		2,828
Stock compensation expense		62			62
Depreciation and amortization			7,961		7,961
Gain on sale or disposal of assets			(2,580)		(2,580)
Accretion of debt (premium) discount	375		(345)		30
Equity in net (income) loss of subsidiary	2,519	(8,774)		6,255	
Minority interest share of income		103		(103)	
Deferred income taxes		450			450
Gain on early extinguishment or restructuring of debt	(2,209)		(101)		(2,310)
Unrealized foreign currency transaction gain on intercompany and foreign debt	(1,304)	(349)	152		(1,501)
Changes in assets and liabilities, net of acquisitions:					
Increase in accounts receivable			(1,818)		(1,818)
(Increase) decrease in prepaid expenses and other current assets	92	(4)	9,689		9,777
(Increase) decrease in other assets	215	291	(164)		342
Increase (decrease) in accounts payable	28	(378)	(10,108)		(10,458)
Decrease in accrued interconnection costs			(314)		(314)
Decrease, net, in deferred revenue, accrued expenses, other current liabilities, and other liabilities	(357)	(792)	(4,950)		(6,099)
Increase in accrued income taxes	92	1	409		502
Increase (decrease) in accrued interest	(681)	(4,707)	3,884		(1,504)
Net cash provided by (used in) operating activities	(4,229)	(16,616)	13,317		(7,528)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment			(6,858)		(6,858)
Sale of property and equipment			800		800
Cash from disposition of business, net of cash disposed			1,765		1,765
Increase in restricted cash			(888)		(888)
Proceeds from intercompany balance	16,017	9,799		(25,816)	
Net cash provided by (used in) investing activities	16,017	9,799	(5,181)	(25,816)	(5,181)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Purchase of the Company s debt securities	(11,217)				(11,217)
Principal payments on long-term obligations		(250)	(1,286)		(1,536)
Proceeds from (payments on) intercompany balance		7,073	(32,889)	25,816	
Net cash provided by (used in) financing activities	(11,217)	6,823	(34,175)	25,816	(12,753)

EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			55		55
NET CHANGE IN CASH AND CASH EQUIVALENTS	571	6	(25,984)		(25,407)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,299	(35)	80,018		81,282
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,870	$ (29)	$ 54,034	$	$ 55,875

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Consolidating Financial Statements for IHC Debt Issuance

Primus Telecommunications IHC, Inc. s 14 1/4% Senior Secured Notes are fully, unconditionally, jointly and severally guaranteed by Group on a senior basis as of March 31, 2009 and by Holding, Primus Telecommunications, Inc., TresCom International Inc., Least Cost Routing, Inc., TresCom U.S.A., Inc., iPRIMUS USA, Inc., and iPRIMUS.com, Inc., all 100% owned subsidiaries of Group (collectively, the Other Guarantors). Group has a 100% ownership in Holding and no direct subsidiaries other than Holding. As discussed in Note 2, on March 16, 2009, Holding, Group, and IHC filed for bankruptcy. Accordingly, the following consolidating condensed financial information as of March 31, 2009 and 2008 are included for (a) Group on a stand-alone basis; (b) Primus Telecommunications IHC, Inc. (IHC) on a stand-alone basis; (c) the Other Guarantor subsidiaries on a combined basis; (d) Group s indirect non-guarantor subsidiaries on a combined basis and (e) Group on a consolidated basis.

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

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Three Month Ended March 31, 2009					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$	$	$ 34,891	$ 159,583	$	$ 194,474
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			28,767	100,607		129,374
Selling, general and administrative	1,039	19	6,572	37,806		45,436
Depreciation and amortization			679	5,417		6,096
Gain on sale or disposal of assets			(58)	(1)		(59)
Total operating expenses	1,039	19	35,960	143,829		180,847
INCOME (LOSS) FROM OPERATIONS	(1,039)	(19)	(1,069)	15,754		13,627
INTEREST EXPENSE	(794)	(3,331)	(5,625)	(1,026)		(10,776)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(129)	318				189
INTEREST AND OTHER INCOME			5	230		235
FOREIGN CURRENCY TRANSACTION LOSS	(67)	(1,056)	(140)	(1,786)		(3,049)
INTERCOMPANY INTEREST	(2,078)	7,209	(4,367)	(764)		
MANAGEMENT FEE			1,129	(1,129)		
ROYALTY FEE		2,509		(2,509)		
INCOME (LOSS) BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(4,107)	5,630	(10,067)	8,770		226
REORGANIZATION ITEMS NET	(2,169)	22,643	(3,906)			16,568
INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES	(6,276)	28,273	(13,973)	8,770		16,794
INCOME TAX EXPENSE		(183)	(670)	(1,944)		(2,797)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(6,276)	28,090	(14,643)	6,826		13,997
EQUITY IN NET INCOME OF SUBSIDIARIES	20,267		34,297		(54,564)	
INCOME FROM CONTINUING OPERATIONS	13,991	28,090	19,654	6,826	(54,564)	13,997
LOSS FROM DISCONTINUED OPERATIONS, net of tax				(393)		(393)
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax				251		251
NET INCOME	13,991	28,090	19,654	6,684	(54,564)	13,855
Less: Net loss attributable to the noncontrolling interest				136		136
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 13,991	$ 28,090	$ 19,654	$ 6,820	$ (54,564)	$ 13,991

AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED									
Income from continuing operations, net of tax	$ 13,991	$ 28,090	$	19,654	$	6,962	$	(54,564)	$	14,133
Loss from discontinued operations						(393)				(393)
Gain from sale of discontinued operations						251				251
Net income	$ 13,991	$ 28,090	$	19,654	$	6,820	$	(54,564)	$	13,991

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For Three Months Ended March 31, 2008					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$	$	$ 35,033	$ 190,401	$	$ 225,434
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			27,563	113,921		141,484
Selling, general and administrative	1,272	35	8,846	58,705		68,858
Depreciation and amortization			866	7,093		7,959
Loss on sale or disposal of assets			(800)	(1,780)		(2,580)
Total operating expenses	1,272	35	36,475	177,939		215,721
INCOME (LOSS) FROM OPERATIONS	(1,272)	(35)	(1,442)	12,462		9,713
INTEREST EXPENSE	(1,917)	(3,872)	(8,078)	(1,326)		(15,193)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(375)	345				(30)
INCOME (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	2,209	(7)		108		2,310
INTEREST AND OTHER INCOME (EXPENSE)	10		(7)	1,059		1,062
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	1,296	726	398	(713)		1,707
INTERCOMPANY INTEREST	(347)	5,690	(3,393)	(1,950)		
MANAGEMENT FEE			2,105	(2,105)		
ROYALTY FEE		3,757	(136)	(3,621)		
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(396)	6,604	(10,553)	3,914		(431)
INCOME TAX EXPENSE	(84)	(465)	(504)	(1,367)		(2,420)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(480)	6,139	(11,057)	2,547		(2,851)
EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(2,519)		8,671		(6,152)	
INCOME (LOSS) FROM CONTINUING OPERATIONS	(2,999)	6,139	(2,386)	2,547	(6,152)	(2,851)
LOSS FROM DISCONTINUED OPERATIONS, net of tax				(45)		(45)
NET INCOME (LOSS)	(2,999)	6,139	(2,386)	2,502	(6,152)	(2,896)
Less: Net income attributable to the noncontrolling interest				(103)		(103)
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (2,999)	$ 6,139	$ (2,386)	$ 2,399	$ (6,152)	$ (2,999)
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income (loss) from continuing operations, net of tax	$ (2,999)	$ 6,139	$ (2,386)	$ 2,444	$ (6,152)	$ (2,954)
Loss from discontinued operations				(45)		(45)

Net income (loss)	$ (2,999)	$ 6,139	$ (2,386)	$ 2,399	$ (6,152)	$ (2,999)

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED BALANCE SHEET

(in thousands)

	March 31, 2009					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ (32)	$	$ 3,979	$ 28,089	$	$ 32,036
Restricted cash				320		320
Accounts receivable			14,187	75,966		90,153
Prepaid expenses and other current assets	1,406		1,398	14,263		17,067
Total current assets	1,374		19,564	118,638		139,576
INTERCOMPANY RECEIVABLES	85,334	292,776	617,063	104,635	(1,099,808)	
INVESTMENTS IN SUBSIDIARIES	24,441		(95,858)		71,417	
RESTRICTED CASH			253	7,644		7,897
PROPERTY AND EQUIPMENT Net			13,444	94,543		107,987
GOODWILL				32,003		32,003
OTHER INTANGIBLE ASSETS Net				522		522
OTHER ASSETS			1,306	16,727		18,033
TOTAL ASSETS	$ 111,149	$ 292,776	$ 555,772	$ 374,712	$ (1,028,391)	$ 306,018
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)						
CURRENT LIABILITIES:						
Accounts payable	$ 59	$	$ 2,505	$ 47,272	$	$ 49,836
Accrued interconnection costs			14,337	24,659		38,996
Deferred revenue			1,229	11,322		12,551
Accrued expenses and other current liabilities	248		6,398	35,409		42,055
Accrued income taxes	68	3,368	1,219	13,786		18,441
Accrued interest			825			825
Current portion of long-term obligations			96,091	9,756		105,847
Total current liabilities	375	3,368	122,604	142,204		268,551
INTERCOMPANY PAYABLES	498,278		196,460	405,070	(1,099,808)	
LONG-TERM OBLIGATIONS			130	29,668		29,798
Total liabilities not subject to compromise	498,653	3,368	319,194	576,942	(1,099,808)	298,349
LIABILITIES SUBJECT TO COMPROMISE	58,490	180,423	212,137			451,050
Total liabilities	557,143	183,791	531,331	576,942	(1,099,808)	749,399
COMMITMENTS AND CONTINGENCIES						
STOCKHOLDERS EQUITY (DEFICIT):						
Primus Telecommunications Group, Incorporated Stockholders Deficit:						
Common stock	1,427					1,427

Additional paid-in capital	718,972		1,161,930	232,569	(1,394,499)	718,972
Accumulated deficit	(1,085,818)	108,985	(1,057,715)	(361,598)	1,310,328	(1,085,818)
Accumulated other comprehensive loss	(80,575)		(79,774)	(75,814)	155,588	(80,575)
Total Primus Telecommunications Group, Incorporated stockholders deficit	(445,994)	108,985	24,441	(204,843)	71,417	(445,994)
Noncontrolling interest				2,613		2,613
Total stockholders deficit	(445,994)	108,985	24,441	(202,230)	71,417	(443,381)
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 111,149	$ 292,776	$ 555,772	$ 374,712	$ (1,028,391)	$ 306,018

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED BALANCE SHEET

(in thousands)

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

Accumulated other comprehensive loss	(82,113)		(81,312)	(77,352)	158,664	(82,113)
Total Primus Telecommunications Group, Incorporated stockholders deficit	(461,539)	80,895	2,636	(213,201)	129,670	(461,539)
Noncontrolling interest				2,814		2,814
Total stockholders deficit	(461,539)	80,895	2,636	(210,387)	129,670	(458,725)
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 96,842	$ 284,420	$ 548,196	$ 385,629	$ (984,643)	$ 330,444

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

(in thousands)

	For the Three Months Ended March 31, 2009					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$ 13,991	$ 28,090	$ 19,654	$ 6,684	$ (54,564)	$ 13,855
Adjustments to reconcile net income to net cash provided by operating activities:						
Reorganization items, net	2,169	(22,641)	3,906	(2)		(16,568)
Provision for doubtful accounts receivable			506	1,724		2,230
Stock compensation expense			16			16
Depreciation and amortization			679	5,417		6,096
Gain on sale or disposal of assets			(58)	(252)		(310)
Accretion of debt (premium) discount	129	(318)				(189)
Equity in net income of subsidiary	(20,267)		(34,161)		54,428	
Minority interest share of income			(136)		136	
Deferred income taxes			141	(141)		
Unrealized foreign currency transaction loss on intercompany and foreign debt	68	1,113	193	1,769		3,143
Changes in assets and liabilities, net of acquisitions:						
(Increase) decrease in accounts receivable			(469)	5,570		5,101
(Increase) decrease in prepaid expenses and other current assets	(1,117)		307	(611)		(1,421)
Decrease in other assets	52	17	851	1,350		2,270
(Increase) decrease in intercompany balance		(3,270)	10,331	(7,061)		
Decrease in accounts payable	(1,500)		(2,269)	(3,606)		(7,375)
Increase (decrease) in accrued interconnection costs			(2,126)	288		(1,838)
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities and other liabilities	80		(33)	(10)		37
Increase (decrease) in accrued income taxes	(2)	125	(1)	268		390
Increase (decrease) in accrued interest	397	3,314	(4,367)	(138)		(794)
Net cash provided by (used in) operating activities before reorganization items	(6,000)	6,430	(7,036)	11,249		4,643
Cash effect of reorganization items	(1,412)		(2,384)	2		(3,794)
Net cash provided by (used in) operating activities	(7,412)	6,430	(9,420)	11,251		849
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of property and equipment			(82)	(2,704)		(2,786)
Sale of property and equipment and intangible assets			59			59
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	(276)		(215)
Proceeds from intercompany balance	7,228		6,075		(13,303)	
Net cash provided by (used in) investing activities	7,228		6,113	(2,947)	(13,303)	(2,909)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Principal payments on other long-term obligations			(257)	(2,751)		(3,008)
Proceeds from (payments on) intercompany balance		(6,430)	3,992	(10,865)	13,303	

Net cash provided by (used in) financing activities		(6,430)	3,735	(13,616)	13,303	(3,008)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				104		104
NET CHANGE IN CASH AND CASH EQUIVALENTS	(184)		428	(5,208)		(4,964)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	152		3,551	33,297		37,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ (32)	$	$ 3,979	$ 28,089	$	$ 32,036

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

(in thousands)

	For Three Months Ended March 31, 2008					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income (loss)	$ (2,999)	$ 6,139	$ (2,386)	$ 2,502	$ (6,152)	$ (2,896)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Provision for doubtful accounts receivable			376	2,452		2,828
Stock compensation expense			62			62
Depreciation and amortization			866	7,095		7,961
Gain on sale or disposal of assets			(800)	(1,780)		(2,580)
Accretion of debt (premium) discount	375	(345)				30
Equity in net (income) loss of subsidiary	2,519		(8,774)		6,255	
Minority interest share of income			103		(103)	
Deferred income taxes			450			450
(Gain) loss on early extinguishment or restructuring of debt	(2,209)	7		(108)		(2,310)
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	(1,304)	(646)	(349)	798		(1,501)
Changes in assets and liabilities, net of acquisitions:						
Increase in accounts receivable			(1,332)	(486)		(1,818)
(Increase) decrease in prepaid expenses and other current assets	92		(56)	9,741		9,777
(Increase) decrease in other assets	215	16	295	(184)		342
(Increase) decrease in intercompany balance		(5,736)	(5,889)	11,625		
Increase (decrease) in accounts payable	28		(1,561)	(8,925)		(10,458)
Increase (decrease) in accrued interconnection costs			1,985	(2,299)		(314)
Decrease, net, in deferred revenue, accrued expenses, other current liabilities and other liabilities	(357)		(956)	(4,786)		(6,099)
Increase (decrease) in accrued income taxes	92	385	(199)	224		502
Increase (decrease) in accrued interest	(681)	3,855	(4,707)	29		(1,504)
Net cash provided by (used in) operating activities	(4,229)	3,675	(22,872)	15,898		(7,528)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of property and equipment			(249)	(6,609)		(6,858)
Sale of property and equipment			800			800
Cash from disposition of business, net of cash disposed				1,765		1,765
Increase in restricted cash				(888)		(888)
Proceeds from intercompany balance	16,017		7,809		(23,826)	
Net cash provided by (used in) investing activities	16,017		8,360	(5,732)	(23,826)	(5,181)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Purchase of the Company s debt securities	(11,217)					(11,217)
Principal payments on other long-term obligations			(257)	(1,279)		(1,536)
Proceeds from (payments on) intercompany balance		(3,675)	14,766	(34,917)	23,826	
Net cash provided by (used in) financing activities	(11,217)	(3,675)	14,509	(36,196)	23,826	(12,753)

EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				55		55
NET CHANGE IN CASH AND CASH EQUIVALENTS	571		(3)	(25,975)		(25,407)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,299		670	79,313		81,282
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,870	$	$ 667	$ 53,338	$	$ 55,875

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14. CONDENSED COMBINED FINANCIAL STATEMENTS

As discussed in Note 1, on March 16, 2009, the Debtors filed for bankruptcy. Accordingly, the following condensed combined financial information as of March 31, 2009 and 2008 are included for (a) the Debtors on a combined basis; (b) the non-Debtors on a combined basis; and (c) Group on a consolidated basis.

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

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Three Months Ended March 31, 2009			
	Debtor Entities	**Non-Debtor Entities**	**Eliminations**	**Consolidated**
NET REVENUE	$	$ 194,474	$	$ 194,474
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)		129,374		129,374
Selling, general and administrative	2,066	43,370		45,436
Depreciation and amortization		6,096		6,096
Gain on sale or disposal of assets		(59)		(59)
Total operating expenses	2,066	178,781		180,847
INCOME (LOSS) FROM OPERATIONS	(2,066)	15,693		13,627
INTEREST EXPENSE	(9,748)	(1,028)		(10,776)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	189			189
INTEREST AND OTHER INCOME		235		235
FOREIGN CURRENCY TRANSACTION LOSS	(2,186)	(863)		(3,049)
INTERCOMPANY INTEREST	819	(819)		
MANAGEMENT FEE	1,049	(1,049)		
ROYALTY FEE	2,509	(2,509)		
INCOME (LOSS) BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(9,434)	9,660		226
REORGANIZATION ITEMS NET	16,568			16,568
INCOME BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES	7,134	9,660		16,794
INCOME TAX EXPENSE	(374)	(2,423)		(2,797)
INCOME BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	6,760	7,237		13,997
EQUITY IN NET INCOME OF SUBSIDIARIES	7,231		(7,231)	
INCOME FROM CONTINUING OPERATIONS	13,991	7,237	(7,231)	13,997
LOSS FROM DISCONTINUED OPERATIONS, net of tax		(393)		(393)
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax		251		251
NET INCOME	13,991	7,095	(7,231)	13,855
Add: Net loss attributable to the noncontrolling interest		136		136
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 13,991	$ 7,231	$ (7,231)	$ 13,991

AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED				
Income from continuing operations, net of tax	$ 13,991	$ 7,373	$ (7,231)	$ 14,133
Loss from discontinued operations		(393)		(393)
Gain from sale of discontinued operations		251		251
Net income	$ 13,991	$ 7,231	$ (7,231)	$ 13,991

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Three Months Ended March 31, 2008			
	Debtor Entities	**Non-Debtor Entities**	**Eliminations**	**Consolidated**
NET REVENUE	$	$ 225,434	$	$ 225,434
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)		141,484		141,484
Selling, general and administrative	3,035	65,823		68,858
Depreciation and amortization		7,959		7,959
Gain on sale or disposal of assets		(2,580)		(2,580)
Total operating expenses	3,035	212,686		215,721
INCOME (LOSS) FROM OPERATIONS	(3,035)	12,748		9,713
INTEREST EXPENSE	(13,699)	(1,494)		(15,193)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(30)			(30)
GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	2,202	108		2,310
INTEREST AND OTHER INCOME	309	753		1,062
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	3,036	(1,329)		1,707
INTERCOMPANY INTEREST	4,272	(4,272)		
MANAGEMENT FEE	1,943	(1,943)		
ROYALTY FEE	3,757	(3,757)		
INCOME (LOSS) BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(1,245)	814		(431)
INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES	(1,245)	814		(431)
INCOME TAX EXPENSE	(1,835)	(585)		(2,420)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(3,080)	229		(2,851)
EQUITY IN NET INCOME OF SUBSIDIARIES	81		(81)	
INCOME (LOSS) FROM CONTINUING OPERATIONS	(2,999)	229	(81)	(2,851)
LOSS FROM DISCONTINUED OPERATIONS, net of tax		(45)		(45)
NET INCOME (LOSS)	(2,999)	184	(81)	(2,896)
Less: Net income attributable to the noncontrolling interest		(103)		(103)
	$ (2,999)	$ 81	$ (81)	$ (2,999)

NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED								
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED								
Income (Loss) from continuing operations, net of tax	$	(2,999)	$	126	$	(81)	$	(2,954)
Loss from discontinued operations				(45)				(45)
Net income (loss)	$	(2,999)	$	81	$	(81)	$	(2,999)

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED BALANCE SHEET

(in thousands)

	March 31, 2009			
	Debtor Entities	**Non-Debtor Entities**	**Eliminations**	**Consolidated**
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 5	$ 32,031	$	$ 32,036
Restricted cash		320		320
Accounts receivable		90,153		90,153
Prepaid expenses and other current assets	1,406	15,661		17,067
Total current assets	1,411	138,165		139,576
INTERCOMPANY RECEIVABLES	1,065,663		(1,065,663)	
INVESTMENTS IN SUBSIDIARIES	(956,546)		956,546	
RESTRICTED CASH		7,897		7,897
PROPERTY AND EQUIPMENT Net		107,987		107,987
GOODWILL		32,003		32,003
OTHER INTANGIBLE ASSETS Net		522		522
OTHER ASSETS	1,312	16,721		18,033
TOTAL ASSETS	$ 111,840	$ 303,295	$ (109,117)	$ 306,018
LIABILITIES AND STOCKHOLDERS DEFICIT				
CURRENT LIABILITIES:				
Accounts payable	$ 60	$ 49,776	$	$ 49,836
Accrued interconnection costs		38,996		38,996
Deferred revenue		12,551		12,551
Accrued expenses and other current liabilities	1,344	40,711		42,055
Accrued income taxes	8,555	9,886		18,441
Accrued interest	825			825
Current portion of long-term obligations	96,000	9,847		105,847
Total current liabilities	106,784	161,767		268,551
INTERCOMPANY PAYABLES		1,065,663	(1,065,663)	
LONG-TERM OBLIGATIONS		29,798		29,798
Total liabilities not subject to compromise	106,784	1,257,228	(1,065,663)	298,349
LIABILITIES SUBJECT TO COMPROMISE	451,050			451,050
Total liabilities	557,834	1,257,228	(1,065,663)	749,399
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS DEFICIT:				
Primus Telecommunications Group, Incorporated Stockholders Deficit:				
Common stock	1,427			1,427
Additional paid-in capital	718,972	339,849	(339,849)	718,972
Accumulated deficit	(1,085,818)	(1,233,050)	1,233,050	(1,085,818)

Accumulated other comprehensive loss	(80,575)	(63,345)	63,345	(80,575)
Total Primus Telecommunications Group, Incorporated stockholders deficit	(445,994)	(956,546)	956,546	(445,994)
Noncontrolling interest		2,613		2,613
Total stockholders deficit	(445,994)	(953,933)	956,546	(443,381)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	$ 111,840	$ 303,295	$ (109,117)	$ 306,018

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED BALANCE SHEET

(in thousands)

	December 31, 2008			
	Debtor Entities	Non-Debtor Entities	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 9,554	$ 27,446	$	$ 37,000
Restricted cash				
Accounts receivable		99,483		99,483
Prepaid expenses and other current assets	437	15,409		15,846
Total current assets	9,991	142,338		152,329
INTERCOMPANY RECEIVABLES	1,072,953		(1,072,953)	
INVESTMENTS IN SUBSIDIARIES	(965,313)		965,313	
RESTRICTED CASH		8,133		8,133
PROPERTY AND EQUIPMENT Net		112,152		112,152
GOODWILL		32,688		32,688
OTHER INTANGIBLE ASSETS Net		746		746
OTHER ASSETS	5,230	19,166		24,396
TOTAL ASSETS	$ 122,861	$ 315,223	$ (107,640)	$ 330,444
LIABILITIES AND STOCKHOLDERS DEFICIT				
CURRENT LIABILITIES:				
Accounts payable	$ 1,712	$ 56,959	$	$ 58,671
Accrued interconnection costs		41,422		41,422
Deferred revenue		13,303		13,303
Accrued expenses and other current liabilities	1,005	41,435		42,440
Accrued income taxes	8,767	9,446		18,213
Accrued interest	10,102	146		10,248
Current portion of long-term obligations	562,814	1,983		564,797
Total current liabilities	584,400	164,694		749,094
INTERCOMPANY PAYABLES		1,072,953	(1,072,953)	
LONG-TERM OBLIGATIONS		40,040		40,040
OTHER LIABILITIES		35		35
Total liabilities not subject to compromise	584,400	1,277,722	(1,072,953)	789,169
LIABILITIES SUBJECT TO COMPROMISE				
Total liabilities	584,400	1,277,722	(1,072,953)	789,169
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS DEFICIT:				
Primus Telecommunications Group, Incorporated Stockholders Deficit:				
Common stock	1,427			1,427
Additional paid-in capital	718,956	339,849	(339,849)	718,956

Accumulated deficit	(1,099,809)	(1,240,278)	1,240,278	(1,099,809)
Accumulated other comprehensive loss	(82,113)	(64,884)	64,884	(82,113)
Total Primus Telecommunications Group, Incorporated stockholders deficit	(461,539)	(965,313)	965,313	(461,539)
Noncontrolling interest		2,814		2,814
Total stockholders deficit	(461,539)	(962,499)	965,313	(458,725)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	$ 122,861	$ 315,223	$ (107,640)	$ 330,444

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

(in thousands)

	For the Three Months ended March 31, 2009			
	Debtor Entities	Non-Debtor Entities	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$ 13,991	$ 7,095	$ (7,231)	$ 13,855
Adjustments to reconcile net income to net cash provided by operating activities:				
Reorganization items, net	(16,568)			(16,568)
Provision for doubtful accounts receivable		2,230		2,230
Stock compensation expense	16			16
Depreciation and amortization		6,096		6,096
Gain on sale or disposal of assets		(310)		(310)
Accretion of debt (premium) discount	(189)			(189)
Equity in net income of subsidiary	(7,231)		7,231	
Unrealized foreign currency transaction loss on intercompany and foreign debt	2,360	783		3,143
Changes in assets and liabilities, net of acquisitions:				
Decrease in accounts receivable		5,101		5,101
Increase in prepaid expenses and other current assets	(968)	(453)		(1,421)
Decrease in other assets	337	1,933		2,270
Decrease in accounts payable	(1,653)	(5,722)		(7,375)
Decrease in accrued interconnection costs		(1,838)		(1,838)
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities and other liabilities	340	(303)		37
Increase (decrease) in accrued income taxes	(212)	602		390
Decrease in accrued interest	(656)	(138)		(794)
Net cash provided by (used in) operating activities before reorganization items	(10,433)	15,076		4,643
Cash effect of reorganization items	(3,794)			(3,794)
Net cash provided by (used in) operating activities	(14,227)	15,076		849
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property and equipment		(2,786)		(2,786)
Sale of property and equipment and intangible assets		59		59
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		(215)		(215)
Proceeds from intercompany balance	4,928		(4,928)	
Net cash provided by (used in) investing activities	4,928	(2,909)	(4,928)	(2,909)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Principal payments on other long-term obligations	(250)	(2,758)		(3,008)
Payments on intercompany balance		(4,928)	4,928	
Net cash provided by (used in) financing activities	(250)	(7,686)	4,928	(3,008)

EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		104		104
NET CHANGE IN CASH AND CASH EQUIVALENTS	(9,549)	4,585		(4,964)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,554	27,446		37,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 5	$ 32,031	$	$ 32,036

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

(in thousands)

	For the Three Months ended March 31, 2008			
	Debtor Entities	Non-Debtor Entities	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (Loss)	$ (2,999)	$ 184	$ (81)	$ (2,896)
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for doubtful accounts receivable		2,828		2,828
Stock compensation expense	62			62
Depreciation and amortization		7,961		7,961
Gain on sale or disposal of assets		(2,580)		(2,580)
Accretion of debt (premium) discount	30			30
Equity in net income of subsidiary	(81)		81	
Deferred income taxes	450			450
Gain on early extinguishment or restructuring of debt	(2,202)	(108)		(2,310)
Minority interest share of income				
Unrealized foreign currency transaction loss on intercompany and foreign debt	(2,572)	1,071		(1,501)
Changes in assets and liabilities, net of acquisitions:				
(Increase) decrease in accounts receivable		(1,818)		(1,818)
(Increase) decrease in prepaid expenses and other current assets	88	9,689		9,777
Decrease in other assets	522	(180)		342
Decrease in accounts payable	(350)	(10,108)		(10,458)
Increase (decrease) in accrued interconnection costs		(314)		(314)
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities and other liabilities	(1,149)	(4,950)		(6,099)
Increase (decrease) in accrued income taxes	856	(354)		502
Increase (decrease) in accrued interest	(1,533)	29		(1,504)
Net cash provided by (used in) operating activities	(8,878)	1,350		(7,528)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property and equipment		(6,858)		(6,858)
Sale of property and equipment and intangible assets		800		800
Cash from disposition of business, net of cash disposed		1,765		1,765
Increase in restricted cash		(888)		(888)
Proceeds from intercompany balance	5,041		(5,041)	
Net cash provided by (used in) investing activities	5,041	(5,181)	(5,041)	(5,181)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Purchase of the Company s debt securities	(11,217)			(11,217)
Principal payments on other long-term obligations	(250)	(1,286)		(1,536)
Proceeds from (payments on) intercompany balance		(5,041)	5,041	
Net cash provided by (used in) financing activities	(11,467)	(6,327)	5,041	(12,753)

EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		55		55
NET CHANGE IN CASH AND CASH EQUIVALENTS	(15,304)	(10,103)		(25,407)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	43,026	38,256		81,282
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 27,722	$ 28,153	$	$ 55,875

15. SUBSEQUENT EVENTS

On April 8, 2009, April 20, 2009 and April 24, 2009, the Debtors filed amended joint plans of reorganization of Primus Telecommunications Group, Incorporated and its Affiliate Debtors and related disclosure statements (see Note 1 Proceedings Under Chapter 11 of The Bankruptcy Code).

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

On April 24, 2009, an unsecured creditors committee was appointed by the United States Trustee.

On April 27, 2009, the Bankruptcy Court entered an order that, among other things, approved the Disclosure Statement, set a record of April 27, 2009 for determining claims and interests entitled to vote on the Plan, set June 5, 2009 as the voting deadline for the Plan, and scheduled a hearing to consider confirmation of the Plan for June 12, 2009.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Introduction and Overview of Operations

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

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

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

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

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

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

Going Concern and Voluntary Reorganization Under Chapter 11

The consolidated condensed financial statements have been prepared assuming that we will continue as a going concern, which reflects the realization of assets and liquidation of liabilities in the normal course of

business. Our negative working capital, stockholders deficit, and inability to generate sufficient cash flow to meet our obligations give rise to substantial doubt about our ability to meet cash needs for operations and debt service over the next twelve months and have resulted in filing for voluntary reorganization under Chapter 11 of the bankruptcy code on March 16, 2009 as described below. Despite the elevated level of negotiations with our creditors, we are uncertain as to the outcome of our petitions for reorganization relief, so at this time, we can not predict if and when we would emerge as a restructured company. Therefore, substantial doubt exists about our ability to continue as a going concern, and therefore, we may be unable to realize our assets and discharge our liabilities in the normal course of business. These financial statements do not include any adjustments that might result from this uncertainty, including those relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should we be unable to continue as a going concern.

On March 16, 2009, 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) under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.*, as amended (the Bankruptcy Code). Subsequently, the Debtors sought and received an order directing the joint administration of the Chapter 11 Cases under the caption In re: Primus Telecommunications Group, Incorporated, et al., Debtors, Case No. 09-10867. On April 8, 2009, April 20, 2009, and April 24, 2009, filings were made by the Debtors in the Bankruptcy Court concerning amended Disclosure Statements and Joint Plans of Reorganization of Primus Telecommunications Group, Incorporated and its Affiliate Debtors. On April 24, 2009, an unsecured creditors committee was appointed by the United States Trustee.

On April 14, 2009, certain lenders under the Term Loan agreed to a term sheet (the Term Loan Modification Term Sheet) concerning a Term Loan amendment that is to be documented and executed upon satisfaction of a number of conditions precedent, including replacement of the Administrative Agent under the Term Loan and receipt of replacement Administrative Agent approval. Additionally, on April 14, 2009, certain lenders under the Term Loan entered into a forbearance agreement and agreed to forbear certain remedies arising out of the Chapter 11 Cases, subject to certain conditions and potential termination of forbearance (the Term Loan Forbearance Agreement). The Plan provides for treatment of the Term Loan as provided for under the Term Loan Modification Term Sheet so long as the Lenders and the Administrative Agent forbear and support the Plan.

The Term Loan Modification Term Sheet and the Term Loan Forbearance Agreement reflect the elevated nature of negotiations with the senior secured Term Loan lenders concerning support by the Term Loan lenders of the Plan; however, a definitive amendment to the Term Loan has not been negotiated and documented in full, and such amendment is subject to consent by certain noteholders and ultimately must be approved by the Bankruptcy Court.

A summary of the terms of the proposed Term Loan amendment as provided for under the Term Loan Modification Term Sheet and a summary of the Term Loan Forbearance Agreement can be found in Note 5 to the Consolidated Condensed Financial Statements presented herein.

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 Disclosure Statement was distributed to holders of record (as of April 27, 2009) of claims against, and interests in, the Debtors who are entitled to vote on the Plan (the Record Date). The Plan provides for treatment of the Term Loan as provided for under the Term Loan Modification Term Sheet so long as the Lenders and the Administrative Agent forbear and support the Plan.

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The order approving the Disclosure Statement also (i) established the Record Date and a voting deadline of June 5, 2009, (ii) established June 5, 2009 as the last date and time for filing and serving objections to confirmation of the Plan (and related requirements and procedures set forth in such order), and (iii) fixed June 1, 2009 as the deadline for claimants and interest holders to file and serve motions under Bankruptcy Rule 3018(a) requesting temporary allowance of the movant s claim or interest for purposes of voting.

The hearing concerning confirmation of the Plan has been scheduled before the Bankruptcy Court on June 12, 2009.

The descriptions of the Plan and Disclosure Statement set forth herein are qualified in all respects by the actual terms of the Plan and the Disclosure Statement, which are set forth in Exhibit 2.1 and 2.2 to the Form 8-K/A filed with the SEC on April 29, 2009, respectively, and incorporated herein by reference.

The Plan provides for a plan of reorganization of the Debtors on terms that are summarized below:

Holding s Term Loan facility due February 2011 will be reinstated and improved (as described in the description of the Term Loan Modification Term Sheet in Note 5 to the Consolidated Condensed Financial Statements presented herein), subject to the consent of the requisite holders of IHC s 14 1/4% Senior Secured Notes and Holding s 5% Exchangeable Senior Notes and 8% Senior Notes (collectively, the Holding Senior Notes);

holders of IHC s 14 1/4% Senior Secured Notes will receive (a) their pro rata reinstatement of $123.5 million of 14 1/4% Senior Secured Notes, subject to certain modifications, (b) their pro rata share of 50% of the new outstanding equity of Group upon its emergence from bankruptcy (Reorganized Group) (excluding the management shares described below), and (c) all reasonable fees, expenses and disbursements;

holders of the Holding Senior Notes will receive (a) their pro rata share of 50% of the new outstanding equity of Reorganized Group (excluding the management shares described below), (b) their pro rata share of warrants to purchase up to 30% of the new outstanding equity of Reorganized Group (including the management shares described below) on terms described further in the Plan Term Sheet, and (c) all reasonable fees, expenses and disbursements;

holders of the 3 3/4% Senior Notes due September 2010, 12 3/4% Senior Notes due October 2009 and Step Up Convertible Subordinated Debentures due August 2009 issued by Group (collectively, the Group Notes) (i) will be entitled to receive, following approval by holders of Group Notes (Group Note Approval) in accordance with Section 1126(c) of the Bankruptcy Code and confirmation of the Plan, a pro rata share of warrants to purchase up to 15% of the new outstanding equity of Reorganized Group (including the management shares described below) on terms described further in the Plan or (ii) will not receive or retain any property under the Plan in respect of claims regarding the Group Notes if Group Note Approval is not obtained;

holders of Group s outstanding common stock, subject to the provisos below, will receive their pro rata share of contingent value rights (CVRs) to acquire up to approximately 15% of the fully diluted new equity of Reorganized Group after the enterprise value of Reorganized Group reaches or exceeds $700 million; provided, however, that in no case shall the issuance of common stock of Reorganized Group in respect of the CVRs lower the recovery for the holders of 14 1/4% Senior Secured Notes, Senior Notes or Group Notes to less than the recovery to such holders prior to the conversion of the CVRs into common stock; provided, further, however that such common stockholders shall not receive or retain property under the Plan in respect of claims regarding the common stock if Group Note Approval is not obtained or such holders of common stock do not approve the Plan in accordance with Section 1126(c) of the Bankruptcy Code; and

restricted stock units comprising 4% of the outstanding new equity of Reorganized Group will be issued to the senior management of the Debtors on terms set forth in an exhibit to the Plan, and

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warrants to acquire up to 6% of the new outstanding equity of Reorganized Group (including the management shares described above) will be available for distribution to the management of the Debtors through a management compensation plan.

Foreign Currency

Foreign currency can have a major impact on our financial results. Currently about 80% of our net revenue is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the United States dollar (USD). The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive the majority of our net revenue and incur a significant portion of our operating costs from outside the United States, and therefore changes in exchange rates have had and may continue to have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the following exchange rates: USD/Canadian dollar (CAD), USD/Australian dollar (AUD), USD/British pound (GBP), and USD/Euro (EUR). Due to the large percentage of our revenue derived outside of the United States, changes in the USD relative to one or more of the foregoing currencies could have an adverse impact on our future results of operations. We have agreements with certain subsidiaries for repayment of a portion of the investments and advances made to these subsidiaries. As we anticipate repayment in the foreseeable future, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations. We historically have not engaged in hedging transactions. However, during the fourth quarter 2007, we completed a forward currency contract required by the Canadian Financing Facility and an interest rate swap. Despite the counterparty to the interest rate swap agreement entering bankruptcy in October 2008, management did not believe that breach or event of default had occurred in relation to the Canadian Credit Agreement. As of March 10, 2009, under the Waiver and Amendment Agreement, the Lenders under the Canadian Financing Facility waived any such possible breach or event of default. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies.

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

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In the three months ended March 31, 2009, as compared to the three months ended March 31, 2008, the USD was weaker on average as compared to the CAD and AUD, notwithstanding a significant strengthening of the USD relative to such currencies between June 30, 2008 and December 31, 2008 (see First Quarter 2009 Results and 2009 Plans), 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 March 31, 2009 and 2008 (in thousands, except percentages):

Net Revenue by Location in USD

	For the Three Months Ended			
	March 31, 2009	March 31, 2008	Variance	Variance %
Canada	$ 53,245	$ 68,449	$ (15,204)	(22)%
Australia	$ 52,027	$ 74,075	$ (22,048)	(30)%
United Kingdom	$ 25,300	$ 17,377	$ 7,923	46%
Europe*	$ 18,740	$ 20,050	$ (1,310)	(7)%

Net Revenue by Location in Local Currencies

	For the Three Months Ended			
	March 31, 2009	March 31, 2008	Variance	Variance %
Canada (in CAD)	66,183	68,763	(2,580)	(4)%
Australia (in AUD)	78,425	81,896	(3,471)	(4)%
United Kingdom (in GBP)	17,631	8,786	8,845	101%
Europe* (in EUR)	14,374	13,378	996	7%

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

Critical Accounting Policies

See Management s Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the year ended December 31, 2008 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.

In accordance with Statement of Position (SOP) No. 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code, all pre-petition liabilities subject to compromise are segregated in the unaudited Consolidated Condensed Balance Sheets and classified as liabilities subject to compromise, at management s estimate of the amount of allowable claims. Liabilities not subject to compromise are separately classified as current and non-current in the unaudited Consolidated Condensed Balance Sheet as of March 31, 2009. Revenues, expenses, realized gains and losses, and provisions for losses that result from the reorganization are reported separately as reorganization items, net, in the unaudited Consolidated Condensed Statements of Operations for the three months ended March 31, 2009. Net cash used for reorganization items is disclosed separately in the unaudited Consolidated Condensed Statements of Cash Flows. The outcome of the plan of reorganization could materially change the amounts reported in the financial statements, which do not give effect to all adjustments of the carrying value of assets or liabilities that might be necessary as a consequence of the plan, or the effect of any operational changes that may be made in the business.

No other significant changes in our critical accounting policies have occurred since December 31, 2008.

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Results of Operations

Results of operations for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008

Net revenue decreased $30.9 million or 13.7% to $194.5 million for the three months ended March 31, 2009 from $225.4 million for the three months ended March 31, 2008. The strengthening of the CAD, GDP, EUR and AUD against the USD accounted for a $40.8 million decrease to revenue.

United States: United States net revenue decreased $3.9 million or 15.4% to $21.4 million for the three months ended March 31, 2009 from $25.3 million for the three months ended March 31, 2008. The decrease is primarily attributed to a decrease of $3.6 million in retail voice services (for residential and small businesses) and a decrease of $0.4 million in Internet services.

Canada: Canada net revenue decreased $15.2 million or 22.2% to $53.2 million for the three months ended March 31, 2009 from $68.4 million for the three months ended March 31, 2008. The strengthening of the CAD against the USD accounted for a $13.1 million decrease to revenue and reflects changes in the exchange rates for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008. Inclusive of the currency effect, the revenue decrease is primarily attributed to a decrease of $8.5 million in retail voice services, a decrease of $2.7 million in local service, a decrease of $2.4 million in Internet, data and hosting services, a decrease of $0.7 million in prepaid services, a decrease of $0.5 million in wireless services and a decrease of $0.4 million in VOIP services.

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

Revenue by Country (Excluding Wholesale) in USD

	For the Three Months Ended		Year-over-Year	
	March 31, 2009 Net Revenue	March 31, 2008 Net Revenue	Variance	Variance %
United States	$ 18,095	$ 23,133	$ (5,038)	(22)%
Canada	$ 53,245	$ 68,449	$ (15,204)	22%
Other	$ 3,267	$ 2,157	$ 1,110	51%

Europe: European net revenue decreased $2.1 million or 13.3% to $13.6 million for the three months ended March 31, 2009 from $15.8 million for the three months ended March 31, 2008. The strengthening of the GBP and EUR against the USD accounted for a $3.0 million decrease to revenue and reflects changes in the exchange rates for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008. Inclusive of the currency effect, the decrease is primarily attributable to a $2.1 million decrease in retail voice services.

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

Revenue by Country (Excluding Wholesale) in USD

	For the three months ended March 31, 2009		For the three months ended March 31, 2008		Year-over-Year	
	Net Revenue	% of Europe	Net Revenue	% of Europe	Variance	Variance %
United Kingdom	$ 5,051	37%	$ 6,814	43%	$ (1,763)	(26)%
France	4,886	36%	3,903	25%	983	25%
Belgium	1,686	12%	2,142	14%	(456)	(21)%
Spain	641	5%	1,296	8%	(655)	(51)%
Other	1,373	10%	1,610	10%	(237)	(15)%
Europe Total	$ 13,637	100%	$ 15,765	100%	$ (2,128)	(13)%

Australia: Australia net revenue decreased $22.0 million or 29.8% to $52.0 million for the three months ended March 31, 2009 from $74.1 million for the three months ended March 31, 2008. The strengthening of the AUD against the USD accounted for a $19.7 million decrease to revenue and reflects changes in the exchange rates for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008. Inclusive of the currency effect, the decrease is primarily attributable to a $12.3 million decrease in Australia business and residential voice services, a $5.0 million decrease in dial-up Internet services, and a $4.7 million decrease in Australia DSL services. The following table reflects net revenue for Australia (in thousands, except percentages):

Revenue by Country (Excluding Wholesale) in USD

	For the Three Months Ended		Year-over-Year	
	March 31, 2009 Net Revenue	March 31, 2008 Net Revenue	Variance	Variance %
Australia	$ 52,027	$ 74,075	$ (22,048)	(30)%

Wholesale: Wholesale net revenue increased $12.3 million or 30% to $54.2 million for the three months ended March 31, 2009 from $41.9 million for the three months ended March 31, 2008. The increase in revenue was partially reduced by a decrease of $4.4 million due to the strengthening of the European currencies against the USD, which reflects changes in the exchange rates for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008. Due to the decision to cease our German retail operations, all German wholesale operations were transferred to the United Kingdom beginning in the third quarter 2008. This transfer was completed in the first quarter 2009 (see Note 5 Discontinued Operations to the Consolidated Condensed Financial Statements presented herein). The following table reflects net revenue for each major country (in thousands, except percentages):

Wholesale Revenue by Country in USD

	For the three months ended March 31, 2009		For the three months ended March 31, 2008		Year-over-Year	
	Net Revenue	% of Total Wholesale	Net Revenue	% of Total Wholesale	Variance	Variance %
United States	$ 23,360	43%	$ 19,526	47%	$ 3,834	20%
United Kingdom	20,249	37%	10,563	25%	9,686	92%
Germany	5	0%	4,909	12%	(4,904)	(100)%
Spain	1,644	3%	2,107	5%	(463)	(22)%
Italy	6,075	11%	2,782	7%	3,293	118%
Other	2,870	6%	1,968	4%	902	46%
Total	$ 54,203	100%	$ 41,855	100%	$ 12,348	30%

Cost of revenue decreased $12.1 million to $129.4 million, or 66.5% of net revenue, for the three months ended March 31, 2009 from $141.5 million, or 62.8% of net revenue, for the three months ended March 31, 2008. The increase of cost of revenue as a percentage of net revenue is due to a higher mix of wholesale revenue during the three months ended March 31, 2009 as compared to the three months ended March 31, 2008.

United States: United States cost of revenue decreased $1.7 million primarily due to a decrease of $3.9 million in retail revenue.

Canada: Canada cost of revenue decreased $5.8 million primarily due to a decrease of $15.2 million in net revenue. The strengthening of the CAD against the USD accounted for $5.7 million of the decrease to cost of revenue, which reflects changes in the exchange rates for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008.

Europe: European cost of revenue decreased by $1.3 million primarily due to a decrease of $2.1 million in net revenue. The strengthening of the GBP and EUR against the USD accounted for a $2.1 million decrease to cost of revenue, which reflects changes in the exchange rates for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008, and was offset by a $0.8 million increase due to product mix.

Australia: Australia cost of revenue decreased $14.6 million partially due to a $22.0 million decrease in net revenue. The strengthening of the AUD against the USD accounted for $12.7 million of the decrease to cost of revenue, which reflects changes in the exchange rates for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008.

Wholesale: Wholesale cost of revenue increased $11.3 million to $51.8 million for the three months ended March 31, 2009 from $40.4 million for the three months ended March 31, 2008 in line with the revenue incline. The strengthening of the foreign currencies against the USD accounted for a $4.3 million increase to cost of revenue, which reflects changes in the exchange rates for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008.

Selling, general and administrative expenses decreased $23.5 million to $45.4 million, or 23.3% of net revenue, for the three months ended March 31, 2009 from $68.9 million, or 30.6% of net revenue, for the three months ended March 31, 2008. The decrease in selling, general and administrative expenses is attributable to a decrease of $10.5 million in salaries and benefits, a decrease of $6.1 million in sales and marketing expenses, a decrease of $3.2 million in advertising expenses, a decrease of $1.5 million in general and administrative expenses, a decrease of $1.3 million in occupancy expenses and a decrease of $0.9 million in professional fees and travel and entertainment.

United States: United States selling, general and administrative expenses decreased $3.5 million to $9.5 million for three months ended March 31, 2009 from $13.0 million for the three months ended March 31, 2008. The decrease is attributable to a decrease of $1.5 million in salaries and benefits, a decrease of $1 million in advertising expenses, a decrease of $0.6 million in occupancy and professional expenses and a decrease of $0.4 million in sales and marketing expense.

Canada: Canada selling, general and administrative expense decreased $7.1 million to $17.7 million for three months ended March 31, 2009 from $24.8 million for the three months ended March 31, 2008. The decrease is attributable to a decrease of $3.8 million in salaries and benefits, a decrease of $1.9 million in sales and marketing expense and a decrease of $1.3 million in advertising expenses.

Europe: Europe selling, general and administrative expense decreased $1.8 million to $4.0 million for the three months ended March 31, 2009 from $5.8 million for the three months ended March 31, 2008. The decrease is attributable to a decrease of $1.0 million in salaries and benefits, a decrease of $0.4 million in general and administrative expenses, a decrease of $0.3 million in occupancy and professional expenses and a decrease of $0.2 million in advertising expenses.

Australia: Australia selling, general and administrative expense decreased $10.6 million to $12.6 million for three months ended March 31, 2009 from $23.2 million for the three months ended March 31, 2008. The decrease is attributable to a decrease of $4.2 million in salaries and benefits, a decrease of $3.8 million in sales and marketing expense, a decrease of $1.1 million in general and administrative expenses, a decrease of $0.7 million in advertising expenses and a decrease of $0.5 million in occupancy expenses.

Wholesale: Wholesale selling, general and administrative expense decreased $0.4 million or 19% to $1.7 million for the three months ended March 31, 2009 from $2.1 million for the three months ended March 31, 2008.

Depreciation and amortization expense decreased $1.9 million to $6.1 million for the three months ended March 31, 2009 from $8.0 million for the three months ended March 31, 2008. The decrease consists partially of lower depreciation expense of $1.2 million related assets in Australia which were retired.

Gain on sale or disposal of assets was a $0.1 million gain for the three months ended March 31, 2009 due to the sale of certain network assets in the United States.

Interest expense and Accretion on debt discount, net decreased $4.6 million to $10.6 million for the three months ended March 31, 2009 from $15.2 million for the three months ended March 31, 2008. The decrease was mainly attributable to repurchases of the October 1999 Senior Notes and Step Up Convertible Debentures in the three months ended March 31, 2008.

Gain (loss) on early extinguishment or restructuring of debt decreased $2.3 million from the three months ended March 31, 2008. In the first quarter 2008, we made open market purchases of $0.8 million principal amount of our October 1999 Senior Notes and $13.8 million principal amount of our Step Up Convertible Subordinated Debentures, resulting in a $0.1 million and $2.1 million gain, respectively, on early extinguishment of debt including the write-off of related deferred financing costs, discount and effective interest.

Foreign currency transaction gain (loss) was a $3 million loss for the three months ended March 31, 2009 as compared to a $1.7 million gain for the three months ended March 31, 2008. This loss is attributable to the impact of foreign currency exchange rate changes on intercompany debt balances and on receivables and payables denominated in a currency other than the subsidiaries functional currency.

Reorganization items, net was a $16.6 million gain for the three months ended March 31, 2009. In accordance with SOP No. 90-7, 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 Secured Notes and 5% Exchangeable Senior Notes as the issuance of these notes had been deemed troubled debt restructurings. For further detail concerning past treatment of these troubled debt restructurings, see Note 5 Long-Term Obligations and Liabilities Subject to Compromise; Liabilities Subject to Compromise 14 1/4% Senior Secured Notes and 5% Exchangeable Senior Notes.

Income tax expense increased to $2.8 million for the three months ended March 31, 2009 from $2.4 million for the three months ended March 31, 2008. The expense consists of foreign withholding tax on intercompany interest and royalty fees owed to a United States subsidiary by our Canadian and Australian subsidiaries and charges for uncertain tax positions under FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes.

Liquidity and Capital Resources

Changes in Cash Flows

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

Net cash provided by operating activities was $0.8 million for the three months ended March 31, 2009 as compared to net cash used in operating activities of $7.5 million for the three months ended March 31, 2008. For the three months ended March 31, 2009, net income, net of non-cash operating activity, provided $8.3 million of cash. In addition, cash was increased by a reduction in accounts receivable of $5.1 million, a reduction in other assets of $2.3 million, and an increase in accrued income tax of $0.4 million. For the three months ended

March 31, 2009, we used $1.4 million with the increase in our prepaid expenses and other current assets, $7.4 million to reduce our accounts payable, $1.8 million to reduce the accrued interconnection costs, and $0.8 million to reduce our accrued interest. Cash effect of reorganization items was $3.8 million, which includes professional fee paid for reorganization and interest income received by the Debtors. For the three months ended March 31, 2008, net loss, net of non-cash operating activity, provided $1.9 million of cash. In addition, cash was increased by a reduction in prepaid expenses, other current assets and other assets of $10.1 million and $0.5 million in accrued income taxes. For the three months ended March 31, 2008, we used $1.8 million with the increase in our accounts receivable, $10.8 million to reduce our accounts payable and accrued interconnection costs, $1.5 million to reduce our accrued interest and $6.0 million to reduce our accrued expenses, deferred revenue, other current liabilities and other liabilities.

Net cash used in investing activities was $2.9 million for the three months ended March 31, 2009 compared to $5.2 million for the three months ended March 31, 2008. Net cash used in investing activities during the three months ended March 31, 2009 included $2.8 million of capital expenditures, $0.2 million for a business acquisition in Australia and $0.2 million increase in restricted cash, offset by $0.2 million net cash proceeds from the sale of Japan retail business and $0.1 million from the disposition of a network asset. Net cash used in investing activities during the three months ended March 31, 2008 included $6.9 million of capital expenditures and a $0.9 million increase in restricted cash, offset by $1.8 million net cash proceeds from the disposition of a minority equity investment in Japan and $0.8 million from the disposition of surplus fiber assets.

Net cash used in financing activities was $3.0 million for the three months ended March 31, 2009 as compared to $12.8 million for the three months ended March 31, 2008. During the three months ended March 31, 2009, $2.3 million was used to reduce our Canadian Financing Facility and $0.7 million was used to pay the principal payments on capital leases, leased fiber capacity, financing facilities and other long-term obligations. During the three months ended March 31, 2008, $11.2 million was used to purchase and retire $0.8 million principal amount of our October 1999 Senior Notes and $13.8 million principal amount of our Step Up Convertible Subordinated Debentures and $1.5 million was used for principal payments on capital leases, leased fiber capacity, financing facilities and other long-term obligations.

Short- and Long-Term Liquidity Considerations and Risks

The Chapter 11 Cases were preceded by severe downturns in global economic conditions and contraction of capital markets beginning in mid-year 2008, as well as the significant exchange rate appreciation of the United States dollar, which impaired our ability to strengthen the balance sheet opportunistically and improve cash flows through potential refinancing and equity capital infusions. Further, such conditions made the sale of non-strategic assets and businesses to generate enhanced liquidity difficult to complete on acceptable terms or at all. Additionally, given that the preponderance of our holding company obligations are in United States dollars, the recent sharp strengthening of the United States dollar as compared to other foreign currencies added further strain on our liquidity position with payments from our foreign operating subsidiaries yielding less United States dollars as the United States dollar has strengthened significantly to such foreign currencies since June 30, 2008.

In the third quarter 2008, we instituted cost reductions that included a reduction in total headcount which, together with additional savings in other sales, general and administrative expenses, were expected to generate approximately $15 million in annual savings. Since then, we have experienced significant adverse changes in currency exchange rates that dramatically reduced or offset the benefits that these cost reductions would have otherwise had on our results. As a result, among other things, we completed additional cost reductions that were begun in the fourth quarter 2008. These include efforts to reduce headcount; to moderate advertising and marketing costs to the most productive programs; to reduce the non-sales and marketing cost structure; to focus on improving sales productivity and margin enhancements by leveraging existing network assets and increasing the revenue mix in favor of higher margin growth services; and to reduce administrative costs. We also continue to focus on minimizing capital expenditures and managing working capital. In addition to our cost reduction efforts, we consider the feasibility and timing of transactions, including assets sales that could raise capital.

The sum of these efforts, along with the debt and interest reductions from the expected reorganization of the Debtors filing bankruptcy petitions, should strengthen our ability to generate positive cash flow. However, we are uncertain as to the timing and ultimate outcome of our petitions for reorganization, so at this time, we cannot predict if and when we would emerge as a restructured company. Therefore, substantial doubt exists concerning our ability to continue as a going concern, and therefore, we may be unable to realize our assets and discharge our liabilities in the normal course of business.

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

As of March 31, 2009, we have $36.0 million in future minimum purchase obligations, $60.6 million in future operating lease payments and $135.6 million of indebtedness that are not subject to compromise. At March 31, 2009, approximately $89.6 million of unrecognized tax benefits have been recorded as liabilities in accordance with FIN No. 48. We are uncertain as to if or when such amounts may be settled, so we have not included these amounts in the table below. Included in the unrecognized tax benefits not included in the table below, we have recorded a liability for potential penalties and interest of $0.4 million.

Under bankruptcy law, actions by creditors to collect upon liabilities of the Debtors incurred prior to the Petition Date are stayed and certain other pre-petition contractual obligations may not be enforced against the Debtors without approval of the Court. In accordance with SOP No. 90-7, these liabilities are adjusted to the amount of the allowed claim by the court and are classified as liabilities subject to compromise in the Consolidated Condensed Balance Sheet as of March 31, 2009, which are different than the prepetition amounts originally recorded on the financial statements due to certain debt premiums, discounts and future interest payments recorded as long-term obligations that were written off during the period. Adjustments to the claims may result from negotiations, payments authorized by Court order or other events. It is anticipated that such adjustments, if any, could be material. Payment terms for the amounts classified as subject to compromise will be established in connection with a plan of reorganization. Liabilities subject to compromise are classified separately from long-term obligations and current liabilities. Although a substantial portion of the debt has been classified as liability subject to compromise due to the default provisions triggered by the bankruptcy filings, the following table reflects the contractual payments of principal and interest that existed prior to the bankruptcy filings and are not liabilities subject to compromise:

Year Ending December 31,	Vendor Financing and Other	Senior Secured Term Loan Facility (1)	Financing Facility	Purchase Obligations	Operating Leases	Total
			(amounts in thousands)			
2009 (as of March 31, 2009)	$ 2,022	$ 10,697	$ 7,831	$ 19,154	$ 12,989	$ 52,693
2010	5,019	16,616	7,685	13,812	13,724	56,856
2011	462	89,625	21,036	1,873	10,186	123,182
2012	90			1,178	8,559	9,827
2013	64				6,038	6,102
Thereafter	33				9,075	9,108
Total Minimum Principal & Interest Payments	7,690	116,938	36,552	36,017	60,571	257,768
Less: Amount Representing Interest	(795)	(20,938)	(3,802)			(25,535)
Total Long-Term Obligations	$ 6,895	$ 96,000	$ 32,750	$ 36,017	$ 60,571	$ 232,233

(1) For preparation of this table, we have assumed the interest rate of the Senior Secured Term Loan Facility to be 12.0%, according to the Term Loan Modification Term Sheet. This loan is classified as current portion of long-term obligations due to the Bankruptcy.

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 $19.2 million, $13.8 million, $1.9 million, and $1.2 million remaining in 2009, 2010, 2011 and 2012, respectively.

However, the filing of the Chapter 11 Cases on March 16, 2009 described in this filing constituted an event of default that triggered repayment obligations under a number of debt instruments. As a result of the event of default, all obligations under the affected debt agreements became automatically and immediately due and payable. Additionally, the filing of the Chapter 11 Cases constituted an event of default through a cross default provision of the Canadian Financing Facility; however a waiver of that default provision was obtained from the lender. Certain other vendor and capital lease obligations are not in default because they are held in operating companies that were not part of the bankruptcy filings. We believe that any efforts to enforce the payment obligations under the defaulted debt agreements are stayed as a result of the filing of such Chapter 11 Cases in the Bankruptcy Court (subject to certain exceptions contemplated by the Term Loan Modification Term Sheet, following Bankruptcy Court approval).

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

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

The Term Loan is guaranteed by Group, PTII, IHC, Holding and certain of Holding s United States operating subsidiaries and is secured by certain assets of Holding and of certain United States operating subsidiaries and by partial stock pledges of certain foreign subsidiaries. The Chapter 11 filings by the Debtors have effectively stayed any rights the Term Loan lenders may have with respect to Group s foreign subsidiaries. However, if we are unsuccessful in reaching a Term Loan amendment or other mutually agreeable resolution with the Term Loan lenders, we intend to assert our rights and may seek certain relief in the event the Term Loan lenders seek to enforce any rights with respect to the collateral, but we cannot give any assurances as to the ultimate outcome of such actions. See Part II. Item 1. Legal Proceedings; Legal Proceedings Related to the Chapter 11 Cases . See also Special Note Regarding Forward Looking Statements .

Newly Adopted Accounting Principles

Effective January 1, 2009, we adopted FSP No. 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). FSP No. 14-1 requires issuers of convertible debt securities to separate securities into a debt component and an equity component, resulting in the debt component being recorded at fair value without consideration given to the conversion feature. Issuance costs are also allocated between the debt and equity components. FSP No. 14-1 requires that convertible debt within its scope reflect a company s nonconvertible debt borrowing rate when interest expense is recognized. The adoption did not have material effect on our results of operations, financial position or cash flows.

Effective January 1, 2009, we adopted SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 identifies the sources of accounting principles and provides the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles in the United States. The adoption did not have material effect on our results of operations, financial position or cash flows.

Effective January 1, 2009, we adopted SFAS No. 141R, Business Combinations. SFAS No. 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its

financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. The adoption did not have material effect on our results of operations, financial position or cash flows as we did not enter into any business combinations during the three months ended March 31, 2009.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-1, Application of FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 1 and FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157. The provisions of SFAS No. 157, Fair Value Measurements , which provide guidance for, among other things, the definition of fair value and the methods used to measure fair value, where adopted January 1, 2008 for financial instruments. The provisions adopted in 2008 did not have a material impact on our financial statements. FSP 157-1 and FSP 157-2 collectively delayed the effective date of SFAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and liabilities (except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis) until financial years beginning after November 15, 2008, and changed the scope of SFAS No. 157. On January 1, 2009, we adopted the provisions of SFAS No. 157 for nonrecurring fair value measurements of nonfinancial assets and liabilities. The provisions adopted in the first quarter 2009 did not have an impact on our financial statements as we did not have any fair value measurements of nonfinancial assets and liabilities as of March 31, 2009.

New Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging with the intent to provide users of financial statements with an enhanced understanding of the use of derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity s financial statements. SFAS No. 161 is effective for financial statements issued for fiscal years interim periods beginning after November 15, 2008. The adoption on January 1, 2009 did not have a material impact on the Company s results of operations, financial position and cash flows.

Special Note Regarding Forward Looking Statements

Certain statements in this Quarterly Report on Form 10-Q and elsewhere concerning the Debtors, the Plan, 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:

- Plan or any amended plan of reorganization involving the Debtors;
- the Term Loan Modification Term Sheet;
- pre- and post-restructuring financial condition, financing requirements, prospects, cash flow and ongoing impacts of the Plan on our operations;

expectations of future growth, creation of shareholder value, revenue, foreign revenue contributions and net income, as well as income from operations, margins, earnings per share, cash flow and cash sufficiency levels, working capital, network development, customer migration and related costs, spending on and success with growth products, including broadband Internet, VOIP, wireless, local, data and hosting services, traffic development, capital expenditures, selling, general and administrative expenses, income tax and withholding tax expense, fixed asset and goodwill impairment charges, service introductions, cash requirements and potential asset sales;

increased competitive pressures, declining usage patterns, and our growth products, bundled service offerings, the pace and cost of customer migration onto our networks, the effectiveness and profitability of the growth products;

financing, refinancing, debt extension, de-leveraging, restructuring, exchange or tender plans or initiatives, and potential dilution of existing equity holders from such initiatives, whether in connection with the Reorganization or otherwise;

liquidity and debt service forecast;

assumptions regarding currency exchange rates;

timing, extent and effectiveness of cost reduction initiatives and management s ability to moderate or control discretionary spending;

management s plans, goals, expectations, guidance, objectives, strategies, and timing for future operations, acquisitions, asset dispositions, product plans, performance and results;

management s assessment of market factors and competitive developments, including pricing actions and regulatory rulings; and

ability to generate net cash proceeds from the disposition of selective assets without material impairment to profitability.

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

the ability of the Debtors to obtain requisite consent and support of the Plan, whether by amendment to the Term Loan in a manner consistent with the Term Loan Modification Term Sheet, or otherwise, and to obtain consent of certain noteholders to the treatment of the Term Loan lenders by amendment of the Term Loan agreement on the terms contemplated by the Term Loan Modification Term Sheet;

the occurrence of any termination event under the Forbearance Agreement;

the occurrence of a default or event of default under the Term Loan that is not covered by the waiver of Forbearance Defaults and Covenants under the Forbearance Agreement;

to confirm and consummate the contemplated Chapter 11 plans of reorganization timely;

the potential adverse impact of the Chapter 11 filings on the operations, management and employees of the Debtors and their subsidiaries, and the risks associated with operating businesses under Chapter 11 protection;

the potential need to modify or amend the contemplated Chapter 11 plans of reorganization;

professional fees incurred in the Chapter 11 Cases in excess of estimates;

the potential need to secure an approved debtor-in-possession financing facility;

customer, vendor, carrier and third-party responses to the Chapter 11 filings;

potential adverse actions that may be pursued by certain senior lenders, including the Term Loan Group;

risk factors or uncertainties listed or identified in Bankruptcy Court filings or past SEC filings, this filing or future SEC or Bankruptcy Court filings, as well as the factors affecting our ongoing business, as described herein;

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

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

the ability to service substantial indebtedness;

accelerated decrease in minutes of use on wireline phones;

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

adverse interest rate developments affecting our variable interest rate debt;

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

inadequate financial resources to promote and to market product initiatives;

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

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

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

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

the impact of the delisting of our common stock from the Nasdaq Capital Market which may impair our ability to raise capital;

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

adverse tax or regulatory rulings from applicable authorities;

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

changes in financial, capital market and economic conditions;

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

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

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

difficulty in selling new services in the marketplace;

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

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

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

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

entry into developing markets;

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

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

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

risks associated with international operations;

dependence on effective information and billing systems;

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

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

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

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

the potential further elimination or limitation of a substantial amount or all of our United States or foreign operating loss carryforwards due to the Reorganization, future significant issuances of equity securities, changes in ownership or other

circumstances, which carryforwards would otherwise be available to reduce future taxable income.

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

ITEM 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. Currently about 80% of our net revenue was 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, and USD/EUR. Due to the large percentage of our revenue derived outside of the United States, changes in the USD relative to one or more of the foregoing currencies could have an adverse impact on our future results of operations. We have agreements with certain subsidiaries for repayment of a portion of the investments and advances made to these subsidiaries. As we anticipate repayment in the foreseeable future, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations. We historically have not engaged in hedging transactions. However, during the fourth quarter 2007, we completed a forward currency contract required by the Canadian Financing Facility and an interest rate swap. Despite the counterparty to the interest rate swap agreement entering bankruptcy in October 2008, management did not believe that breach or event of default had occurred in relation to the Canadian Credit Agreement. As of March 10, 2009, under the Waiver and Amendment Agreement described in Item 1 under caption Canadian Financing Facility , the Lenders under the Canadian Financing Facility waived any such possible breach or event of default. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies.

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

In the three months ended March 31, 2009, as compared to the three months ended March 31, 2008, the USD was weaker on average as compared to the AUD, CAD, and stronger on average as compared to the GBP and EUR. As a result, our revenue of the subsidiaries whose local currency is AUD, CAD, GBP and EUR increased (decreased) (4)%, (4)%, 101% and 7% in local currency compared to the three months ended March 31, 2008, but increased (decreased) (30)%, (22)%, 46% and (7)% in USD, respectively.

Interest rates The majority of our long-term debt obligations are at fixed interest rates at March 31, 2009. In February 2005, we obtained a $100 million senior secured loan facility, which has a variable interest rate feature. In March 2007, we entered into a $35 million senior secured credit agreement with a variable interest rate. The interest rate on the $35 million senior secured credit agreement had been fixed effective October 2007 after we completed a cross-currency interest rate swap agreement. The counter party to this agreement has filed for bankruptcy and we are now, again, paying a variable interest rate. We are exposed to interest rate risk as additional financing may be required. Our primary exposure to market risk stems from fluctuations in interest rates. See the discussion regarding the Senior Secured Credit Agreement within Management s Discussion and Analysis-Short and Long-Term Liquidity Considerations and Risks.

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The interest rate sensitivity table below summarizes our market risks associated with fluctuations in interest rates for the three months ended March 31, 2009 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 senior secured term loan, leased fiber capacity, and other long-term obligations in effect at March 31, 2009. This table is prepared assuming we will continue as a going concern without the possible effects of our Reorganization under Chapter 11 or change to the Term Loan if modified pursuant to the Term Loan Modification Term Sheet. This table only represents liabilities that are not subject to compromise (see Note 5 Long-Term Obligations and Liabilities Subject to Compromise).

	Year of Maturity							Fair
	2009	2010	2011	2012	2013	Thereafter	Total	Value
	(in thousands, except percentages)							
Fixed Rate	$ 1,579	$ 4,711	$ 429	$ 83	$ 61	$ 32	$ 6,895	$ 6,895
Average Interest Rate	9.4%	11.4%	12.0%	6.8%	5.6%	4.0%	10.9%	
Variable Rate	$ 8,350	$ 11,600	$ 108,800	$	$	$	$ 128,750	$ 108,590
Average Interest Rate	8.3%	9.4%	11.1%	0.0%	0.0%	0.0%	10.7%	

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 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, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on the assessment, management identified a material weakness in our internal control over accounting for income taxes. The material weakness in internal control related to a lack of documentation and insufficient historical analysis, primarily caused by insufficient time in the position for the new Corporate Tax Director, who started in the position on November 17, 2008. His hiring was part of the remediation efforts related to the material weakness that was reconfirmed as of December 31, 2007. This material weakness was first identified as of December 31, 2006. His resignation on April 10, 2009 and the fourth quarter resignation of our Canada controller, who was the key preparer for the Canadian entity s tax provision, led to a knowledge gap with respect to historical issues and conclusions and severely hampered our remediation efforts. These deficiencies represent 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 due to errors in accounting for income taxes could occur and would not be prevented or detected by our internal control over financial reporting.

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 March 31, 2009,

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that have materially affected or is reasonably likely to affect materially, our internal control over financial reporting, except for the item noted below. We are in the process of restarting the remediation efforts with respect to the material weakness described above.

Our income tax accounting has significant complexity due to our business being property and equipment intensive, our varied types of refinancing and debt transactions, the significant number of foreign subsidiary legal entities and various tax planning strategies. To address this complexity, we plan to hire a Corporate Tax Director for oversight of the domestic, foreign and consolidated income tax responsibilities and a Manager of Taxation in our Canadian operating unit. In addition, we utilize third party tax advisors both to assist in the administrative and consolidation duties of preparing the income tax provision and disclosures and also to advise on matters beyond our in-house expertise. We believe that the personnel to be hired will have the appropriate knowledge, experience and skills to maintain the proper controls over accounting for income taxes.

To address the control weakness described above, we performed additional analysis and other procedures in order to prepare the consolidated financial statements in accordance with generally accepted accounting principles in the United States. Additionally, during the interim period without a Corporate Tax Director, we engaged a multi-national accounting firm to assist the Company in completing the first quarter income tax accounting and reporting responsibilities. As we actively search for a replacement Corporate Tax Director and a new Tax Manager for our Canada operations, we will continue to utilize the multi-national accounting firm to complete income tax accounting and reporting responsibilities.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
Legal Proceedings Related to the Chapter 11 Cases

On March 16, 2009, each of Group, Holding, PTII and IHC filed Chapter 11 Cases in the United States Bankruptcy Court for the District of Delaware for reorganization relief under Chapter 11 of the Bankruptcy Code. Subsequently, the Debtors sought and received an order directing joint administration of the Debtors Chapter 11 Cases under the caption, In re: Primus Telecommunications Group, Incorporated, et al., Debtors Case No. 09-10867. On April 24, 2009, an unsecured creditors committee was appointed by the United States Trustee. On April 27, 2009, the Bankruptcy Court approved the use of the Debtor s Disclosure Statement which attached thereto the Plan, to solicit votes for the Plan and set a Plan confirmation hearing date for June 12, 2009 (see Note 1 Proceedings Under Chapter 11 of The Bankruptcy Code).

The Plan is subject to a number of uncertainties and contingencies and is subject to Bankruptcy Court confirmation. See Part I. Item 2, Special Note Regarding Forward Looking Statements and Part II. Item 1A, Risk Factors. As a result of these uncertainties, contingencies and risks, the Company is unable to assess the ultimate outcome of the Chapter 11 Cases.

Other Legal Proceedings

Group and its subsidiaries are subject to claims and legal proceedings unrelated to the Chapter 11 Cases that arise in the ordinary course of its business (Other Proceedings). Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be decided unfavorably. The Company believes that any aggregate liability that may result from the resolution of the Other Proceedings will not have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

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:

BANKRUPTCY CONSIDERATIONS AND UNCERTAINTIES

The recent tightening of the global credit markets, deterioration of the global economy and the significant strengthening of the U.S. dollar relative to the local currencies of our major operating units (i.e., units contributing 80% of our 2009 first quarter revenues) have produced material uncertainties concerning our future operating results and our ability to improve our liquidity position, to consummate asset sales, to refinance or to extend our debt with 2009 or subsequent near-term maturities, and to raise additional capital, thereby creating increased uncertainty concerning our ability to meet future payment obligations. As a result of these factors and the significant indebtedness of Group, Holding, IHC and PTII, the Plan has been filed for such entities seeking reorganization through the Chapter 11 Cases. See also information under Note 1 and Note 5 of the Consolidated Condensed Financial Statements presented in Part 1 herein, under Item 2. MD&A Going Concern and Voluntary Reorganization Under Chapter 11, Liquidity and Capital Resources Short- and Long-Term Liquidity Considerations and Risks, and Special Note Regarding Forward Looking Statements, and in these Risk Factors. If adverse events referenced or described herein or therein were to occur, we may not be able to obtain confirmation of the Plan by the Bankruptcy Court, continue as a going concern and satisfy our obligations.

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We may not be able to implement successfully the Plan and effect the Reorganization.

The Debtors emergence from Chapter 11 bankruptcy protection is contingent upon a number of factors. It is difficult to anticipate all Plan confirmation contingencies; however, initial uncertainties and contingencies include, among other things, the fact that:

- requisite lenders of Term Loan debt have not yet entered into a definitive agreement to amend the Term Loan agreement;
- amendment of the Term Loan agreement as contemplated by the Term Loan term sheet is subject to the consent of certain noteholders;
- Term Loan lender forbearance under the Forbearance Agreement is limited in scope and is related to certain defaults and events of default, including matters arising out of the Chapter 11 Cases, and is subject to certain conditions and to termination and, as a result, adverse consequences could flow out of such termination or other defaults or events of default under the Term Loan that could result in Term Loan lenders seeking remedies against the Debtors and guarantors;
- the Plan may not be confirmed by the Bankruptcy Court; or
- the Plan Support Agreement may be terminated.

The Plan Support Agreement may be terminated under certain circumstances, including in the event that the Reorganization and related disclosure statement are not approved by certain deadlines, the reorganization is not consummated within a certain period of time after its confirmation by the Bankruptcy Court, a party materially breaches the Plan Support Agreement, a trustee or examiner with enlarged powers relating to the Debtors business is appointed in the Chapter 11 Cases, the Chapter 11 Cases are converted to cases under Chapter 7 of the Bankruptcy Code or the Bankruptcy Court grants relief that is inconsistent with the Plan Support Agreement or the Plan Term Sheet. Moreover, although the Plan has no direct bearing on customers, suppliers or vendors, there can be no assurance that the Plan will not elicit adverse reaction from such parties and lead to an adverse effect on the Operating Subsidiaries ability to conduct operations in the ordinary course or the need for certain Operating Subsidiaries to seek protection under the bankruptcy laws of the United States or other similar laws in other countries. Additionally, if the Debtors remain in Chapter 11 beyond the anticipated 90-120 day period following the Petition Date, the Debtors may be faced with the need to secure DIP financing. It is not certain that we can secure DIP financing and, if we can, at what cost.

If we are unable to implement our Reorganization under the Plan or under the Plan as amended as contemplated by the Term Loan term sheet, it would then be unclear as to whether we would be able to reorganize our businesses and what, if any, distribution holders of claims against or of equity interests in the Debtors ultimately would receive with respect to their claims or equity interests. If such Plan (or an amended plan) is not confirmed and does not become effective, there also can be no assurance that we will be able successfully to develop, prosecute, confirm, and consummate an alternative plan of reorganization with respect to the Chapter 11 Cases that would be acceptable to the Bankruptcy Court and applicable creditors, equity holders and other parties in interest. Additionally, it is possible that third parties may seek to challenge our Plan. Thus, the Debtors emergence from bankruptcy is not assured.

Prolonged continuation of the Chapter 11 Cases may harm our businesses.

A prolonged continuation of the Chapter 11 Cases could adversely affect the Debtors business and possibly the business and operations of our non-Debtor operating subsidiaries (the Operating Subsidiaries) even though the Operating Subsidiaries are not party to the Chapter 11 Cases. As long as the Chapter 11 Cases continue, our senior management will be required to spend a significant amount of time and effort dealing with the Reorganization instead of focusing exclusively on core business operations. Prolonged continuation of the Chapter 11 Cases may also make it more difficult to attract and retain management and other key personnel necessary to the success of our business. In addition, the longer the Chapter 11 Cases continue, the more likely it

is that customers, suppliers and vendors of the Debtors or the Operating Subsidiaries (even though the Operating Subsidiaries are not party to the Chapter 11 Cases) will lose confidence in our ability to reorganize successfully and seek to establish alternative commercial relationships. Furthermore, as long as the Chapter 11 Cases continue, we will be required to incur substantial costs for professional fees and other expenses associated with the Chapter 11 Cases.

The change of control to be produced by the Reorganization of the Debtors may result in a limitation on or loss of our net operating losses for U.S. federal income tax purposes.

Our issuance of new common stock, warrants and CVRs through the Reorganization, along with the cancellation of existing equity interests of Group, may cause us to undergo an ownership change upon emergence from Chapter 11. As a result, Section 382 of the U.S. Internal Revenue Code (IRC) may apply to limit our use of U.S. consolidated net operating losses upon emergence, and our ability to use other carryforwards and tax credits may be limited. The annual limitation imposed by the particular provision of Section 382 of the IRC that we expect to apply to our ownership change generally equals the product of (i) the fair market value of the net equity value of our stock at the time of the ownership change, taking into account the increase in value of the corporation as a result of the surrender or cancellation of creditor s claims in the transaction (rather than the value without taking into account such increases, as is the case under the general rule for non-bankruptcy ownership changes) multiplied by (ii) the long-term tax exempt rate in effect for the month in which the ownership change occurs. The long-term tax-exempt rate is published monthly by the IRS and is intended to reflect current interest rates on long-term tax-exempt debt obligations. Accordingly, under this rule, the Section 382 limitation would generally reflect the increase in the value of our new stock resulting from the conversion of debt to equity in the Chapter 11 Cases. Section 382 of the IRC applies a similar limitation to a capital loss carryforward and tax credits. Although it is impossible to predict with absolute certainty the net equity value of reorganized companies immediately upon emergence from Chapter 11, our use of our U.S. net operating losses ($73 million as of December 31, 2008) is expected to be substantially limited after an ownership change.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

Material strengthening of the United States dollar against foreign currencies reduces the yield in United States dollars generated from payments from our foreign operating subsidiaries and may adversely affect our ability to service our debt.

Our largest operating subsidiaries generate Canadian and Australian dollars. Payments to United States parent entities from these foreign operating subsidiaries are reduced by the material strengthening of the United States dollar, as the yield in United States dollars is reduced. From June 30, 2008 through December 31, 2008, the Canadian and Australian dollars declined by 17% and 28%, respectively, relative to the United States dollar, and this has had a material adverse impact on amounts of United States dollars transferred to United States parent entities. These payments are a substantial source for servicing our significant debt obligations at the United States parent entity levels, as well as a source for making principal payments. Most of our debt is denominated in United States dollars. A reduced yield adversely affects our ability to service or pay off our debt. This, therefore, has a material adverse effect on our ability to service timely our consolidated indebtedness and obligations.

Our high level of debt and liquidity needs may adversely affect our financial and operating flexibility.

We currently have substantial indebtedness and anticipate that we and our subsidiaries may incur additional indebtedness in the future in connection with refinancings or the operation or expansion of our business. The recent tightening of global credit markets could also adversely affect our ability to raise needed capital or effect refinancings on acceptable terms or at all. The level and/or terms of our indebtedness (1) could make it difficult for us to make required payments of principal and interest on our outstanding debt as they become due; (2) could limit our ability to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements or other purposes; (3) require that a substantial portion of our cash flow, if any, be dedicated

to the payment of principal and interest on outstanding indebtedness and other obligations and, accordingly, such cash flow will not be available for use in our business; (4) could limit our flexibility in planning for, or reacting to, changes in our business, including demands by some suppliers for more stringent payment terms; (5) result in our being more highly leveraged than many of our competitors, which places us at a competitive disadvantage; (6) will make us more vulnerable in the event of a downturn in our business; (7) could limit our ability to fund our operations due to covenant restrictions; and (8) could result in a default or acceleration or cross-default of indebtedness as a result of the initiation or development of the Reorganization involving us, which we may not be able to bring to an acceptable conclusion for our various stakeholder constituencies.

Because a significant portion of our business is conducted outside the United States, fluctuations in foreign currency exchange rates could adversely affect our results of operations.

A significant portion of our net revenue (about 80% for the three months ended March 31, 2009) is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the United States dollar. 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 a significant portion of our net revenue and incur a significant portion of our operating costs outside the United States, and changes in exchange rates have had and may 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/AUD, USD/CAD, USD/GBP, and USD/EUR. See Quantitative and Qualitative Disclosures about Market Risk. Due to the large percentage of our operations conducted outside of the United States, strengthening of the USD relative to one or more of the foregoing currencies could have an adverse impact on future results of operations. We historically have not engaged in hedging transactions. However, during the fourth quarter 2007, we completed a forward currency contract required by the Canadian Financing Facility and an interest rate swap. Despite the counterparty to the forward currency and interest rate swap agreement entering bankruptcy in October 2008, management did not believe that breach or event of default had occurred in relation to the Canadian Credit Agreement. As of March 10, 2009, under the Waiver and Amendment Agreement described above, the Lenders under the Canadian Financing Facility waived any such possible breach or event of default. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies. 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.

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, which condition still existed at March 31, 2009, due to the material weakness that existed in our internal control over accounting for income taxes. Our disclosure controls and procedures and internal control over financial reporting may not be effective in future periods as a result of existing or newly identified material weaknesses in internal control over financial reporting.

In performing an internal control assessment at the end of 2006, our management identified a material weakness in our internal control over financial reporting, which condition still existed at March 31, 2009. A material weakness is a deficiency, or a combination of deficiencies, that adversely affects a company s ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. For a discussion of the material weakness

identified by our management, see Item 9A. Controls and Procedures on our 2008 Form 10-K. To address the material weakness, we performed additional analysis and other post-closing procedures in order to prepare our consolidated financial statements in accordance with generally accepted accounting principles. The weakness in internal control over accounting for income taxes could be magnified by the loss of, net operating losses for U.S. federal income tax purposes through the Reorganization. See Bankruptcy Considerations and Uncertainties. These additional procedures were costly, time consuming and required us to dedicate a significant amount of resources, including the time and attention of our senior management, toward the correction of these problems. Performing these additional procedures in the future could cause delays in the filing of our periodic and annual reports to the SEC.

The potential delay in the filing of our periodic and annual reports could have other adverse effects on our business, including, but not limited to: (1) civil litigation or an investigation by the SEC or other regulatory authorities, which could require us to incur significant legal expenses and other costs or to pay damages, fines or other penalties; (2) covenant defaults, and potentially events of default, under our senior secured credit facilities and the indentures governing our outstanding debt securities, resulting from our failure to file timely our financial statements; (3) negative publicity; and (4) the loss or impairment of investor confidence in our Company.

Given our limited experience in delivering individual and bundled local, wireless, broadband, DSL, Internet, data and hosting and VOIP services, we may not be able to operate successfully or expand these parts of our business.

During the third quarter of 2004 we 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 and dial-up ISP customers to our competitors bundled wireless, wireline and broadband service offerings. Our experience in providing these products in certain markets and in providing these bundled service offerings is limited. 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 and cable companies and other new entrants that have expanded into the market for broadband, VOIP, Internet services, data and hosting and traditional voice services, and 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 may not be able to expand successfully; may experience margin pressure; may face quarterly revenue and operating results variability; may have limited resources to develop and to market the new services; and 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 legacy 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.

We may be exposed to significant liability resulting from our noncompliance with FCC Orders regarding enhanced 911 (E911) services.

In June 2005, the FCC adopted new rules requiring VOIP providers interconnected to the public switched telephone network to provide E911 service in a manner similar to traditional wireline carriers by November 2005. LINGO, a subsidiary of ours which sells such interconnected VOIP services, was unable, like many interconnected VOIP providers in the industry, to meet this deadline for all of its customers. We sought a waiver from the FCC asking for additional time to complete deploying our E911 service, and the FCC has not yet addressed our waiver petition. As of April 20, 2009, approximately 2% of our LINGO customers were without 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, and/or cease and desist orders prohibiting LINGO from providing service on the federal and state levels. However, at this time, management has determined the likelihood of incurring such fines or penalties to be remote.

The FCC rules also required interconnected VOIP providers to distribute stickers and labels informing customers of the emergency service limitations associated with the service, as well as to notify and obtain affirmative acknowledgement from customers that they were aware of all of the emergency service limitations associated with the service. 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 have effectively satisfied this requirement of the rule. LINGO s current 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 the 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 we provide 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 a Notice of Proposed Rulemaking Proceeding considering the imposition of additional VOIP E911 obligations on interconnected VOIP providers, like us. Specifically, the Commission 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.

On July 23, 2008, President Bush signed into law the New and Emerging Technologies 911 Improvement Act of 2008. Prior to enactment, interconnected VOIP providers, like us, did not have the same liability protection as wireline or wireless providers that offer emergency 911 calling services. The new 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. The applicability of the liability protection to 911 calling services that do not conform to the FCC s rules is unclear at this time. Additionally, any liability associated with 911 call placement and handling prior to the enactment of this new law would not be covered but we are currently unaware of any such liability.

The FCC has extended CPNI rules to interconnected VOIP providers, which could limit our marketing efforts.

On April 2, 2007, the FCC extended customer proprietary network information, or CPNI, rules to interconnected VOIP providers, like us. CPNI includes information that appears on customers bills such as called telephone numbers, the frequency, duration, time and length of calls; and any services or features purchased by the consumer, like caller ID. Pursuant to the CPNI rules, interconnected VOIP providers may not use CPNI without obtaining customer consent except in limited circumstances. Moreover, interconnected VOIP providers are required to adhere to a particular customer approval processes when using CPNI outside of pre-defined limits. Effective December 8, 2007, we were required to adhere to specific CPNI rules when using CPNI for marketing purposes. Accordingly, we had to implement internal processes in order to comply with the FCC s CPNI rules. As required by the new rules, certifications were filed with the FCC regulating our compliance efforts in this regard.

We may be exposed to liability resulting from FCC Orders regarding access for people with disabilities.

On June 15, 2007, the FCC applied the disability access requirements of Sections 225 and 255 of the Communications Act to providers of interconnected VOIP services, like us, and to equipment manufacturers that make equipment to use with those services. Section 255 of the Communications Act requires, if readily achievable, service providers to ensure that its equipment and service is accessible to and usable by individuals

with disabilities. Where readily achievable, the relevant regulations also require service providers to ensure that information and documentation provided in connection with equipment or services be accessible to people with disabilities and that employee training account for accessibility requirements. In addition, the FCC said that interconnected VOIP providers were subject to the requirements of Section 225, including contributing to the Telecommunications Relay Services, or TRS, fund and that they must offer 711 abbreviated dialing for access to relay services. At this time, we are not in compliance with these rules. We may be subject to enforcement actions including, but not limited to, fines, cease and desist orders, or other penalties. On October 10, 2007, the FCC granted a limited waiver of the 711 call handling requirement. While still mandating that interconnected VOIP providers like us are required to transmit 711 calls to a relay center, the FCC waived the requirement until March 31, 2009, insofar as it requires such providers to transmit the 711 call to an appropriate relay center, meaning the relay center(s) serving the state in which the caller is geographically located or the relay center(s) corresponding to the caller s last registered address. We are working on implementing a call routing solution which will route 711 calls to the appropriate relay center as defined in the FCC s order but cannot predict whether we will be in compliance at the end of the waiver period.

Our results of operations may be adversely affected or our retail prices may rise due to increased regulation or the imposition of additional taxes, fees and surcharges.

On August 6, 2007, the FCC released a Report and Order regarding the collection of regulatory fees for Fiscal Year 2007 (Fees Order). Pursuant to the Fees Order, the FCC mandated the collection of such fees from interconnected VOIP service providers like us. The Fees Order mandates that interconnected VOIP providers pay regulatory fees based on reported interstate and international revenues. The Fees Order became effective in mid-November 2007. The assessment of regulatory fees to our service will increase our costs or cause us to increase the price of our retail service offerings and may have an adverse impact on our profitability.

We cannot predict the impact of any future laws, regulations and orders adopted either domestically or abroad on our operations and services. But increased regulation and the imposition of additional taxes, fees and surcharges increases the costs associated with providing our service and such taxes, fees and surcharges may or may not be recoverable from our customers. If we choose to absorb such costs, our profit margins would likely decrease. Moreover, even if such costs are recoverable or if we choose to maintain profitability, we may need to increase the retail price of our service that could result in making our service less competitive both with other providers of interconnected VOIP service providers and traditional providers of telecommunications services. The net effect could reduce the number of our subscribers, our revenue and our profit margin.

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 long distance telecommunications, Internet, broadband, DSL, data and hosting and wireless industry is significantly influenced by the marketing and pricing decisions of the larger long distance, Internet access, broadband, DSL, data and hosting and wireless 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. Competitors in our core markets include, among others: AT&T, Verizon, the regional bell operating companies (RBOCs), cable companies and the major wireless carriers in the United States; Telstra, SingTel Optus and Telecom New Zealand in Australia; Telus, BCE, Allstream (formerly AT&T Canada) and the major wireless and cable companies in Canada; and BT, Cable & Wireless United Kingdom, Colt Telecom, Energis and the major wireless carriers in the United Kingdom. Customers frequently change 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, generally, customers can switch carriers and service offerings at any time. Competition in all of our markets is likely to remain intense, or even increase in intensity

and, as deregulatory influences are experienced in markets outside the United States, competition in non-United States markets is becoming similar to the intense competition in the United States. 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 United States, Canada and Australia and the major wireless carriers and cable companies have introduced pricing and product bundling strategies that provide for fixed, low rates for calls. This strategy of our competitors could have a material adverse effect on our net revenue per minute, results of operations and financial condition if our pricing, set to remain competitive, is not offset by similar declines in our costs. Companies emerging out of bankruptcy might benefit from a lower cost structure and might apply pricing pressure within the industry to gain market share. 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.

Our repositioning in the marketplace 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 may place a significant strain on our management, operational and financial resources, and increase demand on our systems and controls. To manage this change effectively, we must continue to implement and improve our operational and financial systems and controls, invest in critical network infrastructure to maintain or improve our service quality levels, purchase and utilize other transmission facilities, 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, on our support, sales and marketing and administrative resources and on our 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 off-shoring 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 as well.

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 March 31, 2009, we had an accumulated deficit of $(1,085.8) million. We 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, we recognized net income of $15.7 million, of which $32.7 million was related to the positive impact of foreign currency transaction gains. Even if we are successful in reducing indebtedness through our proposed Reorganization, it is possible that adverse customer or supplier reaction to our Reorganization may have a greater incremental adverse effect on our results of operations in future periods than any interest expense reduction associated with such Reorganization. We cannot assure 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.

We experience intense domestic and international competition which may adversely affect our results of operations, financial condition, and cash flows.

The local and long distance telecommunications, data, broadband, Internet, VOIP, data and hosting and wireless industries are intensely competitive with relatively limited barriers to entry in the more deregulated

countries in which we operate and with numerous entities competing for the same customers. Recent and pending deregulation in various countries may encourage new entrants to compete, including ISPs, wireless companies, cable television companies, who would offer voice, broadband, Internet access and television, and electric power utilities who would offer voice and broadband Internet access. For example, the United States 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 United States, as certain conditions have been met under the Telecommunications Act of 1996, the RBOCs have been allowed to enter the long distance market, and other long distance carriers have been allowed to enter the local telephone services market (although judicial and regulatory developments have diminished the attractiveness of this opportunity), and many entities, including cable television companies and utilities, have been allowed to enter both the local service and long distance telecommunications markets.

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 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 a variety of reasons including but not limited to our proposed Reorganization, 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 March 31, 2009, derived about 80% of our net revenues by providing services outside of the United States. 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 are likely to control access to, and pricing of, the local networks; enjoy better brand recognition and brand and customer loyalty; generally offer a wider range of product and services; and have significant operational economies of scale, including a larger backbone network and more correspondent agreements. Moreover, the incumbent carrier may take many months to allow competitors, including us, to interconnect to our 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 obtain the permits and operating licenses required for us to operate; obtain access to local transmission facilities on economically acceptable terms; or 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 and/or have not been accrued for in our historical results of operations. This circumstance occurred during March 2008, when we concluded it was probable that assessments would be forthcoming concerning past European prepaid calling services operations (see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations; Results of operations for the year ended December 31, 2007 as compared to the year ended December 31, 2006), and it is possible that tax uncertainties concerning our international operations could arise in the future. Such developments, in addition to the foregoing, could have adverse consequences that could 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 United States.

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 DSL 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. If we do not adjust to meet changing market conditions including if we do not have adequate resources to do so, 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 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 United States 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 E911 services. 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. In addition, we rely on third parties 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 network or to migrate traffic and customers onto our network, or if we 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 United States 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 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 us.

We are subject to potential adverse effects of regulation 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 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 us. 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. Domestic or international regulators or third parties may raise material issues with regard to our compliance or noncompliance with applicable regulations, and therefore may have a material adverse impact on our competitive position, growth and financial performance. Regulatory considerations that affect or limit our business include (1) United States common carrier requirements not to discriminate unreasonably among customers and to charge just and reasonable rates; (2) general uncertainty regarding the future regulatory classification of and taxation of VOIP telephony, the need to provide emergency calling services in a manner required by the FCC that is not yet available commercially on a nation-wide basis and the ability to access broadband networks owned and operated by others; as regulators decide that VOIP is a regulated telecommunications service, our VOIP services may be subject to burdensome regulatory requirements and fees, we may be obligated to pay carriers additional interconnection fees and operating costs may increase; (3) general changes at the federal and/or state levels affecting access charges, universal service fund fees and regulatory fee payments would affect our cost of providing services; (4) ongoing regulatory proceedings regarding efforts by Telstra in Australia to increase prices and charges and to deny access to essential facilities; (5) 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 upon which the copper wire based last mile infrastructure needed by us to furnish broadband services using our DSLAM network infrastructure will be continued; (6) 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 (7) 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 business services. Any adverse developments implicating the foregoing could materially adversely affect our business, financial condition, result of operations and prospects.

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Natural disasters may affect the markets in which we operate, our operations and our profitability.

Many of the geographic areas where we conduct our business may be affected by natural disasters, including hurricanes and tropical storms. Hurricanes, tropical storms and other natural disasters could have a material adverse effect on the business by damaging the network facilities or curtailing voice or data traffic as a result of the effects of such events, such as destruction of homes and businesses.

A small group of our stockholders could exercise influence over our affairs.

As of February 28, 2009, funds affiliated with American International Group, Incorporated (AIG Entities) beneficially owned 13% of our outstanding common stock, which was acquired through the conversion of their Series C Preferred Stock. As a result of such share ownership, these holders may be deemed to exercise influence over our affairs through the provisions of a certain Governance Agreement between such holders and us, dated November 4, 2003, that provide for their right to nominate a candidate for election by our stockholders to the board of directors and nominate one non-voting board observer, in each case subject to the maintenance of certain minimum ownership levels of our common stock and the board s right to exercise its fiduciary duties. In addition, certain stockholders, other than the AIG Entities, have from time to time made filings with the SEC to report beneficial ownership of our common stock at levels in excess of 5%. Such persons have reported beneficial ownership concerning approximately 20.4 million shares, in aggregate, as of December 31, 2008, and as a result, individually or in the aggregate, could potentially exercise influence over our business.

If our proposed Reorganization is consummated, ownership of our common stock could be concentrated, following confirmation, among holders of our currently outstanding notes. Large stockholders significant ownership levels, either now or in the future, could have an influence on: amendments to our certificate of incorporation; other fundamental corporate transactions such as mergers and asset sales; and the general direction of our business and affairs.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Chapter 11 Cases described elsewhere in this Form 10-Q constituted an event of default that triggered repayment obligations under a number of debt instruments. See information within Note 1 and Note 5 to the Consolidated Condensed Financial Statements and under Part I, Item 2. As a result of the event of default, all obligations under the affected debt agreements became automatically and immediately due and payable. Additionally, the filing of the Chapter 11 Cases constituted an event of default thorough a cross default provision of the Canadian Financing Facility; however a waiver of that default provision was obtained from the lender. Certain other vendor and capital lease obligations are not in default because they are held in operating companies that were not part of the bankruptcy filings. We believe that any efforts to enforce the payment obligations under the defaulted debt agreements are stayed as a result of the filing of such Chapter 11 Cases in the Bankruptcy Court (subject to certain exceptions contemplated by the Term Loan Modification Term Sheet, following Bankruptcy Court approval).

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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: May 20, 2009

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

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EXHIBIT INDEX

Exhibit Number	Description
2.1	Amended Joint Plan of Reorganization of Primus Telecommunications Group, Incorporated and its Affiliate Debtors, as filed by the Debtors with the Bankruptcy Court on April 27, 2009 (incorporated by reference to Exhibits 2.1 and 2.2 to Registrant s Current Report on Form 8-K/A filed with the SEC on April 29, 2009)
2.2	Disclosure Statement approved by the Bankruptcy Court related to Amended Joint Plan of Reorganization of Primus Telecommunications Group, Incorporated and its Affiliate Debtors, as filed by the Debtors with the Bankruptcy Court on April 27, 2009 (incorporated by reference to Exhibits 2.1 and 2.2 to Registrant s Current Report on Form 8-K/A filed with the SEC on April 29, 2009)
3.1	First amended and Restated Certificate of Incorporation of Primus; Incorporated by reference to Exhibit 3.1 of the Registration Statement on From S-8, No. 333-56557.
3.2	Certificate of Amendment to First Amended and Restated Certificate of Incorporation of Primus; Incorporated by reference to Exhibit 3.2 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004.
3.3	Amended and Restated Bylaws of Primus; Incorporated by reference to Exhibit 3.2 to the Company s Annual Report on Form 10-K for the year ended December 31, 2002.
31	Certifications.
32	Certification.*

* 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.