

PRIMUS TELECOMMUNICATIONS GROUP INC  
Form 10-Q  
August 09, 2012

**UNITED STATES**  
**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 June 30, 2012**

**OR**

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

**Commission File No. 001-35210**

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

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

Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

**Delaware**  
(State or other jurisdiction of

**54-1708481**  
(I.R.S. Employer

incorporation or organization)

Identification No.)

**7901 Jones Branch Drive, Suite 900,**

**McLean, VA**  
(Address of principal executive offices)

**22102**  
(Zip Code)

**(703) 902-2800**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ Smaller reporting company ☐

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

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

**Class**  
Common Stock, \$0.001 par value

**Outstanding as of July 31, 2012**  
13,885,448

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**INDEX TO FORM 10-Q**

|                                      | <b>Page No.</b>                                                                                                                   |
|--------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| <b>Part I. FINANCIAL INFORMATION</b> |                                                                                                                                   |
| Item 1.                              | <b>FINANCIAL STATEMENTS (UNAUDITED)</b>                                                                                           |
|                                      | <u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2012 and 2011</u>                  |
|                                      | 3                                                                                                                                 |
|                                      | <u>Condensed Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011</u>                                            |
|                                      | 4                                                                                                                                 |
|                                      | <u>Condensed Consolidated Statement of Stockholders' Equity (Deficit) for the Six Months Ended June 30, 2012</u>                  |
|                                      | 5                                                                                                                                 |
|                                      | <u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2012 and 2011</u>                            |
|                                      | 6                                                                                                                                 |
|                                      | <u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2012 and 2011</u> |
|                                      | 7                                                                                                                                 |
|                                      | <u>Notes to Condensed Consolidated Financial Statements</u>                                                                       |
|                                      | 8                                                                                                                                 |
| Item 2.                              | <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>                                      |
|                                      | 27                                                                                                                                |
| Item 3.                              | <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>                                                                 |
|                                      | 43                                                                                                                                |
| Item 4.                              | <u>CONTROLS AND PROCEDURES</u>                                                                                                    |
|                                      | 44                                                                                                                                |
| <b>Part II. OTHER INFORMATION</b>    |                                                                                                                                   |
| Item 1.                              | <u>LEGAL PROCEEDINGS</u>                                                                                                          |
|                                      | 45                                                                                                                                |
| Item 1A.                             | <u>RISK FACTORS</u>                                                                                                               |
|                                      | 45                                                                                                                                |
| Item 2.                              | <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>                                                                |
|                                      | 45                                                                                                                                |
| Item 3.                              | <u>DEFAULTS UPON SENIOR SECURITIES</u>                                                                                            |
|                                      | 46                                                                                                                                |
| Item 4.                              | <u>MINE SAFETY DISCLOSURES</u>                                                                                                    |
|                                      | 46                                                                                                                                |
| Item 5.                              | <u>OTHER INFORMATION</u>                                                                                                          |
|                                      | 46                                                                                                                                |
| Item 6.                              | <u>EXHIBITS</u>                                                                                                                   |
|                                      | 46                                                                                                                                |
|                                      | <u>SIGNATURES</u>                                                                                                                 |
|                                      | 47                                                                                                                                |
|                                      | <u>EXHIBIT INDEX</u>                                                                                                              |
|                                      | 48                                                                                                                                |

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share amounts)

(unaudited)

|                                                                                                           | Three Months<br>Ended<br>June<br>30, 2012 | Three Months<br>Ended<br>June<br>30, 2011 | Six Months<br>Ended<br>June<br>30, 2012 | Six Months<br>Ended<br>June<br>30, 2011 |
|-----------------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|-----------------------------------------|-----------------------------------------|
| NET REVENUE                                                                                               | \$ 65,388                                 | \$ 74,995                                 | \$ 133,390                              | \$ 147,192                              |
| OPERATING EXPENSES                                                                                        |                                           |                                           |                                         |                                         |
| Cost of revenue (exclusive of depreciation included below)                                                | 32,290                                    | 37,230                                    | 65,795                                  | 72,863                                  |
| Selling, general and administrative                                                                       | 27,999                                    | 29,338                                    | 55,155                                  | 56,852                                  |
| Depreciation and amortization                                                                             | 7,830                                     | 9,392                                     | 15,427                                  | 18,274                                  |
| (Gain) loss on sale or disposal of assets                                                                 |                                           | (1)                                       | 43                                      | (2)                                     |
| Total operating expenses                                                                                  | 68,119                                    | 75,959                                    | 136,420                                 | 147,987                                 |
| INCOME (LOSS) FROM OPERATIONS                                                                             | (2,731)                                   | (964)                                     | (3,030)                                 | (795)                                   |
| INTEREST EXPENSE                                                                                          | (6,894)                                   | (7,862)                                   | (13,773)                                | (16,478)                                |
| ACCRETION (AMORTIZATION) ON DEBT PREMIUM/DISCOUNT,<br>net                                                 | (58)                                      | (53)                                      | (115)                                   | (103)                                   |
| GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION                                                        | 2,039                                     | 96                                        | (5,151)                                 | (4,288)                                 |
| INTEREST INCOME AND OTHER INCOME (EXPENSE), net                                                           | 142                                       | (104)                                     | 146                                     | (406)                                   |
| FOREIGN CURRENCY TRANSACTION GAIN (LOSS)                                                                  | (1,552)                                   | (214)                                     | 399                                     | 2,572                                   |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE<br>INCOME TAXES                                           | (9,054)                                   | (9,101)                                   | (21,524)                                | (19,498)                                |
| INCOME TAX BENEFIT (EXPENSE)                                                                              | (408)                                     | 16                                        | 698                                     | 591                                     |
| INCOME (LOSS) FROM CONTINUING OPERATIONS                                                                  | (9,462)                                   | (9,085)                                   | (20,826)                                | (18,907)                                |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax                                                    | (20,162)                                  | 2,833                                     | (15,550)                                | (7,967)                                 |
| GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of<br>tax                                           | 98,666                                    |                                           | 98,666                                  |                                         |
| NET INCOME (LOSS)                                                                                         | 69,042                                    | (6,252)                                   | 62,290                                  | (26,874)                                |
| Less: Net (income) loss attributable to the noncontrolling interest                                       | (183)                                     | (90)                                      | (289)                                   | 1,277                                   |
| NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS<br>TELECOMMUNICATIONS GROUP, INCORPORATED                        | \$ 68,859                                 | \$ (6,342)                                | \$ 62,001                               | \$ (25,597)                             |
| BASIC INCOME (LOSS) PER COMMON SHARE:                                                                     |                                           |                                           |                                         |                                         |
| Income (loss) from continuing operations attributable to Primus<br>Telecommunications Group, Incorporated | \$ (0.70)                                 | \$ (0.69)                                 | \$ (1.53)                               | \$ (1.44)                               |
| Income (loss) from discontinued operations                                                                | \$ (1.46)                                 | \$ 0.21                                   | \$ (1.13)                               | \$ (0.65)                               |
| Gain (loss) from sale of discontinued operations                                                          | \$ 7.13                                   | \$                                        | \$ 7.15                                 | \$                                      |
| Net income (loss) attributable to Primus Telecommunications Group,<br>Incorporated                        | \$ 4.97                                   | \$ (0.48)                                 | \$ 4.49                                 | \$ (2.09)                               |
| DILUTED INCOME (LOSS) PER COMMON SHARE:                                                                   |                                           |                                           |                                         |                                         |
| Income (loss) from continuing operations attributable to Primus<br>Telecommunications Group, Incorporated | \$ (0.70)                                 | \$ (0.69)                                 | \$ (1.53)                               | \$ (1.44)                               |
| Income (loss) from discontinued operations                                                                | \$ (1.46)                                 | \$ 0.21                                   | \$ (1.13)                               | \$ (0.65)                               |
| Gain (loss) from sale of discontinued operations                                                          | \$ 7.13                                   | \$                                        | \$ 7.15                                 | \$                                      |

# Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

|                                                                                              |    |          |    |         |    |          |    |          |
|----------------------------------------------------------------------------------------------|----|----------|----|---------|----|----------|----|----------|
| Net income (loss) attributable to Primus Telecommunications Group, Incorporated              | \$ | 4.97     | \$ | (0.48)  | \$ | 4.49     | \$ | (2.09)   |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING                                                   |    |          |    |         |    |          |    |          |
| Basic                                                                                        |    | 13,839   |    | 13,385  |    | 13,791   |    | 12,273   |
| Diluted                                                                                      |    | 13,839   |    | 13,385  |    | 13,791   |    | 12,273   |
| AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED |    |          |    |         |    |          |    |          |
| Income (loss) from continuing operations, net of tax                                         | \$ | (9,645)  | \$ | (9,175) | \$ | (21,115) | \$ | (17,630) |
| Income (loss) from discontinued operations, net of tax                                       |    | (20,162) |    | 2,833   |    | (15,550) |    | (7,967)  |
| Gain (loss) from sale of discontinued operations, net of tax                                 |    | 98,666   |    |         |    | 98,666   |    |          |
| Net income (loss)                                                                            | \$ | 68,859   | \$ | (6,342) | \$ | 62,001   | \$ | (25,597) |

See notes to condensed consolidated financial statements.

## PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

(unaudited)

|                                                                                                                                                                                                             | June 30,<br>2012  | December 31,<br>2011 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                                                               |                   |                      |
| <b>CURRENT ASSETS:</b>                                                                                                                                                                                      |                   |                      |
| Cash and cash equivalents                                                                                                                                                                                   | \$ 209,728        | \$ 41,052            |
| Accounts receivable (net of allowance for doubtful accounts receivable of \$1,957 and \$7,552 at June 30, 2012 and December 31, 2011, respectively)                                                         | 18,944            | 81,609               |
| Prepaid expenses and other current assets                                                                                                                                                                   | 14,081            | 15,539               |
| Current assets held for sale                                                                                                                                                                                | 48,002            |                      |
| Total current assets                                                                                                                                                                                        | 290,755           | 138,200              |
| RESTRICTED CASH                                                                                                                                                                                             | 822               | 11,891               |
| PROPERTY AND EQUIPMENT Net                                                                                                                                                                                  | 60,525            | 152,180              |
| GOODWILL                                                                                                                                                                                                    | 62,632            | 71,902               |
| OTHER INTANGIBLE ASSETS Net                                                                                                                                                                                 | 76,999            | 135,677              |
| OTHER ASSETS                                                                                                                                                                                                | 28,632            | 33,974               |
| <b>TOTAL ASSETS</b>                                                                                                                                                                                         | <b>\$ 520,365</b> | <b>\$ 543,824</b>    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>                                                                                                                                                       |                   |                      |
| <b>CURRENT LIABILITIES:</b>                                                                                                                                                                                 |                   |                      |
| Accounts payable                                                                                                                                                                                            | \$ 10,669         | \$ 46,627            |
| Accrued interconnection costs                                                                                                                                                                               | 2,014             | 24,103               |
| Deferred revenue                                                                                                                                                                                            | 9,288             | 12,258               |
| Accrued expenses and other current liabilities                                                                                                                                                              | 35,359            | 44,384               |
| Accrued income taxes                                                                                                                                                                                        | 7,309             | 10,617               |
| Accrued interest                                                                                                                                                                                            | 5,036             | 5,889                |
| Current portion of long-term obligations                                                                                                                                                                    | 50                | 1,948                |
| Current liabilities held for sale                                                                                                                                                                           | 33,954            |                      |
| Total current liabilities                                                                                                                                                                                   | 103,679           | 145,826              |
| LONG-TERM OBLIGATIONS                                                                                                                                                                                       | 236,195           | 245,814              |
| DEFERRED TAX LIABILITY                                                                                                                                                                                      | 15,561            | 31,311               |
| CONTINGENT VALUE RIGHTS                                                                                                                                                                                     | 21,347            | 16,196               |
| OTHER LIABILITIES                                                                                                                                                                                           | 519               | 2,971                |
| Total liabilities                                                                                                                                                                                           | 377,301           | 442,118              |
| <b>COMMITMENTS AND CONTINGENCIES (See Note 6)</b>                                                                                                                                                           |                   |                      |
| <b>STOCKHOLDERS' EQUITY (DEFICIT):</b>                                                                                                                                                                      |                   |                      |
| Preferred stock, \$0.001 par value 20,000,000 shares authorized; none issued and outstanding                                                                                                                |                   |                      |
| Common stock, \$0.001 par value 80,000,000 shares authorized; 13,917,036 and 13,772,646 shares issued and 13,885,410 and 13,741,020 shares outstanding at June 30, 2012 and December 31, 2011, respectively | 14                | 14                   |
| Additional paid-in capital                                                                                                                                                                                  | 131,179           | 142,796              |
| Retained earnings (accumulated deficit)                                                                                                                                                                     | 10,916            | (51,085)             |
| Treasury stock, at cost 31,626 and 31,626 shares at June 30, 2012 and December 31, 2011, respectively                                                                                                       | (378)             | (378)                |
| Accumulated other comprehensive income (loss)                                                                                                                                                               | (6,856)           | 2,416                |
| Total stockholders' equity before noncontrolling interest                                                                                                                                                   | 134,875           | 93,763               |

Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

|                                                             |                   |                   |
|-------------------------------------------------------------|-------------------|-------------------|
| Noncontrolling interest                                     | 8,189             | 7,943             |
| Total stockholders' equity                                  | 143,064           | 101,706           |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b> | <b>\$ 520,365</b> | <b>\$ 543,824</b> |

See notes to condensed consolidated financial statements.

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (DEFICIT)**

(in thousands)

(unaudited)

For the Six Months Ended June 30, 2012

Primus Telecommunications Group, Incorporated Shareholders

Common Stock

|                                                |            |        |        |                                  |                   |                                            | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Noncontrolling<br>Interest |
|------------------------------------------------|------------|--------|--------|----------------------------------|-------------------|--------------------------------------------|-----------------------------------------------------------|----------------------------|
|                                                | Total      | Shares | Amount | Additional<br>Paid-In<br>Capital | Treasury<br>Stock | Retained Earnings<br>Accumulated (Deficit) |                                                           |                            |
| Balance as of December 31, 2011                | \$ 101,706 | 13,741 | \$ 14  | \$ 142,796                       | \$ (378)          | \$ (51,085)                                | \$ 2,416                                                  | \$ 7,943                   |
| Share-based compensation expense               | 4,057      |        |        | 4,057                            |                   |                                            |                                                           |                            |
| Proceeds from sale of common stock,<br>net     | 53         | 144    |        | 53                               |                   |                                            |                                                           |                            |
| Shares withheld to satisfy tax<br>withholdings | (1,528)    |        |        | (1,528)                          |                   |                                            |                                                           |                            |
| Dividends declared                             | (14,199)   |        |        | (14,199)                         |                   |                                            |                                                           |                            |
| Comprehensive income (loss):                   |            |        |        |                                  |                   |                                            |                                                           |                            |
| Net income (loss)                              | 62,290     |        |        |                                  |                   | 62,001                                     |                                                           | 289                        |
| Foreign currency translation<br>adjustment     | (9,315)    |        |        |                                  |                   |                                            | (9,272)                                                   | (43)                       |
| Comprehensive income (loss)                    | 52,975     |        |        |                                  |                   |                                            |                                                           |                            |
| Balance as of June 30, 2012                    | \$ 143,064 | 13,885 | \$ 14  | \$ 131,179                       | \$ (378)          | \$ 10,916                                  | \$ (6,856)                                                | \$ 8,189                   |

See notes to condensed consolidated financial statements.



## PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

|                                                                                                                 | Six Months Ended<br>June 30, 2012 | Six Months Ended<br>June 30, 2011 |
|-----------------------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                                    |                                   |                                   |
| Net income (loss)                                                                                               | \$ 62,290                         | \$ (26,874)                       |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities:                        |                                   |                                   |
| Provision for doubtful accounts receivable                                                                      | 2,503                             | 4,436                             |
| Share-based compensation expense                                                                                | 4,057                             | 3,354                             |
| Depreciation and amortization                                                                                   | 27,645                            | 32,219                            |
| (Gain) loss on sale or disposal of assets                                                                       | (97,802)                          | 34                                |
| Impairment of goodwill and long-lived assets                                                                    | 10,298                            | 14,679                            |
| Accretion (amortization) of debt premium/discount, net                                                          | 115                               | 103                               |
| Change in fair value of Contingent Value Rights                                                                 | 5,151                             | 4,288                             |
| Deferred income taxes                                                                                           | 4,047                             | 1,299                             |
| Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt                            | (3,042)                           | (6,458)                           |
| Changes in assets and liabilities, net of acquisitions:                                                         |                                   |                                   |
| (Increase) decrease in accounts receivable                                                                      | 13,339                            | (8,615)                           |
| (Increase) decrease in prepaid expenses and other current assets                                                | 3,757                             | 2,841                             |
| (Increase) decrease in other assets                                                                             | 2,977                             | (2,323)                           |
| Increase (decrease) in accounts payable                                                                         | (10,539)                          | 6,900                             |
| Increase (decrease) in accrued interconnection costs                                                            | (4,278)                           | (4,756)                           |
| Increase (decrease) in accrued expenses, deferred revenue, other current liabilities and other liabilities, net | (2,798)                           | (5,288)                           |
| Increase (decrease) in accrued income taxes                                                                     | (991)                             | (336)                             |
| Increase (decrease) in accrued interest                                                                         | (550)                             | (511)                             |
| Net cash provided by operating activities                                                                       | 16,179                            | 14,992                            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                                    |                                   |                                   |
| Purchase of property and equipment                                                                              | (18,727)                          | (13,880)                          |
| Cash from disposition of business, net of cash disposed                                                         | 177,721                           |                                   |
| Cash used for business acquisitions, net of cash acquired                                                       | (1,333)                           | 9,599                             |
| Sales of marketable securities                                                                                  |                                   | 4,087                             |
| Increase in restricted cash                                                                                     | (85)                              | (123)                             |
| Net cash (used in) provided by investing activities                                                             | 157,576                           | (317)                             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                                    |                                   |                                   |
| Principal payments on long-term obligations                                                                     | (1,650)                           | (24,462)                          |
| Payment of fees on restructuring of debt                                                                        | (1,977)                           |                                   |
| Proceeds from sale of common stock, net                                                                         | 53                                | 1,168                             |
| Payment to noncontrolling interest                                                                              |                                   | (1,205)                           |
| Taxes paid in lieu of shares issued for share-based compensation                                                | (1,454)                           |                                   |
| Net cash used in financing activities                                                                           | (5,028)                           | (24,499)                          |
|                                                                                                                 | (51)                              | (234)                             |

Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS

|                                                |         |          |
|------------------------------------------------|---------|----------|
| NET CHANGE IN CASH AND CASH EQUIVALENTS        | 168,676 | (10,058) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 41,052  | 41,534   |

|                                          |            |           |
|------------------------------------------|------------|-----------|
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 209,728 | \$ 31,476 |
|------------------------------------------|------------|-----------|

SUPPLEMENTAL CASH FLOW INFORMATION:

|                                                                                          |           |           |
|------------------------------------------------------------------------------------------|-----------|-----------|
| Cash paid for interest                                                                   | \$ 13,033 | \$ 17,008 |
| Cash paid for taxes                                                                      | \$ 2,306  | \$ 431    |
| Non-cash investing and financing activities:                                             |           |           |
| Acquisition purchase consideration recorded in working-capital and long-term liabilities | \$        | \$ 2,507  |
| Business acquisition purchased with Company common stock                                 | \$        | \$ 50,609 |

See notes to condensed consolidated financial statements.

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

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

(in thousands)

(unaudited)

|                                                                                                 | Three Months<br>Ended<br>June 30,<br>2012 | Three Months<br>Ended<br>June 30,<br>2011 | Six Months<br>Ended<br>June<br>30, 2012 | Six Months<br>Ended<br>June<br>30, 2011 |
|-------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|-----------------------------------------|-----------------------------------------|
| NET INCOME (LOSS)                                                                               | \$ 69,042                                 | \$ (6,252)                                | \$ 62,290                               | \$ (26,874)                             |
| OTHER COMPREHENSIVE INCOME (LOSS)                                                               |                                           |                                           |                                         |                                         |
| Foreign currency translation adjustment                                                         | (10,505)                                  | (1,057)                                   | (9,315)                                 | 129                                     |
| COMPREHENSIVE INCOME (LOSS)                                                                     | 58,537                                    | (7,309)                                   | 52,975                                  | (26,745)                                |
| Less: Comprehensive (income) loss attributable to the<br>noncontrolling interest                | 56                                        | (102)                                     | (246)                                   | 1,166                                   |
| COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO<br>PRIMUS TELECOMMUNICATIONS GROUP,<br>INCORPORATED | \$ 58,593                                 | \$ (7,411)                                | \$ 52,729                               | \$ (25,579)                             |

See notes to condensed consolidated financial statements.

---

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**1. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements of Primus Telecommunications Group, Incorporated and subsidiaries ( Primus or the Company ) have been prepared in accordance with accounting principles generally accepted in the United States 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 have been condensed or omitted pursuant to such principles and regulations. In the opinion of management, the financial statements reflect all adjustments (all of which are of a normal and recurring nature), which are necessary to present fairly the financial position, results of operations, cash flows and comprehensive income (loss) for the interim periods. The results for the Company s three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The results for all periods presented in this Quarterly Report on Form 10-Q reflect the activities of certain operations as discontinued operations (see Note 12 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 Annual Report on Form 10-K.

On June 23, 2011, the Company began to trade its common stock on the New York Stock Exchange under the ticker symbol PTGI. At that time, trading of its common stock on the OTC Bulletin Board under the ticker symbol PMUG ceased.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Principles of Consolidation* The condensed 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 Corporation ( Globility ) through direct and indirect ownership structures. The results of Globility and its subsidiary are consolidated with the Company s results based on guidance from the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) No. 810, Consolidation ( ASC 810 ). All intercompany profits, transactions and balances have been eliminated in consolidation.

*Discontinued Operations* During 2011, the Company sold its Brazilian segment. In the second quarter of 2012, the Company sold its Australian segment and committed to dispose of and is actively soliciting a sale or other disposition of its International Carrier Services ( ICS ) business unit.

The Company has applied retrospective adjustments for the three and six months ended June 30, 2011 to reflect the effects of the discontinued operations that occurred during 2012. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the condensed consolidated statements of operations. Additionally the assets and liabilities of ICS have been classified as held-for-sale assets and liabilities and removed from the specific line items on the condensed consolidated balance sheet as of June 30, 2012. See Note 12 Discontinued Operations, for further information regarding these transactions.

*Property and Equipment* Property and equipment are recorded at cost less accumulated depreciation, which is provided on the straight-line method over the estimated useful lives of the assets. Cost includes major expenditures for improvements and replacements which extend useful lives or increase capacity of the assets as well as expenditures necessary to place assets into readiness for use. Expenditures for maintenance and repairs

---

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(UNAUDITED)**

are expensed as incurred. The estimated useful lives of property and equipment are as follows: network equipment 5 to 8 years, fiber optic and submarine cable 8 to 25 years, furniture and equipment 5 years, and leasehold improvements and leased equipment shorter of lease or useful life. Costs for internal use software that are incurred in the preliminary project stage and in the post-implementation stage are expensed as incurred. Costs incurred during the application development stage are capitalized and amortized over the estimated useful life of the software.

*Business Combinations* The Company is required to allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. This valuation requires management to make significant estimates and assumptions, especially with respect to intangible assets associated with such assets. Critical estimates in valuing certain of the intangible assets and subsequently assessing the realizability of such assets include, but are not limited to, future expected cash flows from the revenues, customer contracts and discount rates. Management's estimates of fair value are based on assumptions believed to be reasonable but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate and unanticipated events and circumstances may occur.

*Goodwill and Other Intangible Assets* Under ASC No. 350, Intangibles Goodwill and Other (ASC 350), goodwill and indefinite lived intangible assets are not amortized but are reviewed annually for impairment, or more frequently, if impairment indicators arise. Intangible assets that have finite lives are amortized over their estimated useful lives and are subject to the provisions of ASC No. 360, Property, Plant and Equipment (ASC 360).

Goodwill impairment is tested at least annually (October 1 for the Company) or when factors indicate potential impairment using a two-step process that begins with an estimation of the fair value of each reporting unit. Step 1 is a screen for potential impairment pursuant to which the estimated fair value of each reporting unit is compared to its carrying value. The Company estimates the fair values of each reporting unit by a combination of (i) estimation of the discounted cash flows of each of the reporting units based on projected earnings in the future (the income approach) and (ii) a comparative analysis of revenue and EBITDA multiples of public companies in similar markets (the market approach). If there is a deficiency (the estimated fair value of a reporting unit is less than its carrying value), a Step 2 test is required.

Step 2 measures the amount of impairment loss, if any, by comparing the implied fair value of the reporting unit goodwill with its carrying amount. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined; through an allocation of the fair value of a reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

The Company's reporting units are the same as its operating segments, except as discussed in Note 4 related to Arbinet, as each segment's components have been aggregated and deemed a single reporting unit because they have similar economic characteristics. Each component is similar in that each provides telecommunications services for which all of the resources and costs are drawn from the same pool, and are evaluated using the same business factors by management.

Estimating the fair value of a reporting unit requires various assumptions including projections of future cash flows, perpetual growth rates and discount rates. The assumptions about future cash flows and growth rates are based on the Company's assessment of a number of factors, including the reporting unit's recent performance against budget, performance in the market that the reporting unit serves, and industry and general economic data

---

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(UNAUDITED)**

from third party sources. Discount rate assumptions are based on an assessment of the risk inherent in those future cash flows. Changes to the underlying businesses could affect the future cash flows, which in turn could affect the fair value of the reporting unit.

Intangible assets not subject to amortization consist of certain trade names. Such indefinite lived intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test shall consist of a comparison of the fair value of an intangible asset with its carrying amount. If the carrying amount of the intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to the excess.

Intangible assets subject to amortization consist of certain trade names and customer relationships. These finite lived intangible assets are amortized based on their estimated useful lives. Such assets are subject to the impairment provisions of ASC 360, pursuant to which impairment is recognized and measured only if there are events and circumstances that indicate that the carrying amount may not be recoverable. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset group. An impairment loss is recorded if after determining that it is not recoverable, the carrying amount exceeds the fair value of the asset.

*Derivative Instruments* Pursuant to the terms of the Company's 2009 bankruptcy reorganization (the "Reorganization Plan"), the Company issued to holders of the Company's pre-Reorganization Plan common stock contingent value rights ("CVRs") to receive up to an aggregate of 2,665,000 shares (the "CVR Shares") of the Company's common stock. In connection with the issuance of the CVRs, the Company entered into a Contingent Value Rights Distribution Agreement (the "CVR Agreement"), in favor of holders of CVRs thereunder, dated as of July 1, 2009. As a result of the special cash dividend discussed in Note 8 "Stockholders' Equity (Deficit)", effective July 2, 2012, the maximum aggregate number of CVR Shares issuable with respect to the CVRs was adjusted upward from 2,665,000 shares to 2,835,225 shares while the price per share was adjusted downward from \$35.95 to \$33.79.

Due to the nature of the CVRs, the Company accounted for the instrument in accordance with ASC No. 815, "Derivatives and Hedging", as well as related interpretations of this standard. The Company determined the CVRs to be derivative instruments to be accounted for as liabilities and marked to fair value at each balance sheet date. Upon issuance, the Company estimated the fair value of its CVRs using a Black-Scholes pricing model and consequently recorded a liability of \$2.6 million in the balance sheet caption "other liabilities" as part of fresh-start accounting. Post-issuance change in value is reflected in the condensed consolidated statements of operations as gain (loss) from contingent value rights valuation. The Company's estimates of fair value of its CVRs are correlated to and reflective of the Company's common stock price trends; in general, as the value of the Company's common stock increases, the estimated fair value of the CVRs also increases and, as a result, the Company recognizes a change in value of its CVRs as loss from contingent value rights valuation. Conversely and also in general, as the value of the Company's common stock decreases, the estimated fair value of the CVRs also decreases and as a result the Company would recognize a change in value of the CVRs as gain from contingent value rights valuation. See Note 10 "Fair Value of Financial Instruments and Derivatives."

*Use of Estimates* The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States 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 condensed 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 derivatives, market assumptions used in estimating the fair values

---

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(UNAUDITED)**

of certain assets and liabilities, the calculation used in determining the fair value of the Company's stock options required by ASC No. 718, Compensation Stock Compensation, income taxes and various tax contingencies.

Estimates of fair value represent the Company's best estimates developed with the assistance of independent appraisals or various valuation techniques including Black-Scholes and, where the foregoing have not yet been completed or are not available, industry data and trends and by reference to relevant market rates and transactions. The estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond the control of the Company. Accordingly, the Company cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially. Any adjustments to the recorded fair values of these assets and liabilities, as related to business combinations, may impact the amount of recorded goodwill.

*Reclassification* Certain previous year amounts have been reclassified to conform with current year presentations, as related to the reporting of the Company's discontinued operations. In addition, certain amounts in selling, general and administrative expense related to our Data Center operating segment were reclassified to cost of revenue as part of the Company's new operating segment structure discussed in Note 11 Operating Segment and Related Information to the notes to our condensed consolidated financial statements included elsewhere in this report.

*Newly Adopted Accounting Principles*

In May 2011, an update was issued to the Fair Value Measurement Topic ASC 820, ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which provides guidance on how to measure fair value and on what disclosures to provide about fair value measurements. It seeks to develop a single, converged fair value framework between the FASB and the International Financial Reporting Standards (IFRS) Board. On January 1, 2012, the Company adopted this update, which did not have a material impact on the condensed consolidated financial statements.

In June 2011, an update was issued to the Comprehensive Income Topic ASC 220, ASU 2011-05, Presentation of Comprehensive Income, which provides guidance to all entities that report items of other comprehensive income, in any period presented. Under the amendments in this update, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. In a single continuous statement, the entity is required to present the components of net income and total net income, the components of other comprehensive income and a total for other comprehensive income, along with the total of comprehensive income in that statement. In the two-statement approach, an entity is required to present components of net income and total net income in the statement of net income. The statement of other comprehensive income should immediately follow the statement of net income and include the components of other comprehensive income and a total for other comprehensive income, along with a total for comprehensive income. ASU 2011-05 also contains a provision that requires the entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statements where the components of net income and the components of other comprehensive income are presented. In December 2011, an update was issued to the Comprehensive Income Topic ASC 220, ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting

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

Standards Update No. 2011-05, which indefinitely deferred the requirement to present the reclassification adjustments out of other comprehensive income. On January 1, 2012, the Company adopted these updates, which did not have a material impact on the condensed consolidated financial statements.

In September 2011, an update was issued to the Intangibles Goodwill and Other Topic ASC 350, ASU 2011-08, Testing Goodwill for Impairment, which provides guidance to all entities, both public and nonpublic, that have goodwill reported in their financial statements. Under the amendments in this update, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss. An entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. On January 1, 2012, the Company adopted this update, which did not have a material impact on the condensed consolidated financial statements.

**3. ACQUISITIONS*****Arbinet Corporation Acquisition***

On February 28, 2011, the Company completed its acquisition of Arbinet Corporation, a Delaware corporation ( Arbinet ). Arbinet is a provider of wholesale telecom exchange services to carriers, and the Company purchased Arbinet to supplement its existing ICS operations. Pursuant to the terms of the Agreement and Plan of Merger dated as of November 10, 2010, as amended by Amendment No. 1 dated December 14, 2010, by and among Primus, PTG Investments, Inc., a Delaware corporation and a wholly-owned subsidiary of Primus ( Merger Sub ), and Arbinet, Merger Sub merged with and into Arbinet with Arbinet surviving the merger as a wholly-owned subsidiary of Primus.

Upon the closing of the merger, each share of Arbinet common stock was cancelled and converted into the right to receive 0.5817 shares of Primus common stock. Arbinet stockholders received cash in lieu of any fractional shares of Primus common stock that they were otherwise entitled to receive in the merger. In connection with the merger, Primus issued 3,232,812 shares of its common stock to former Arbinet stockholders in exchange for their shares of Arbinet common stock, and reserved for issuance approximately 95,000 additional shares of its common stock in connection with its assumption of Arbinet's outstanding options, warrants, stock appreciation rights and restricted stock units. The components of the consideration transferred follow (in thousands):

|                                                                 |                  |
|-----------------------------------------------------------------|------------------|
| Consideration attributable to stock issued (1)                  | \$ 50,432        |
| Consideration attributable to earned replaced equity awards (2) | 177              |
| <b>Total consideration transferred</b>                          | <b>\$ 50,609</b> |

- (1) The fair value of the Company's common stock on the acquisition date was \$15.60 per share based on the closing value of its common stock traded on the over-the-counter bulletin board. The Company issued 3,232,812 shares of stock to effect this merger.



---

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(UNAUDITED)**

- (2) The portion of the acquisition fair value of Arbinet converted stock-based awards attributable to pre-merger employee service was part of consideration. At the merger closing 50% of the unvested and outstanding Arbinet awards vested. The portion of the fair value-based measure of the replaced awards assigned to past services (including those for which vesting accelerated at the merger closing and those that were already vested at the date of the merger closing) was included in the consideration transferred.

*Recording of Assets Acquired and Liabilities Assumed*

The transaction was accounted for using the acquisition method of accounting which requires, among other things, that assets acquired and liabilities assumed be recognized at their estimated fair values as of the acquisition date.

Estimates of fair value included in the financial statements, in conformity with ASC No. 820, Fair Value Measurements and Disclosures (ASC 820), represent the Company's best estimates and valuations developed with the assistance of independent appraisers. The estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond the control of the Company. Accordingly, the Company cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially. In accordance with ASC No. 805, Business Combinations (ASC 805), the allocation of the consideration value was completed on February 28, 2012, the one year anniversary of the date of the acquisition.

**4. GOODWILL AND OTHER INTANGIBLE ASSETS**

On February 28, 2011, the Company acquired Arbinet for stock consideration of \$50.6 million in a stock for stock transaction. See Note 3 Acquisitions. Because the Company's stock price rose significantly between the signing of the merger agreement on November 10, 2010 and the close of the merger on February 28, 2011 from a closing price of \$9.57 per share to \$15.60 per share, the fixed-share consideration fair value also rose. Because Arbinet's enterprise value may not have increased within similar levels over that time period, the Company determined that a goodwill impairment assessment was immediately necessary post-merger. On the day of the merger, Arbinet was a stand-alone business with its own cash flows and management structure, and the Company evaluated it as a separate reporting unit. The Company determined the preliminary enterprise value of Arbinet to be \$36.2 million, which was less than the carrying value of \$50.6 million. For Step 2 of the testing, the fair value of the assets acquired and liabilities assumed was deemed to be equal to that which was used for the purchase price allocation. Based on an enterprise value of \$36.2 million and the fair value of the assets acquired and liabilities assumed at purchase, the company calculated \$4.7 million of implied goodwill. Because the carrying value of goodwill was greater than the implied goodwill, \$14.7 million was recorded as Goodwill impairment on the Company's condensed consolidated statements of operations. Post acquisition, Arbinet was integrated into the Company's ICS segment.

In conjunction with the decision to discontinue ICS (Note 12 Discontinued Operations), the Company initiated an impairment assessment analysis of ICS resulting in the full impairment of the goodwill and intangible assets assigned to ICS of \$10.3 million at June 30, 2012. Subsequent to the impairment analysis and resulting impairment charge, the Company determined the adjusted carrying value of its assets and liabilities classified as held-for-sale approximated the fair value less costs to sell. The following assets were impaired to a value of zero: goodwill of \$5.9 million; license of \$2.4 million; customer relationships of \$1.3 million and trademark of \$0.7 million. As the impairment charge is related to ICS, it is classified within discontinued operations in the condensed consolidated statement of operations.

## PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

In conjunction with the sale of the Australian segment in the second quarter of 2012, the Company also assigned the trademarks owned by the Australian segment to M2 Telecommunications Group Ltd. Pursuant to the trademark assignment deed, entered into as part of the transaction, the assignee is restricted from using the specified trademarks in any jurisdiction outside of Australia and New Zealand where the Company continues to hold existing rights. The value of the assigned trademarks was \$39.2 million, less a deferred tax liability of \$15.2 million.

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

|             | June 30,<br>2012 | December 31,<br>2011 |
|-------------|------------------|----------------------|
| Goodwill    | \$ 62,632        | \$ 71,902            |
| Trade names | \$ 37,000        | \$ 76,900            |

The changes in the carrying amount of goodwill and trade names by reporting unit for the six months ended June 30, 2012 are as follows (in thousands):

*Goodwill*

|                                                     | United States | Canada    | Australia | Total     |
|-----------------------------------------------------|---------------|-----------|-----------|-----------|
| Balance as of December 31, 2011                     | \$ 37,146     | \$ 32,819 | \$ 1,937  | \$ 71,902 |
| Effect of change in foreign currency exchange rates |               | (147)     | (4)       | (151)     |
| Acquisition (disposition) of business               | (1,280)       |           | (1,933)   | (3,213)   |
| Accumulated impairment loss                         | (5,906)       |           |           | (5,906)   |
| Balance as of June 30, 2012                         | \$ 29,960     | \$ 32,672 | \$        | \$ 62,632 |

*Trade Names*

|                                                     | United States | Canada | Australia | Total     |
|-----------------------------------------------------|---------------|--------|-----------|-----------|
| Balance as of December 31, 2011                     | \$ 76,900     | \$     | \$        | \$ 76,900 |
| Effect of change in foreign currency exchange rates |               |        |           |           |
| Acquisition (disposition) of business               | (39,200)      |        |           | (39,200)  |
| Accumulated impairment loss                         | (700)         |        |           | (700)     |
| Balance as of June 30, 2012                         | \$ 37,000     | \$     | \$        | \$ 37,000 |

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

|             | June 30, 2012               |                             |                      | December 31, 2011           |                             |                      |
|-------------|-----------------------------|-----------------------------|----------------------|-----------------------------|-----------------------------|----------------------|
|             | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Book<br>Value | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Book<br>Value |
| Trade names | \$ 3,500                    | \$ (965)                    | \$ 2,535             | \$ 3,500                    | \$ (790)                    | \$ 2,710             |

# Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

|                        |           |             |           |            |             |           |
|------------------------|-----------|-------------|-----------|------------|-------------|-----------|
| Licenses               |           |             |           | 2,800      | (233)       | 2,567     |
| Customer relationships | 90,747    | (53,283)    | 37,464    | 106,199    | (52,699)    | 53,500    |
| Total                  | \$ 94,247 | \$ (54,248) | \$ 39,999 | \$ 112,499 | \$ (53,722) | \$ 58,777 |

Amortization expense for trade names, licenses, and customer relationships for the three and six months ended June 30, 2012 was \$2.8 million and \$5.6 million, respectively, compared to \$4.3 million and \$8.3 million, respectively, for the three and six months ended June 30, 2011.

## PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

The Company expects amortization expense for trade names, licenses, and customer relationships for the remainder of 2012, the years ending December 31, 2013, 2014, 2015, 2016, and thereafter to be approximately \$5.6 million, \$8.0 million, \$5.9 million, \$4.4 million, \$3.5 million and \$12.6 million, respectively.

**5. LONG-TERM OBLIGATIONS**

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

|                                                 | June 30,<br>2012 | December 31,<br>2011 |
|-------------------------------------------------|------------------|----------------------|
| Obligations under capital leases and other      | \$ 99            | \$ 11,696            |
| 13% Senior Secured Notes due 2016               | 2,403            | 2,403                |
| 10% Senior Secured Notes due 2017               | 235,231          | 235,231              |
| Subtotal                                        | \$ 237,733       | \$ 249,330           |
| Original issue discount on Senior Secured Notes | (1,453)          | (1,568)              |
| Subtotal                                        | \$ 236,280       | \$ 247,762           |
| Less: Current portion of long-term obligations  | (85)             | (1,948)              |
| Total long-term obligations                     | \$ 236,195       | \$ 245,814           |

The following table reflects the contractual payments of principal and interest for the Company's long-term obligations as of June 30, 2012:

| Year Ending December 31,                    | Capital Leases<br>and Other | 10% Senior<br>Secured Notes<br>due 2017 | 13% Senior<br>Secured Notes<br>due 2016 | Total      |
|---------------------------------------------|-----------------------------|-----------------------------------------|-----------------------------------------|------------|
| 2012 (as of June 30, 2012)                  | \$ 65                       | \$ 11,762                               | \$ 156                                  | \$ 11,983  |
| 2013                                        | 37                          | 23,523                                  | 312                                     | 23,872     |
| 2014                                        |                             | 23,523                                  | 312                                     | 23,835     |
| 2015                                        |                             | 23,523                                  | 312                                     | 23,835     |
| 2016                                        |                             | 23,523                                  | 2,716                                   | 26,239     |
| Thereafter                                  |                             | 242,092                                 |                                         | 242,092    |
| Total minimum principal & interest payments | 102                         | 347,946                                 | 3,808                                   | 351,856    |
| Less: Amount representing interest          | (3)                         | (112,715)                               | (1,405)                                 | (114,123)  |
| Total long-term obligations                 | \$ 99                       | \$ 235,231                              | \$ 2,403                                | \$ 237,733 |

**Asset Sale Tender Offer for 10% Senior Secured Notes due 2017**

On June 20, 2012, Primus Telecommunications Holding, Inc. ( "Holding" ) commenced an offer to purchase (the "Offer to Purchase" ) up to \$183,300,000 aggregate principal amount of the 10% Senior Secured Notes due 2017 (the "10% Notes" ) at a purchase price in cash equal to 100% of the principal amount of 10% Notes validly tendered (and not validly withdrawn) and accepted in the Offer to Purchase, plus accrued and unpaid interest thereon to the settlement date for the Offer to Purchase. The Offer to Purchase expired on July 19, 2012. No Notes were tendered

## Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

pursuant to the Offer to Purchase.

The Offer to Purchase was required by the indenture governing the 10% Notes ( 10% Notes Indenture ) as a result of the sale of the Company's Australia segment and the receipt of proceeds. Pursuant to the 10% Notes Indenture, Holding was required to make an offer to purchase (the Offer to Purchase ) 10% Notes using the

---

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(UNAUDITED)**

Excess Proceeds (as defined in the 10% Notes Indenture) from this transaction, which constituted an Asset Sale under the 10% Notes Indenture. The Company determined that the Excess Proceeds from this transaction equaled \$183.3 million (after taking into account the Retention Amount and costs and expenses related to the transaction) (the Offer Amount ).

**Exchange Offers**

On July 7, 2011, in connection with the consummation of the private (i) exchange offers (the Exchange Offers ) for any and all outstanding Units representing the 13% Senior Secured Notes due 2016 (the 13% Notes ) issued by Holding and Primus Telecommunications Canada Inc. ( Primus Canada ), and the 14<sup>3</sup>/<sub>4</sub>% Senior Subordinated Secured Notes due 2013 (the 14<sup>3</sup>/<sub>4</sub>% Notes ) issued by Primus Telecommunications IHC, Inc. ( IHC ), (ii) consent solicitation (the Consent Solicitation ) to amend the indenture governing the 13% Notes and release the collateral securing the 13% Notes, and (iii) related transactions, Holding issued \$240.2 million aggregate principal amount of 10% Notes. An aggregate of \$228.6 million principal amount of 10% Notes was issued pursuant to the Exchange Offers, and Holding issued an additional \$11.6 million aggregate principal amount of 10% Notes for cash, the proceeds of which were used to redeem all 14<sup>1</sup>/<sub>4</sub>% Notes that were not exchanged pursuant to the Exchange Offers and thereby discharge all of the Company's obligations with respect to the 14<sup>3</sup>/<sub>4</sub>% Notes. In connection with the Exchange Offers, the Company also incurred \$6.9 million of third party costs which are included in gain (loss) on early extinguishment or restructuring of debt on the condensed consolidated statement of operations in the third quarter of 2011.

**10% Senior Secured Notes due 2017**

As of June 30, 2012, there was \$235.2 million aggregate principal amount of the 10% Notes outstanding. The 10% Notes bear interest at a rate of 10.00% per annum, payable semi-annually in arrears in cash on April 15 and October 15 of each year, commencing October 15, 2011. The 10% Notes will mature on April 15, 2017. In December 2011, the Company repurchased \$5.0 million in aggregate principal amount of the 10% Notes at 99% of face value.

**13% Senior Secured Notes due 2016**

As of June 30, 2012, there was \$2.4 million aggregate principal amount of the 13% Notes outstanding. The 13% Notes bear interest at a rate of 13.00% per annum, payable semi-annually in arrears in cash on June 15 and December 15 of each year. The 13% Notes will mature on December 16, 2016.

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****(UNAUDITED)****6. COMMITMENTS AND CONTINGENCIES**

Future minimum lease payments under capital leases and other purchase obligations and non-cancellable operating leases as of June 30, 2012 are as follows (in thousands):

| <b>Year Ending December 31,</b>                        | <b>Capital Leases<br/>and Other</b> | <b>Purchase<br/>Obligations</b> | <b>Operating<br/>Leases</b> |
|--------------------------------------------------------|-------------------------------------|---------------------------------|-----------------------------|
| 2012 (as of June 30, 2012)                             | \$ 65                               | \$ 3,180                        | \$ 6,789                    |
| 2013                                                   | 37                                  | 4,121                           | 11,911                      |
| 2014                                                   |                                     | 3,486                           | 8,901                       |
| 2015                                                   |                                     | 41                              | 7,079                       |
| 2016                                                   |                                     |                                 | 5,748                       |
| Thereafter                                             |                                     |                                 | 18,747                      |
| <b>Total minimum principal &amp; interest payments</b> | <b>102</b>                          | <b>10,828</b>                   | <b>59,175</b>               |
| Less: Amount representing interest                     | (3)                                 |                                 |                             |
| <b>Total long-term obligations</b>                     | <b>\$ 99</b>                        | <b>\$ 10,828</b>                | <b>\$ 59,175</b>            |

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 payments under purchase commitments of \$4.7 million and \$16.0 million for the six months ended June 30, 2012 and 2011, respectively.

The Company's rent expense under operating leases was \$0.7 million and \$1.5 million for the three and six months ended June 30, 2012, respectively, compared to \$1.2 million and \$2.5 million for the three and six months ended June 30, 2011, respectively.

***Litigation***

The Company and its subsidiaries are subject to claims and legal proceedings that arise in the ordinary course of business. Each of these matters is inherently uncertain, and there can be no guarantee that the outcome of any such matter will be decided favorably to the Company or its subsidiaries or that the resolution of any such matter will not have a material adverse effect upon the Company's business, condensed consolidated financial position, results of operations or cash flow. The Company does not believe that any of these pending claims and legal proceedings will have a material adverse effect on its business, condensed consolidated financial position, results of operations or cash flow.

**7. SHARE-BASED COMPENSATION**

The Compensation Committee (the "Committee") of the Board of Directors of the Company administers the Company's Management Compensation Plan, as amended (the "Management Compensation Plan"). The Committee has broad authority to administer, construe and interpret the Management Compensation Plan; however, except in connection with certain Corporate Transactions (as defined in the Management Compensation Plan), it may not take any action with respect to an award that would be treated, for accounting purposes, as a repricing of an award unless the action is approved by the shareholders of the Company.

## PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## (UNAUDITED)

The Management Compensation Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, and other stock-based or cash-based performance awards (collectively, "awards"). The Company typically issues new shares of common stock upon the exercise of stock options, as opposed to using treasury shares.

The Company follows guidance which addresses the accounting for stock-based payment transactions whereby an entity receives employee services in exchange for either equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. The guidance generally requires that such transactions be accounted for using a fair-value based method and share-based compensation expense be recorded, based on the grant date fair value, estimated in accordance with the guidance, for all new and unvested stock awards that are ultimately expected to vest as the requisite service is rendered.

40 thousand options were granted during the six months ended June 30, 2012, while 2.5 thousand options were granted during the six months ended June 30, 2011.

Total share-based compensation expense recognized by the Company in the three months ended June 30, 2012 and 2011 was \$2.4 million and \$2.3 million, respectively, and compared to \$4.1 million and \$3.4 million, respectively, for the six months ended June 30, 2012 and 2011. Most of the Company's stock awards vest ratably during the vesting period. The Company recognizes compensation expense for equity awards, reduced by estimated forfeitures, using the straight-line basis.

*Restricted Stock Units (RSUs)*

A summary of the Company's restricted stock units activity during the six months ended June 30, 2012 is as follows:

|                            | Six Months Ended<br>June 30, 2012 |                                                 |
|----------------------------|-----------------------------------|-------------------------------------------------|
|                            | Shares                            | Weighted<br>Average<br>Grant Date<br>Fair Value |
| Unvested December 31, 2011 | 651,394                           | \$ 13.01                                        |
| Granted                    | 30,000                            | \$ 17.23                                        |
| Vested                     | (313,179)                         | \$ 13.45                                        |
| Forfeitures                | (55,085)                          | \$ 15.17                                        |
| Unvested June 30, 2012     | 313,130                           | \$ 12.59                                        |

As of June 30, 2012, the Company had 0.3 million unvested RSUs outstanding with respect to \$2.4 million of compensation expense that is expected to be recognized over the weighted average remaining vesting period of 1.5 years. The number of unvested RSUs expected to vest is 0.3 million.

On June 27, 2012, the Board of Directors of the Company accelerated the vesting of 41,333 RSUs awarded to certain employees. This modification of the terms of the instruments did not result in a significant change of fair value before and after the modification date.



**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****(UNAUDITED)***Stock Options and Stock Appreciation Rights*

A summary of the Company's stock option and stock appreciation rights activity during the six months ended June 30, 2012 is as follows:

|                               | <b>Six Months Ended<br/>June 30, 2012</b> |                                                |
|-------------------------------|-------------------------------------------|------------------------------------------------|
|                               | <b>Shares</b>                             | <b>Weighted<br/>Average<br/>Exercise Price</b> |
| Outstanding December 31, 2011 | 129,080                                   | \$ 11.34                                       |
| Granted                       | 40,000                                    | \$ 17.03                                       |
| Exercised                     | (4,432)                                   | \$ 12.19                                       |
| Forfeitures                   | 1,878                                     | \$ 6.44                                        |
| Outstanding June 30, 2012     | 166,526                                   | \$ 12.63                                       |
| Eligible for exercise         | 102,789                                   | \$ 12.11                                       |

The following table summarizes the intrinsic values and remaining contractual terms of the Company's stock options and stock appreciation rights:

|                                   | <b>Intrinsic<br/>Value</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Life in Years</b> |
|-----------------------------------|----------------------------|-------------------------------------------------------------|
| Options outstanding June 30, 2012 | \$ 555,089                 | 8.1                                                         |
| Options exercisable June 30, 2012 | 382,190                    | 7.3                                                         |

As of June 30, 2012, the Company had approximately 64,000 unvested stock options and stock appreciation rights outstanding of which \$0.2 million of compensation expense is expected to be recognized over the weighted average remaining period of 1.6 years. The number of unvested stock options and stock appreciation rights expected to vest is approximately 58,000 shares, with a weighted average remaining life of 8.0 years, a weighted average exercise price of \$12.54, and an intrinsic value of approximately \$0.2 million.

**8. STOCKHOLDERS' EQUITY (DEFICIT)**

As of June 30, 2012, there are 13,885,410 shares of common stock outstanding.

*Board Declares Special Dividend of \$1.00 per Share*

On June 20, 2012, the Company's Board of Directors declared a special cash dividend (Dividend) of \$1.00 per share with respect to the Company's issued and outstanding common stock. The Dividend of \$13.9 million in the aggregate was paid on July 16, 2012 to holders of record of Company common stock as of July 2, 2012 and is presented within accrued expenses and other current liabilities on the condensed consolidated balance sheets as of June 30, 2012. In addition, with respect to unvested RSUs and restricted stock, the Company will pay a dividend equivalent of \$1.00 per RSU or share of restricted stock, as applicable, to holders of RSUs and restricted stock upon vesting. With respect to certain outstanding options, the Company will reduce the exercise price and increase the number of shares of common stock issuable upon exercise of such options, in each case in order to prevent dilution of the rights of holders of awards as a result of the dividend.



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

In addition to the mandatory anti-dilution adjustments to the CVR Shares issuable with respect to the CVRs and their price per share discussed in Note 2 Summary of Significant Accounting Policies Derivative Instruments, the Company holds warrants for which the exercise prices and number of shares were adjusted as a result of the special cash dividend. The maximum aggregate number of Class A-1 warrants entitled for purchase was adjusted upward from 1,000,000 shares to 1,063,875 shares while the exercise price was adjusted downward from \$12.22 to \$11.49; the maximum aggregate number of Class A-2 warrants entitled for purchase was adjusted upward from 1,000,000 shares to 1,063,875 shares while the exercise price was adjusted downward from \$16.53 to \$15.54; the maximum aggregate number of Class A-3 warrants entitled for purchase was adjusted upward from 1,000,000 shares to 1,063,875 shares while the exercise price was adjusted downward from \$20.50 to \$19.27; and the maximum aggregate number of Class B warrants entitled for purchase was adjusted upward from 1,500,000 shares to 1,595,812 shares while the exercise price was adjusted downward from \$26.01 to \$24.45. Due to the mandatory anti-dilution provision of the original terms of the CVRs and warrants, the modification of the terms of the instruments did not result in a significant change of fair value before and after the modification date.

On August 8, 2011, the Company's board of directors authorized a stock repurchase program of up to \$15 million of its common stock through August 8, 2013. Under the stock repurchase program, the Company may repurchase common stock from time to time in the open-market, privately negotiated transactions or block trades. There is no guarantee as to the exact number of shares, if any, that the Company will repurchase. The stock repurchase program may be modified, terminated or extended at any time without prior notice. The Company has established a committee consisting of its lead director, chief executive officer and chief financial officer to oversee the administration of the stock repurchase program. During the year ended December 31, 2011, the Company repurchased 31,626 shares at a weighted average price of \$11.92 per share under the stock repurchase plan.

**9. 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 the Company is subject to examination by taxing authorities throughout the world.

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

| <b>Jurisdiction</b>   | <b>Open Tax Years</b> |
|-----------------------|-----------------------|
| United States Federal | 2002 - 2011           |
| Canada                | 2004 - 2011           |
| United Kingdom        | 2004 - 2011           |
| Netherlands           | 2007 - 2011           |

The Company is currently under examination in Canada and certain other foreign tax jurisdictions, which, individually and in the aggregate, are not material.

The Company adopted the provisions of ASC No. 740, Income Taxes on January 1, 2007. It is expected that the amount of unrecognized tax benefits, reflected in the Company's financial statements, will change in the next twelve months; however, the Company does not expect the change to have a significant impact on the results of operations or the financial position of the Company. During the three and six months ended June 30, 2012, penalties and interest were immaterial. As of June 30, 2012, the gross unrecognized tax benefit on the balance sheet was \$76.5 million.

## PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

Pursuant to Section 382 of the Internal Revenue Code ( IRC Sec. 382 ), the Company believes that it underwent an ownership change for tax purposes on February 28, 2011, the Arbinet acquisition date. This conclusion is based on Schedule 13D and Schedule 13G filings concerning Company securities, as filed with the SEC. A previous ownership change took place on July 1, 2009, as a result of the emergence from bankruptcy under the Reorganization Plan. As a result, the use of the Company's net operating losses will be subject to an annual limitation under IRC Sec. 382 of approximately \$1.6 million. The annual limitation under Section 382 of Arbinet's pre-February 28, 2011, net operating losses is approximately \$2.2 million.

## 10. FAIR VALUE OF FINANCIAL INSTRUMENTS AND DERIVATIVES

The carrying amounts reported in the condensed consolidated balance sheets for cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate fair value due to relatively short periods to maturity. The estimated aggregate fair value of the Company's debt, based on quoted market prices, was \$257.7 million and \$235.4 million at June 30, 2012 and December 31, 2011, respectively. The aggregate carrying value of the Company's debt was \$236.2 million and \$236.1 million at June 30, 2012 and December 31, 2011, respectively.

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

|                                | June 30, 2012 | Fair Value as of June 30, 2012, using:                         |                                               |                                           |
|--------------------------------|---------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
|                                |               | Quoted prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Liabilities:                   |               |                                                                |                                               |                                           |
| Contingent Value Rights (CVRs) | \$ 21,347     |                                                                | 21,347                                        |                                           |
| Total                          | \$ 21,347     |                                                                | 21,347                                        |                                           |

|                                | December 31, 2011 | Fair Value as of December 31, 2011, using:                     |                                               |                                           |
|--------------------------------|-------------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
|                                |                   | Quoted prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Liabilities:                   |                   |                                                                |                                               |                                           |
| Contingent Value Rights (CVRs) | \$ 16,196         |                                                                | 16,196                                        |                                           |
| Total                          | \$ 16,196         |                                                                | 16,196                                        |                                           |

The CVRs are marked to fair value at each balance sheet date. The change in value is reflected in our condensed consolidated statements of operations. Estimates of fair value represent the Company's best estimates based on a Black-Scholes pricing model using the following assumptions: (1) expected life of 7 years; (2) risk-free rate of 1.11%; (3) expected volatility of 47.97%; (4) dividend yield of 0%; (5) exercise price of \$35.95; (6) stock price of \$15.57. During the three months ended June 30, 2012 and 2011, (\$2.0) million and (\$0.1) million, respectively, of (income) expense was recognized as a result of marking the CVRs to their fair value, and \$5.2 million and \$4.3 million, respectively, of (income) expense during the six months ended June 30, 2012 and 2011.



## PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

## 11. OPERATING SEGMENT AND RELATED INFORMATION

The Company currently has two reportable geographic segments United States and Canada. The Company has three reportable operating segments based on management's organization of the enterprise Data Center, North America Telecom, and Other. As a result of the sale of its Australian segment and the classification of its ICS business unit as held-for-sale, the Company re-organized its remaining operating segments to better reflect its continuing operations. The Data Center ( DC ) segment contains the pure data center operations in Canada, while North America Telecom ( NAT ) combines the retail telecom businesses in the United States and Canada. 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. All inter-segment revenues are eliminated. The Company has no single customer representing greater than 10% of its revenues. Corporate assets, capital expenditures and property and equipment are included in the United States segment, while corporate expenses are presented separately in income (loss) from operations. The assets of the DC and NAT segments are indistinguishable from the respective geographic segments. Therefore, any reporting related to the DC and NAT segments for assets or other balance sheet items is impractical.

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

|                                                   | Three Months Ended<br>June 30, 2012 | Three Months Ended<br>June 30, 2011 | Six Months Ended<br>June 30, 2012 | Six Months Ended<br>June 30, 2011 |
|---------------------------------------------------|-------------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|
| <b>Net Revenue by Geographic Region</b>           |                                     |                                     |                                   |                                   |
| United States                                     | \$ 9,493                            | \$ 10,934                           | \$ 19,589                         | \$ 22,296                         |
| Canada                                            | 55,895                              | 64,061                              | 113,801                           | 124,896                           |
| Total                                             | \$ 65,388                           | \$ 74,995                           | \$ 133,390                        | \$ 147,192                        |
| <b>Net Revenue by Segment</b>                     |                                     |                                     |                                   |                                   |
| Data Center                                       | \$ 7,970                            | \$ 7,586                            | \$ 16,167                         | \$ 15,031                         |
| North America Telecom                             | 57,418                              | 67,211                              | 117,223                           | 131,784                           |
| Other                                             |                                     | 198                                 |                                   | 377                               |
| Total                                             | \$ 65,388                           | \$ 74,995                           | \$ 133,390                        | \$ 147,192                        |
| <b>Provision for Doubtful Accounts Receivable</b> |                                     |                                     |                                   |                                   |
| Data Center                                       | 17                                  | 123                                 | 24                                | 200                               |
| North America Telecom                             | 531                                 | 992                                 | 951                               | 2,215                             |
| Other                                             |                                     |                                     |                                   |                                   |
| Total                                             | \$ 548                              | \$ 1,115                            | \$ 975                            | \$ 2,415                          |
| <b>Income (Loss) from Operations</b>              |                                     |                                     |                                   |                                   |
| Data Center                                       | \$ 799                              | \$ 742                              | \$ 2,130                          | \$ 1,632                          |
| North America Telecom                             | 4,704                               | 4,359                               | 9,907                             | 8,411                             |
| Other                                             |                                     | (180)                               |                                   | (206)                             |
| Total From Operating Segments                     | 5,503                               | 4,921                               | 12,037                            | 9,837                             |
| Corporate                                         | (8,234)                             | (5,885)                             | (15,067)                          | (10,632)                          |
| Total                                             | \$ (2,731)                          | \$ (964)                            | \$ (3,030)                        | \$ (795)                          |

# Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

## Capital Expenditures

|                               |    |        |    |       |    |        |    |        |
|-------------------------------|----|--------|----|-------|----|--------|----|--------|
| Data Center                   | \$ | 4,896  | \$ | 1,886 | \$ | 7,264  | \$ | 3,424  |
| North America Telecom         |    | 2,045  |    | 889   |    | 4,694  |    | 2,081  |
| Other (1)                     |    | 3,601  |    | 4,492 |    | 6,573  |    | 8,044  |
|                               |    |        |    |       |    |        |    |        |
| Total From Operating Segments |    | 10,542 |    | 7,267 |    | 18,531 |    | 13,549 |
| Corporate                     |    | 74     |    | 240   |    | 196    |    | 331    |
|                               |    |        |    |       |    |        |    |        |
| Total                         | \$ | 10,616 | \$ | 7,507 | \$ | 18,727 | \$ | 13,880 |

(1) Other includes capital expenditures related to discontinued operations

## PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

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

|                                   | June 30,<br>2012 | December 31,<br>2011 |
|-----------------------------------|------------------|----------------------|
| <b>Property and Equipment Net</b> |                  |                      |
| United States                     | \$ 3,663         | \$ 3,643             |
| Canada                            | 56,862           | 54,674               |
| Other (1)                         |                  | 93,863               |
| <b>Total</b>                      | <b>\$ 60,525</b> | <b>\$ 152,180</b>    |

|               | June 30,<br>2012  | December 31,<br>2011 |
|---------------|-------------------|----------------------|
| <b>Assets</b> |                   |                      |
| United States | \$ 295,182        | \$ 122,170           |
| Canada        | 175,066           | 194,531              |
| Other (1)     | 50,117            | 227,123              |
| <b>Total</b>  | <b>\$ 520,365</b> | <b>\$ 543,824</b>    |

(1) Other includes property and equipment net and assets of discontinued operations.

The Company offers three main products Retail Voice, Data/Internet, and Retail VoIP. Net revenue information with respect to the Company's products is as follows (in thousands):

|               | Three Months Ended<br>June 30, 2012 | Three Months Ended<br>June 30, 2011 | Six Months Ended<br>June 30, 2012 | Six Months Ended<br>June 30, 2011 |
|---------------|-------------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|
| Retail Voice  | \$ 40,003                           | \$ 49,993                           | \$ 77,340                         | \$ 90,959                         |
| Data/Internet | 17,648                              | 17,291                              | 35,329                            | 34,204                            |
| Retail VoIP   | 7,737                               | 7,711                               | 20,721                            | 22,029                            |
| <b>Total</b>  | <b>\$ 65,388</b>                    | <b>\$ 74,995</b>                    | <b>\$ 133,390</b>                 | <b>\$ 147,192</b>                 |

## 12. DISCONTINUED OPERATIONS

*Discontinued Operations quarter ended June 30, 2012*

On May 31, 2012, the Company completed the previously announced sale of 100% of the outstanding equity of Primus Telecom Holdings Pty Ltd. ( Primus Australia ), an indirect wholly owned subsidiary of the Company, to M2 Telecommunications Group Ltd. ( M2 ), an Australian telecommunications company, for \$195.7 million. The Company recorded a \$98.6 million gain from the sale of this segment during the second quarter of 2012. In connection with the closing of the transaction, \$9.8 million was retained from the purchase price and placed into escrow until May 31, 2013 for purposes of satisfying potential indemnification claims asserted by M2 for breaches of the Company's warranties in the



purchase agreement. The purchase price is also subject to a customary post-closing working capital adjustment.

On June 28, 2012, the Board of Directors committed to dispose of and is actively soliciting a sale or other disposition of the Company's ICS business unit and as a result has classified ICS as a discontinued operation for the second quarter of 2012.

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****(UNAUDITED)***Discontinued Operations year ended December 31, 2011*

During the fourth quarter of 2011, the Company sold its Brazilian segment for \$4.3 million. The Company recorded a \$4.8 million loss from the sale of this segment during the fourth quarter of 2011.

As a result of these events, the Company's condensed consolidated financial statements for all periods presented reflect the Brazilian, Australian and ICS business units as discontinued operations for the three and six months ended June 30, 2011 and 2012. Additionally, the assets and liabilities of ICS have been classified as held-for-sale assets and liabilities and removed from the specific line items on the condensed consolidated balance sheet as of June 30, 2012.

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

|                                            | <b>Three Months Ended<br/>June 30, 2012</b> | <b>Three Months Ended<br/>June 30, 2011</b> |
|--------------------------------------------|---------------------------------------------|---------------------------------------------|
| Net revenue                                | \$ 117,280                                  | \$ 207,478                                  |
| Operating expenses                         | 126,633                                     | 206,172                                     |
| Income (loss) from operations              | (9,353)                                     | 1,306                                       |
| Interest expense                           | (261)                                       | (49)                                        |
| Interest income and other income (expense) | 141                                         | 306                                         |
| Foreign currency transaction gain (loss)   | (5,544)                                     | 2,665                                       |
| Income (loss) before income tax            | (15,017)                                    | 4,228                                       |
| Income tax (expense) benefit               | (5,145)                                     | (1,395)                                     |
| Income (loss) from discontinued operations | \$ (20,162)                                 | \$ 2,833                                    |

|                                            | <b>Six Months Ended<br/>June 30, 2012</b> | <b>Six Months Ended<br/>June 30, 2011</b> |
|--------------------------------------------|-------------------------------------------|-------------------------------------------|
| Net revenue                                | \$ 283,970                                | \$ 359,022                                |
| Operating expenses                         | 290,219                                   | 370,527                                   |
| Income (loss) from operations              | (6,249)                                   | (11,505)                                  |
| Interest expense                           | (509)                                     | (127)                                     |
| Interest income and other income (expense) | 295                                       | 888                                       |
| Foreign currency transaction gain (loss)   | (2,745)                                   | 3,916                                     |
| Income (loss) before income tax            | (9,208)                                   | (6,828)                                   |
| Income tax (expense) benefit               | (6,342)                                   | (1,139)                                   |
| Income (loss) from discontinued operations | \$ (15,550)                               | \$ (7,967)                                |

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(UNAUDITED)**

Summarized assets and liabilities of ICS classified as held-for-sale are as follows (in thousands):

|                                           |               |
|-------------------------------------------|---------------|
| Accounts receivable                       | \$ 19,410     |
| Prepaid expenses and other current assets | 4,258         |
| Restricted cash                           | 478           |
| Property and equipment net                | 14,941        |
| Other assets                              | 8,915         |
| <br>Assets held for sale                  | <br>\$ 48,002 |
| Accounts payable                          | \$ 9,507      |
| Accrued interconnection costs             | 6,813         |
| Accrued expenses and other liabilities    | 6,692         |
| Accrued income taxes                      | 160           |
| Current portion of long-term obligations  | 34            |
| Deferred tax liability                    | 8,677         |
| Other liabilities                         | 2,071         |
| <br>Liabilities held for sale             | <br>\$ 33,954 |

**13. 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 include the dilutive effects of common shares issuable under the Management Compensation Plan, including stock options and restricted stock units (RSUs), using the treasury stock method, as well as contingent value rights (CVRs) and stock warrants.

The Company had no dilutive common share equivalents during the three and six months ended June 30, 2012, due to the results of operations being a loss from continuing operations, net of tax. For the three and six months ended June 30, 2012, the following were potentially dilutive but were excluded from the calculation of diluted loss per common share due to their antidilutive effect:

0.5 million shares issuable upon exercise of stock options and RSUs under the Management Compensation Plan;

4.5 million shares issuable upon exercise of stock warrants; and

2.7 million shares issuable upon exercise of CVRs.

The Company had no dilutive common share equivalents during the three and six months ended June 30, 2011, due to the results of operations being a loss from continuing operations, net of tax. For the three and six months ended June 30, 2011, the following were potentially dilutive but were excluded from the calculation of diluted loss per common share due to their antidilutive effect:

0.4 million shares issuable upon exercise of stock options and RSUs under the Management Compensation Plan;

4.5 million shares issuable upon exercise of stock warrants; and

2.7 million shares issuable upon exercise of CVRs.

## PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

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

|                                                                                 | Three Months Ended<br>June 30, 2012 | Three Months Ended<br>June 30, 2011 | Six Months Ended<br>June 30, 2012 | Six Months Ended<br>June 30, 2011 |
|---------------------------------------------------------------------------------|-------------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|
| Income (loss) from continuing operations,<br>net of tax                         | \$ (9,645)                          | \$ (9,175)                          | \$ (21,115)                       | \$ (17,630)                       |
| Income (loss) from discontinued operations,<br>net of tax                       | (20,162)                            | 2,833                               | (15,550)                          | (7,967)                           |
| Gain (loss) from sale of discontinued<br>operations, net of tax                 | 98,666                              |                                     | 98,666                            |                                   |
| Net income (loss) attributable to common<br>stockholders-basic                  | \$ 68,859                           | \$ (6,342)                          | \$ 62,001                         | \$ (25,597)                       |
| Net income (loss) attributable to common<br>stockholders-diluted                | \$ 68,859                           | \$ (6,342)                          | \$ 62,001                         | \$ (25,597)                       |
| Weighted average common shares<br>outstanding-basic                             | 13,839                              | 13,385                              | 13,791                            | 12,273                            |
| Weighted average common shares<br>outstanding-diluted                           | 13,839                              | 13,385                              | 13,791                            | 12,273                            |
| Basic income (loss) per common share:                                           |                                     |                                     |                                   |                                   |
| Income (loss) from continuing operations<br>attributable to common stockholders | \$ (0.70)                           | \$ (0.69)                           | \$ (1.53)                         | \$ (1.44)                         |
| Income (loss) from discontinued operations                                      | \$ (1.46)                           | \$ 0.21                             | \$ (1.13)                         | \$ (0.65)                         |
| Gain (loss) from sale of discontinued<br>operations, net of tax                 | \$ 7.13                             | \$                                  | \$ 7.15                           | \$                                |
| Net income (loss) attributable to common<br>stockholders                        | \$ 4.97                             | \$ (0.48)                           | \$ 4.49                           | \$ (2.09)                         |
| Diluted income (loss) per common share:                                         |                                     |                                     |                                   |                                   |
| Income (loss) from continuing operations<br>attributable to common stockholders | \$ (0.70)                           | \$ (0.69)                           | \$ (1.53)                         | \$ (1.44)                         |
| Income (loss) from discontinued operations                                      | \$ (1.46)                           | \$ 0.21                             | \$ (1.13)                         | \$ (0.65)                         |
| Gain (loss) from sale of discontinued<br>operations, net of tax                 | \$ 7.13                             | \$                                  | \$ 7.15                           | \$                                |
| Net income (loss) attributable to common<br>stockholders                        | \$ 4.97                             | \$ (0.48)                           | \$ 4.49                           | \$ (2.09)                         |

## 14. SUBSEQUENT EVENTS

## Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q

As a result of recent changes to the Telecommunications Act in Canada, the Company is no longer restricted by Canadian foreign ownership laws. Given these changes, PTII purchased the remaining 54.4% of Globility on July 31, 2012 at a sales price that was immaterial.

---

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

*You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and the notes thereto included herein, as well as our audited consolidated financial statements and the notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2011. You should review the Risk Factors section in our Annual Report on Form 10-K for the year ended December 31, 2011 and in Part II, Item 1A of this report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.*

### Introduction and Overview of Operations

We are an integrated facilities-based communications services provider offering a portfolio of international and domestic voice, wireless, Internet, VoIP, data, colocation and data center services to customers located primarily in Canada and the United States. Our primary market is Canada, where we have deployed significant network infrastructure. We currently classify our services into three categories: Growth Services, Traditional Services and International Carrier Services (ICS). Our focus is on expanding our Growth Services, which includes our broadband, SME VoIP, data, and data center services, to fulfill the demand for high quality, competitively priced communications services. This demand is being driven, in part, by the globalization of the world's economies, the global trend toward telecommunications deregulation and the migration of communications traffic to the Internet. We manage our Traditional Services, which includes our domestic and international long-distance voice, local landline services, including wireless, residential VoIP services, prepaid cards, and dial-up Internet services, for cash flow generation that we reinvest to develop and market our Growth Services, particularly in our primary market of Canada. We also provide our ICS voice termination services to other telecommunications carriers and resellers requiring IP or time-division multiplexing access. However, as discussed below under Recent Developments Pursuit of Divestiture of ICS Business Unit, the Company is currently pursuing a sale or other disposition or disposal of its ICS segment, which has been classified as a discontinued operation as a result of being held-for-sale.

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

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

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

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

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

## Recent Developments

### *Divestiture of Primus Australia*

The Company and Primus Telecommunications International, Inc. ( PTII ), an indirect wholly owned subsidiary of the Company, entered into a definitive Equity Purchase Agreement, dated April 15, 2012 (the Purchase Agreement ), with M2 Telecommunications Group Ltd. ( M2 ), an Australian telecommunications company, pursuant to which PTII agreed to sell to M2 100% of the outstanding equity of Primus Telecom Holdings Pty Ltd. ( Primus Australia ), a direct wholly owned subsidiary of PTII. On May 31, 2012, the Company completed this transaction.

The purchase price before adjustment was approximately \$AUD 192.4 million (or approximately \$USD 195.7 million giving effect to a currency hedge that the Company put in place in connection with the transaction). In connection with the closing of the transaction, approximately \$USD 9.8 million (the Retention Amount ) was retained from the purchase price and placed in escrow for a period of twelve months following the closing date of the transaction for purposes of satisfying potential indemnification claims asserted by M2 for breaches of PTII's warranties in the Purchase Agreement. Subject to limited exceptions, PTII's liability to M2 for indemnification for breaches of PTII's warranties is subject to a survival period of twelve months after the closing date and is limited to the Retention Amount. The Purchase Agreement contains customary warranties and covenants for a transaction of this nature. The Company has also provided M2 with a guarantee of the performance of PTII's obligations under the Purchase Agreement. The purchase price is also subject to a customary post-closing net working capital adjustment.

### *Special Cash Dividend*

On June 20, 2012, the Company's Board of Directors declared a special cash dividend (the Dividend ) of \$1.00 per share with respect to the Company's issued and outstanding common stock. The Dividend of \$13.9 million in the aggregate was paid on July 16, 2012 to holders of record of Company common stock as of July 2, 2012.

In connection with the Dividend, the Company made corresponding adjustments to certain terms of (i) the Company's Class A Warrants to purchase shares of the Company's common stock, (ii) the Company's Class B Warrants to purchase shares of the Company's common stock and (iii) the Company's contingent value rights to receive shares of the Company's common stock under specific circumstances, in each case as required under the applicable agreements governing such instruments.

Also in connection with the Dividend, in accordance with applicable plan and award documents, the Compensation Committee of the Company's Board of Directors determined to make, and the Company's Board



of Directors approved, adjustments to certain terms of outstanding restricted stock units ( RSUs ), restricted stock and stock options. Specifically, with respect to unvested RSUs and restricted stock, the Company will pay a dividend equivalent of \$1.00 per RSU or share of restricted stock, as applicable, to holders of RSUs and restricted stock upon vesting and, with respect to certain outstanding options, the Company will reduce the exercise price and increase the number of shares of common stock issuable upon exercise of such options, in each case in order to prevent dilution of the rights of holders of such awards as a result of the Dividend.

#### *Pursuit of Divestiture of ICS Business Unit*

On June 28, 2012, the Company's Board of Directors committed to dispose of and is actively soliciting a sale or other disposition of the Company's ICS business unit. As a result of holding the ICS business unit out for sale, such business unit has been classified as a discontinued operation for the quarterly period ended June 30, 2012. See Note 12 Discontinued Operations to the notes to our condensed consolidated financial statements included elsewhere in this report.

#### *Reclassification of Data Center Costs*

In order to conform to industry best practices, certain amounts in selling, general and administrative expense related to our Data Center operating segment were reclassified to cost of revenue as part of the Company's new operating segment structure discussed in Note 11 Operating Segment and Related Information to the notes to our condensed consolidated financial statements included elsewhere in this report.

#### **Foreign Currency**

Foreign currency can have a major impact on our financial results. During the six months ended June 30, 2012, approximately 85% of our net revenue was derived from sales and operations outside the U.S. The reporting currency for our condensed 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 the majority of our net revenue and incur a significant portion of our operating costs from outside the U.S., 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: US Dollar ( USD )/Canadian dollar ( CAD ), USD/British pound sterling ( GBP ), and USD/Euro ( EUR ). Due to the large percentage of our revenue derived outside of the U.S., changes in the USD relative to one or more of the foregoing currencies could have an adverse impact on our future results of operations. In addition, prior to the sale of the Company's Australia operations during the quarterly period ended June 30, 2012, we also experienced risk of loss regarding foreign currency exchange due to fluctuations in the USD/Australian dollar ( AUD ) exchange rate. See Management's Discussion and Analysis of Financial Condition and Results of Operations Recent Developments Divestiture of Primus Australia. 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 condensed consolidated statements of operations. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies.

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

profits in CAD to generate the same amount of profits in USD and a greater loss in CAD to generate the same amount of loss in USD. The opposite is also true. For instance, when the USD weakens against the CAD, there is a positive effect on reported profits and a negative effect on the reported losses for our Canadian operating segment.

In the three and six months ended June 30, 2012, as compared to the three and six months ended June 30, 2011, the USD was stronger on average as compared to the CAD, AUD, GBP, and EUR. The following tables demonstrate the impact of currency fluctuations on our net revenue for the three and six months ended June 30, 2012 and 2011:

Net Revenue by Location, including Discontinued Operations in USD (in thousands)

|                 | For the Three Months Ended June 30, |        |          |           | For the Six Months Ended June 30, |         |          |           |
|-----------------|-------------------------------------|--------|----------|-----------|-----------------------------------|---------|----------|-----------|
|                 | 2012                                | 2011   | Variance | Variance% | 2012                              | 2011    | Variance | Variance% |
| Canada          | 55,895                              | 64,061 | (8,166)  | -12.7%    | 113,801                           | 124,896 | (11,095) | -8.9%     |
| Australia       | 44,732                              | 73,680 | (28,948) | -39.3%    | 114,860                           | 145,413 | (30,553) | -21.0%    |
| United Kingdom  | 43,281                              | 77,478 | (34,197) | -44.1%    | 106,611                           | 122,119 | (15,508) | -12.7%    |
| Europe (1), (2) | (233)                               | (30)   | (203)    | 676.7%    | (233)                             | (11)    | (222)    | 2018.2%   |
| Brazil (2)      |                                     | 7,298  | (7,298)  | -100.0%   |                                   | 14,069  | (14,069) | -100.0%   |

Net Revenue by Location, including Discontinued Operations in Local Currencies (in thousands)

|                          | For the Three Months Ended June 30, |        |          |           | For the Six Months Ended June 30, |         |          |           |
|--------------------------|-------------------------------------|--------|----------|-----------|-----------------------------------|---------|----------|-----------|
|                          | 2012                                | 2011   | Variance | Variance% | 2012                              | 2011    | Variance | Variance% |
| Canada (in CAD)          | 56,418                              | 61,983 | (5,565)  | -9.0%     | 114,428                           | 121,973 | (7,545)  | -6.2%     |
| Australia (in AUD)       | 43,955                              | 69,375 | (25,420) | -36.6%    | 110,408                           | 140,716 | (30,308) | -21.5%    |
| United Kingdom (in GBP)  | 27,303                              | 47,496 | (20,193) | -42.5%    | 67,687                            | 75,228  | (7,541)  | -10.0%    |
| Europe (1), (2) (in EUR) | (142)                               | (21)   | (121)    | 576.2%    | (142)                             | (7)     | (135)    | 1928.6%   |
| Brazil (2) (in BRL)      |                                     | 11,622 | (11,622) | -100.0%   |                                   | 22,909  | (22,909) | -100.0%   |

(1) Europe includes only subsidiaries whose functional currency is the EUR.

(2) Table includes revenues from discontinued operations which are subject to currency risk.

#### 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, 2011 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, goodwill and other intangible assets, and accounting for income taxes.

No significant changes in our critical accounting policies have occurred since December 31, 2011.

#### Financial Presentation Background

In the following presentations and narratives within this Management's Discussion and Analysis of Financial Condition and Results of Operations, we compare, pursuant to accounting principles generally accepted in the United States of America (US GAAP) and Securities and Exchange Commission (SEC) disclosure rules, the Company's results of operations for the three and six months ended June 30, 2012 as compared to the three and six months ended June 30, 2011.

We also present detailed changes in results, excluding currency impacts, since a large portion of our revenues are derived outside of the U.S., and currency changes can influence or mask underlying changes in

foreign operating unit performance. For purposes of calculating constant currency rates between periods in connection with presentations that describe changes in values excluding currency effects herein, we have taken results from foreign operations for a given year (that were computed in accordance with US GAAP using local currency) and converted such amounts utilizing the same USD to applicable local currency exchange rates that were used for purposes of calculating corresponding preceding period US GAAP presentations.

### Discontinued Operations

During 2011, the Company sold its Brazilian segment. In the second quarter of 2012, the Company sold its Australian segment and committed to dispose of and is actively soliciting a sale or other disposition of its ICS business unit.

The Company has applied retrospective adjustments for the three and six months ended June 30, 2011 to reflect the effects of the discontinued operations that occurred during 2012. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the condensed consolidated statements of operations. Additionally the assets and liabilities of ICS have been classified as held-for-sale assets and liabilities and removed from the specific line items on the condensed consolidated balance sheet as of June 30, 2012. See Note 12 Discontinued Operations, for further information regarding these transactions.

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

|                                            | Three Months Ended<br>June 30, 2012 | Three Months Ended<br>June 30, 2011 |
|--------------------------------------------|-------------------------------------|-------------------------------------|
| Net revenue                                | \$ 117,280                          | \$ 207,478                          |
| Operating expenses                         | 126,633                             | 206,172                             |
| Income (loss) from operations              | (9,353)                             | 1,306                               |
| Interest expense                           | (261)                               | (49)                                |
| Interest income and other income (expense) | 141                                 | 306                                 |
| Foreign currency transaction gain (loss)   | (5,544)                             | 2,665                               |
| Income (loss) before income tax            | (15,017)                            | 4,228                               |
| Income tax (expense) benefit               | (5,145)                             | (1,395)                             |
| Income (loss) from discontinued operations | \$ (20,162)                         | \$ 2,833                            |

|                                            | Six Months Ended<br>June 30, 2012 | Six Months Ended<br>June 30, 2011 |
|--------------------------------------------|-----------------------------------|-----------------------------------|
| Net revenue                                | \$ 283,970                        | \$ 359,022                        |
| Operating expenses                         | 290,219                           | 370,527                           |
| Income (loss) from operations              | (6,249)                           | (11,505)                          |
| Interest expense                           | (509)                             | (127)                             |
| Interest income and other income (expense) | 295                               | 888                               |
| Foreign currency transaction gain (loss)   | (2,745)                           | 3,916                             |
| Income (loss) before income tax            | (9,208)                           | (6,828)                           |
| Income tax (expense) benefit               | (6,342)                           | (1,139)                           |
| Income (loss) from discontinued operations | \$ (15,550)                       | \$ (7,967)                        |

## Results of Operations

### Results of operations for the three months ended June 30, 2012 as compared to the three months ended June 30, 2011

**Net revenue:** Net revenue, exclusive of the currency effect, decreased \$7.2 million, or 9.6%, to \$67.8 million for the three months ended June 30, 2012 from \$75.0 million for the three months ended June 30, 2011. Inclusive of the currency effect which accounted for a decrease of \$2.4 million, net revenue decreased \$9.6 million to \$65.4 million for the three months ended June 30, 2012 from \$75.0 million for the three months ended June 30, 2011.

| (in thousands)        | Exclusive of Currency Effect |            |               |            |                      |            | Currency Effect | Inclusive of Currency Effect |            |
|-----------------------|------------------------------|------------|---------------|------------|----------------------|------------|-----------------|------------------------------|------------|
|                       | Quarter Ended                |            |               |            | Quarter-over-Quarter |            |                 | Quarter Ended                |            |
|                       | June 30, 2012                |            | June 30, 2011 |            |                      |            |                 | June 30, 2012                |            |
|                       | Net Revenue                  | % of Total | Net Revenue   | % of Total | Variance             | Variance % |                 | Net Revenue                  | % of Total |
| Data Center           | 8,316                        | 12.3%      | 7,586         | 10.1%      | 730                  | 9.6%       | (346)           | 7,970                        | 12.2%      |
| North America Telecom | 59,492                       | 87.7%      | 67,211        | 89.6%      | (7,719)              | -11.5%     | (2,074)         | 57,418                       | 87.8%      |
| Other                 |                              | 0.0%       | 198           | 0.3%       | (198)                | -100.0%    |                 |                              | 0.0%       |
| Total Net Revenue     | 67,808                       | 100.0%     | 74,995        | 100.0%     | (7,187)              | -9.6%      | (2,420)         | 65,388                       | 100.0%     |

Data Center: Data Center net revenue, exclusive of the currency effect, increased \$0.7 million, or 9.6%, to \$8.3 million for the three months ended June 30, 2012 from \$7.6 million for the three months ended June 30, 2011. Inclusive of the currency effect which accounted for a \$0.3 million decrease, net revenue increased \$0.4 million to \$8.0 million for the three months ended June 30, 2012 from \$7.6 million for the three months ended June 30, 2011.

North America Telecom: North America Telecom net revenue, exclusive of the currency effect, decreased \$7.7 million, or 11.5%, to \$59.5 million for the three months ended June 30, 2012 from \$67.2 million for the three months ended June 30, 2011. The net revenue decrease is primarily attributable to a decrease of \$2.9 million in retail voice services, a decrease of \$1.9 million in local services, a decrease of \$1.2 million in prepaid voice services, a decrease of \$0.3 million in data, hosting services, a decrease of \$0.2 million in wireless and a decrease of \$2.1 million in other services offset, in part, by an increase of \$0.7 million in Internet services and an increase of \$0.2 million in VoIP services. Inclusive of the currency effect which accounted for a \$2.1 million decrease, net revenue decreased \$9.8 million to \$57.4 million for the three months ended June 30, 2012 from \$67.2 million for the three months ended June 30, 2011.

**Cost of revenue:** Cost of revenue, exclusive of the currency effect, decreased \$3.7 million to \$33.5 million, or 49.4% of net revenue, for the three months ended June 30, 2012 from \$37.2 million, or 49.6% of net revenue, for the three months ended June 30, 2011. Inclusive of the currency effect, which accounted for a \$1.2 million decrease, cost of revenue decreased \$4.9 million to \$32.3 million for the three months ended June 30, 2012 from \$37.2 million for the three months ended June 30, 2011.

| (in thousands)        | Exclusive of Currency Effect |                  |                 |                  |                      |            | Currency Effect | Inclusive of Currency Effect |                  |
|-----------------------|------------------------------|------------------|-----------------|------------------|----------------------|------------|-----------------|------------------------------|------------------|
|                       | Quarter Ended                |                  |                 |                  | Quarter-over-Quarter |            |                 | Quarter Ended                |                  |
|                       | June 30, 2012                |                  | June 30, 2011   |                  |                      |            |                 | June 30, 2012                |                  |
|                       | Cost of Revenue              | % of Net Revenue | Cost of Revenue | % of Net Revenue | Variance             | Variance % |                 | Cost of Revenue              | % of Net Revenue |
| Data Center           | 3,644                        | 43.8%            | 3,163           | 41.7%            | 481                  | 15.2%      | (152)           | 3,492                        | 43.8%            |
| North America Telecom | 29,842                       | 50.2%            | 34,067          | 50.7%            | (4,225)              | -12.4%     | (1,044)         | 28,798                       | 50.2%            |
| Other                 |                              | 0.0%             |                 | 0.0%             |                      | 0.0%       |                 |                              | 0.0%             |
| Total Cost of Revenue | 33,486                       | 49.4%            | 37,230          | 49.6%            | (3,744)              | -10.1%     | (1,196)         | 32,290                       | 49.4%            |

Data Center: Data Center cost of revenue, exclusive of the currency effect, increased \$0.4 million to \$3.6 million, or 43.8% of net revenue, for the three months ended June 30, 2012 from \$3.2 million, or 41.7% of net revenue, for the three months ended June 30, 2011. The increase is primarily attributable to an increase in net revenue of \$0.7 million. Inclusive of the currency effect, which accounted for a \$0.1 million decrease, cost of revenue increased \$0.3 million to \$3.5 million for the three months ended June 30, 2012 from \$3.2 million for the three months ended June 30, 2011.

North America Telecom: North America Telecom cost of revenue, exclusive of the currency effect, decreased \$4.2 million to \$29.8 million, or 50.2% of net revenue, for the three months ended June 30, 2012 from \$34.0 million, or 50.7% of net revenue, for the three months ended June 30, 2011. The decrease is primarily attributable to a decrease in net revenue of \$7.7 million. Inclusive of the currency effect, which accounted for a \$1.0 million decrease, cost of revenue decreased \$5.2 million to \$28.8 million for the three months ended June 30, 2012 from \$34.0 million for the three months ended June 30, 2011.

**Selling, general and administrative expenses:** Selling, general and administrative expenses ( SG&A ), exclusive of the currency effect, decreased \$0.6 million to \$28.7 million, or 42.3% of net revenue, for the three months ended June 30, 2012 from \$29.3 million, or 39.1% of net revenue, for the three months ended June 30, 2011. Inclusive of the currency effect, which accounted for a \$0.7 million decrease, selling, general and administrative expenses decreased \$1.3 million to \$28.0 million for the three months ended June 30, 2012 from \$29.3 million for the three months ended June 30, 2011.

| (in thousands)        | Exclusive of Currency Effect |                  |               |            |                      |         | Currency Effect | Inclusive of Currency Effect |       |
|-----------------------|------------------------------|------------------|---------------|------------|----------------------|---------|-----------------|------------------------------|-------|
|                       | Quarter Ended                |                  |               |            | Quarter-over-Quarter |         |                 | Quarter Ended                |       |
|                       | June 30, 2012                |                  | June 30, 2011 |            |                      |         |                 | June 30, 2012                |       |
|                       | % of Net Revenue             | % of Net Revenue | Variance      | Variance % | % of Net Revenue     |         |                 |                              |       |
| SG&A                  | Revenue                      | SG&A             | Revenue       | Variance   | Variance %           |         | SG&A            | Revenue                      |       |
| Data Center           | 1,435                        | 17.3%            | 1,372         | 18.1%      | 63                   | 4.6%    | (60)            | 1,375                        | 17.3% |
| North America Telecom | 19,024                       | 32.0%            | 21,705        | 32.3%      | (2,681)              | -12.4%  | (632)           | 18,392                       | 32.0% |
| Other                 |                              | 0.0%             | 375           | 189.4%     | (375)                | -100.0% |                 |                              | 0.0%  |
| Corporate             | 8,232                        | 0.0%             | 5,886         | 0.0%       | 2,346                | 39.9%   |                 | 8,232                        | 0.0%  |
| Total SG&A            | 28,691                       | 42.3%            | 29,338        | 39.1%      | (647)                | -2.2%   | (692)           | 27,999                       | 42.8% |

Data Center: Data Center selling, general and administrative expense, both exclusive of the currency effect and inclusive of the currency effect, remained constant at \$1.4 million for the three months ended June 30, 2012 and for the three months ended June 30, 2011.

North America Telecom: North America Telecom selling, general and administrative expense, exclusive of the currency effect, decreased \$2.7 million to \$19.0 million, or 32.0% of net revenue, for the three months ended June 30, 2012 from \$21.7 million, or 32.3% of net revenue, for the three months ended June 30, 2011. The decrease is attributable to a decrease of \$1.3 million in advertising expenses, a decrease of \$0.4 million in salaries and benefits, a decrease of \$0.4 million in sales and marketing expenses, a decrease of \$0.4 million in occupancy expenses, and a decrease of \$0.3 million in general and administrative offset, in part, by, an increase of \$0.1 million in professional fees. Inclusive of the currency effect, which accounted for a \$0.6 million decrease, selling, general and administrative expenses decreased \$3.3 million to \$18.4 million for the three months ended June 30, 2012 from \$21.7 million for the three months ended June 30, 2011.

Corporate: Corporate selling, general and administrative expense increased \$2.3 million to \$8.2 million for the three months ended June 30, 2012 from \$5.9 million for the three months ended June 30, 2011. The increase is attributable to an increase of \$1.7 million in salaries and benefits, an increase of \$0.5 million in general and administrative expenses and an increase of \$0.1 million in professional fees.

**Depreciation and amortization expense:** Depreciation and amortization expense decreased \$1.6 million to \$7.8 million for the three months ended June 30, 2012 from \$9.4 million for the three months ended June 30, 2011. The decrease is attributable to a decrease in the amortization of our Canadian customer list intangible asset. This intangible asset is amortized over a useful life that corresponds to the diminishing projected cash flows in the fresh start valuation model so future amortization expense will continue to decline.

**Interest expense and accretion (amortization) on debt premium/discount, net:** Interest expense and accretion (amortization) on debt premium/discount, net decreased 1.0 million to \$6.9 million for the three months ended June 30, 2012 from \$7.9 million for the three months ended June 30, 2011. The decrease was due to exchanging our prior higher rate debt for the 10% Senior Secured Notes due 2017. See Note 5 Long-Term Obligations to the notes to our condensed consolidated financial statements included elsewhere in this report.

**Gain (loss) from contingent value rights valuation:** The gain from the change in fair value of the contingent value rights increased \$1.9 million to \$2.0 million for the three months ended June 30, 2012 from \$0.1 million for the three months ended June 30, 2011. The Company determined these contingent value rights to be derivative instruments to be accounted for as liabilities and marked to fair value at each balance sheet date. Upon issuance of the contingent value rights, the Company recorded a liability of \$2.6 million in other liabilities as part of fresh-start accounting, and we will adjust this liability quarterly to its then estimated fair value. The change in fair value of the liability is reflected in our condensed consolidated statements of operations as other income (expense). Estimates of fair value represent the Company's best estimates based on a Black-Scholes pricing model.

**Interest and other income (expense):** Interest and other income (expense) increased \$0.2 million to \$0.1 million of income for the three months ended June 30, 2012 from \$0.1 million of expense for the three months ended June 30, 2011.

**Foreign currency transaction gain (loss):** Foreign currency transaction loss increased \$1.3 million to \$1.5 million for the three months ended June 30, 2012 from \$0.2 million for the three months ended June 30, 2011. The gains and losses are attributable to the impact of foreign currency exchange rate changes on intercompany debt balances and on receivables and payables denominated in a currency other than the subsidiaries' functional currency. We incurred a foreign currency transaction loss on the intercompany payable balances that our Canadian subsidiaries have with our US subsidiaries due to a decrease in the exchange rate from April to May 2012.

**Income tax benefit (expense):** Income tax benefit (expense) was a \$0.4 million expense for the three months ended June 30, 2012. The expense includes expenses consisting of a provision for foreign income taxes and foreign withholding tax on intercompany interest. The income tax benefit (expense) was immaterial for the three months ended June 30, 2011.

**Results of operations for the six months ended June 30, 2012 as compared to the six months ended June 30, 2011**

**Net revenue:** Net revenue, exclusive of the currency effect, decreased \$10.5 million, or 7.1%, to \$136.7 million for the six months ended June 30, 2012 from \$147.2 million for the six months ended June 30, 2011. Inclusive of the currency effect which accounted for a decrease of \$3.3 million, net revenue decreased \$13.8 million to \$133.4 million for the six months ended June 30, 2012 from \$147.2 million for the six months ended June 30, 2011.

| (in thousands)        | Exclusive of Currency Effect |            |               |            |                |            | Currency Effect | Inclusive of Currency Effect |            |
|-----------------------|------------------------------|------------|---------------|------------|----------------|------------|-----------------|------------------------------|------------|
|                       | Six Months Ended             |            |               |            | Year-over-Year |            |                 | Six Months Ended             |            |
|                       | June 30, 2012                |            | June 30, 2011 |            |                |            |                 | June 30, 2012                |            |
|                       | Net Revenue                  | % of Total | Net Revenue   | % of Total | Variance       | Variance % |                 | Net Revenue                  | % of Total |
| Data Center           | 16,642                       | 12.2%      | 15,031        | 10.2%      | 1,611          | 10.7%      | (475)           | 16,167                       | 12.1%      |
| North America Telecom | 120,087                      | 87.8%      | 131,784       | 89.5%      | (11,697)       | -8.9%      | (2,864)         | 117,223                      | 87.9%      |
| Other                 |                              | 0.0%       | 377           | 0.3%       | (377)          | -100.0%    |                 |                              | 0.0%       |
| Total Net Revenue     | 136,729                      | 100.0%     | 147,192       | 100.0%     | (10,463)       | -7.1%      | (3,339)         | 133,390                      | 100.0%     |

Data Center: Data Center net revenue, exclusive of the currency effect, increased \$1.6 million, or 10.7%, to \$16.6 million for the six months ended June 30, 2012 from \$15.0 million for the six months ended June 30, 2011. Inclusive of the currency effect which accounted for a \$0.4 million decrease, net revenue increased \$1.2 million to \$16.2 million for the six months ended June 30, 2012 from \$15.0 million for the six months ended June 30, 2011.

North America Telecom: North America Telecom net revenue, exclusive of the currency effect, decreased \$11.7 million, or 8.9%, to \$120.1 million for the six months ended June 30, 2012 from \$131.8 million for the six months ended June 30, 2011. The net revenue decrease is primarily attributable to a decrease of \$5.6 million in retail voice services, a decrease of \$3.1 million in local services, a decrease of \$2.5 million in prepaid services, a decrease of \$0.9 million in VoIP services, decrease of \$0.4 million in wireless and a decrease of \$0.4 million in data and hosting services offset, in part, by an increase of \$0.9 million in Internet services and an increase of \$0.3 million in other services. Inclusive of the currency effect which accounted for a \$2.9 million decrease, net revenue decreased \$14.6 million to \$117.2 million for the six months ended June 30, 2012 from \$131.8 million for the six months ended June 30, 2011.

**Cost of revenue:** Cost of revenue, exclusive of the currency effect, decreased \$5.4 million to \$67.5 million, or 49.3% of net revenue, for the six months ended June 30, 2012 from \$72.9 million, or 49.5% of net revenue, for the six months ended June 30, 2011. Inclusive of the currency effect, which accounted for a \$1.7 million decrease, cost of revenue decreased \$7.1 million to \$65.8 million for the six months ended June 30, 2012 from \$72.9 million for the six months ended June 30, 2011.

| (in thousands)        | Exclusive of Currency Effect |                  |                 |                  |                |            | Currency Effect | Inclusive of Currency Effect |                  |
|-----------------------|------------------------------|------------------|-----------------|------------------|----------------|------------|-----------------|------------------------------|------------------|
|                       | Six Months Ended             |                  |                 |                  | Year-over-Year |            |                 | Six Months Ended             |                  |
|                       | June 30, 2012                |                  | June 30, 2011   |                  |                |            |                 | June 30, 2012                |                  |
|                       | Cost of Revenue              | % of Net Revenue | Cost of Revenue | % of Net Revenue | Variance       | Variance % |                 | Cost of Revenue              | % of Net Revenue |
| Data Center           | 7,075                        | 42.5%            | 6,070           | 40.4%            | 1,005          | 16.6%      | (206)           | 6,869                        | 42.5%            |
| North America Telecom | 60,374                       | 50.3%            | 66,793          | 50.7%            | (6,419)        | -9.6%      | (1,448)         | 58,926                       | 50.3%            |
| Other                 |                              | 0.0%             |                 | 0.0%             |                | 0.0%       |                 |                              | 0.0%             |
| Total Cost of Revenue | 67,449                       | 49.3%            | 72,863          | 49.5%            | (5,414)        | -7.4%      | (1,654)         | 65,795                       | 49.3%            |

Data Center: Data Center cost of revenue, exclusive of the currency effect, increased \$1.0 million to \$7.1 million, or 42.5% of net revenue, for the six months ended June 30, 2012 from \$6.1 million, or 40.4% of net revenue, for the six months ended June 30, 2011. The increase is primarily attributable to an increase in net revenue of \$1.6 million. Inclusive of the currency effect, which accounted for a \$0.2 million decrease, cost of revenue increased \$0.8 million to \$6.9 million for the six months ended June 30, 2012 from \$6.1 million for the six months ended June 30, 2011.

North America Telecom: North America Telecom cost of revenue, exclusive of the currency effect, decreased \$6.4 million to \$60.4 million, or 50.3% of net revenue, for the six months ended June 30, 2012 from \$66.8 million, or 50.7% of net revenue, for the six months ended June 30, 2011. The decrease is primarily attributable to a decrease in net revenue of \$11.7 million. Inclusive of the currency effect, which accounted for a \$1.5 million decrease, cost of revenue decreased \$7.9 million to \$58.9 million for the six months ended June 30, 2012 from \$66.8 million for the six months ended June 30, 2011.

**Selling, general and administrative expenses:** Selling, general and administrative expenses ( SG&A ), exclusive of the currency effect, decreased \$0.5 million to \$56.3 million, or 41.2% of net revenue, for the six months ended June 30, 2012 from \$56.8 million, or 38.6% of net revenue, for the six months ended June 30, 2011. Inclusive of the currency effect, which accounted for a \$1.1 million decrease, selling, general and administrative expenses decreased \$1.6 million to \$55.2 million for the six months ended June 30, 2012 from \$56.8 million for the six months ended June 30, 2011.

|                       | Exclusive of Currency Effect |                  |               |                  |                |            | Currency Effect | Inclusive of Currency Effect |                  |
|-----------------------|------------------------------|------------------|---------------|------------------|----------------|------------|-----------------|------------------------------|------------------|
|                       | Six Months Ended             |                  |               |                  | Year-over-Year |            |                 | Six Months Ended             |                  |
|                       | June 30, 2012                |                  | June 30, 2011 |                  |                |            |                 | June 30, 2012                |                  |
| (in thousands)        | SG&A                         | % of Net Revenue | SG&A          | % of Net Revenue | Variance       | Variance % |                 | SG&A                         | % of Net Revenue |
| Data Center           | 2,767                        | 16.6%            | 2,799         | 18.6%            | (32)           | -1.1%      | (81)            | 2,686                        | 16.6%            |
| North America Telecom | 38,541                       | 32.1%            | 42,847        | 32.5%            | (4,306)        | -10.0%     | (1,096)         | 37,445                       | 31.9%            |
| Other                 |                              | 0.0%             | 573           | 152.0%           | (573)          | -100.0%    |                 |                              | 0.0%             |
| Corporate             | 15,024                       | 0.0%             | 10,633        | 0.0%             | 4,391          | 41.3%      |                 | 15,024                       | 0.0%             |
| Total SG&A            | 56,332                       | 41.2%            | 56,852        | 38.6%            | (520)          | -0.9%      | (1,177)         | 55,155                       | 41.3%            |

Data Center: Data Center selling, general and administrative expense, exclusive of the currency effect, remained constant at \$2.8 million for the six months ended June 30, 2012 and for the six months ended June 30, 2011. Inclusive of the currency effect, which accounted for a \$0.1 million decrease, selling, general and administrative expenses decreased \$0.1 million to \$2.7 million for the six months ended June 30, 2012 from \$2.8 million for the six months ended June 30, 2011.

North America Telecom: North America Telecom selling, general and administrative expense, exclusive of the currency effect, decreased \$4.3 million to \$38.5 million, or 32.1% of net revenue, for the six months ended June 30, 2012 from \$42.8 million, or 32.5% of net revenue, for the six months ended June 30, 2011. The decrease is attributable to a decrease of \$1.8 million in advertising expenses, a decrease of \$0.8 million in sales and marketing expenses, a decrease of \$0.9 million in general and administrative, a decrease of \$0.5 million in salaries and benefits and a decrease of \$0.3 million in occupancy expenses. Inclusive of the currency effect, which accounted for a \$1.1 million decrease, selling, general and administrative expenses decreased \$5.4 million to \$37.4 million for the six months ended June 30, 2012 from \$42.8 million for the six months ended June 30, 2011.

Corporate: Corporate selling, general and administrative expense increased \$4.4 million to \$15.0 million for the six months ended June 30, 2012 from \$10.6 million for the six months ended June 30, 2011. The increase is



attributable to an increase of \$2.9 million in salaries and benefits, an increase of \$1.0 million in general and administrative expenses and an increase of \$0.9 million in professional fees offset, in part, by a decrease of \$0.4 million in occupancy expense.

**Depreciation and amortization expense:** Depreciation and amortization expense decreased \$2.9 million to \$15.4 million for the six months ended June 30, 2012 from \$18.3 million for the six months ended June 30, 2011. The decrease is attributable to a decrease in the amortization of our Canadian customer list intangible asset. This intangible asset is amortized over a useful life that corresponds to the diminishing projected cash flows in the fresh start valuation model so future amortization expense will continue to decline.

**Interest expense and accretion (amortization) on debt premium/discount, net:** Interest expense and accretion (amortization) on debt premium/discount, net decreased \$2.7 million to \$13.9 million for the six months ended June 30, 2012 from \$16.6 million for the six months ended June 30, 2011. The decrease was due to exchanging our prior higher rate debt for the 10% Senior Secured Notes due 2017. See Note 5 Long-Term Obligations to the notes to our condensed consolidated financial statements included elsewhere in this report.

**Gain (loss) from contingent value rights valuation:** The loss from the change in fair value of the contingent value rights increased \$0.9 million to \$5.2 million for the six months ended June 30, 2012 from \$4.3 million for the six months ended June 30, 2011. The Company determined these contingent value rights to be derivative instruments to be accounted for as liabilities and marked to fair value at each balance sheet date. Upon issuance of the contingent value rights, the Company recorded a liability of \$2.6 million in other liabilities as part of fresh-start accounting, and we will adjust this liability quarterly to its then estimated fair value. The change in fair value of the liability is reflected in our condensed consolidated statements of operations as other income (expense). Estimates of fair value represent the Company's best estimates based on a Black-Scholes pricing model.

**Interest and other income (expense):** Interest and other income (expense) increased \$0.5 million to \$0.1 million of income for the six months ended June 30, 2012 from \$0.4 million of expense for the six months ended June 30, 2011.

**Foreign currency transaction gain (loss):** Foreign currency transaction gain decreased \$2.2 million to \$0.4 million for the six months ended June 30, 2012 from \$2.6 million for the six months ended June 30, 2011. The gains and losses are attributable to the impact of foreign currency exchange rate changes on intercompany debt balances and on receivables and payables denominated in a currency other than the subsidiaries functional currency. We incurred a foreign currency transaction gain on the intercompany payable balances that our Canadian subsidiaries have with our US subsidiaries due to an increase in the exchange rate from January to February 2011.

**Income tax benefit (expense):** Income tax benefit (expense) is a \$0.7 million benefit for the six months ended June 30, 2012 compared to a \$0.6 million benefit for the six months ended June 30, 2011. The benefit includes a benefit from the release of certain ASC 740 liabilities as a result of the expiration of the statute of limitations, partially offset by expenses consisting of a provision for foreign income taxes and foreign withholding tax on intercompany interest.

## Liquidity and Capital Resources

### *Important Long-Term Liquidity and Capital Structure Developments:*

#### *Divestiture of Primus Australia and Subsequent Asset Sale Tender Offer*

On May 31, 2012, the Company completed the sale of Primus Australia to M2. The purchase price before adjustment was approximately \$AUD 192.4 million (or approximately \$USD 195.7 million giving effect to a currency hedge that the Company put in place in connection with the transaction). In connection with the closing of the transaction, the Retention Amount of approximately \$USD 9.8 million was retained from the purchase

price and placed in escrow for a period of twelve months following the closing date of the transaction for purposes of satisfying potential indemnification claims asserted by M2 for breaches of PTII's warranties in the Purchase Agreement. See Recent Developments Divestiture of Primus Australia.

This transaction was approved by the Company's Board of Directors and the Special Committee of the Board of Directors previously established to explore and evaluate strategic alternatives to enhance shareholder value. Following the consummation of the transaction, the Special Committee continues to explore and evaluate strategic alternatives, which may include (but may not be limited to) a sale, merger or other business combination involving the Company, a recapitalization of the Company, a joint venture arrangement, the sale or spinoff of other Company assets or one or more of its other business units, or the continued execution of the Company's business plans. The Company has not set a timetable for completion of the Special Committee's evaluation process or, except as described above with respect to Primus Australia and below with respect to ICS, made a decision to pursue any particular course of action or transaction, and there can be no assurance that any transaction will be pursued or completed.

On June 20, 2012, Primus Telecommunications Holding, Inc. (Holding) commenced an offer to purchase (the Offer to Purchase) up to \$183,300,000 aggregate principal amount of the 10% Senior Secured Notes due 2017 (the 10% Notes) at a purchase price in cash equal to 100% of the principal amount of 10% Notes validly tendered (and not validly withdrawn) and accepted in the Offer to Purchase, plus accrued and unpaid interest thereon to the settlement date for the Offer to Purchase. The Offer to Purchase expired on July 19, 2012. No Notes were tendered pursuant to the Offer to Purchase.

The Offer to Purchase was required by the indenture governing the 10% Notes (10% Notes Indenture) as a result of the sale of the Company's Australia segment and the receipt of proceeds. Pursuant to the 10% Notes Indenture, Holding was required to make an offer to purchase (the Offer to Purchase) 10% Notes using the Excess Proceeds (as defined in the 10% Notes Indenture) from this transaction, which constituted an Asset Sale under the 10% Notes Indenture. The Company determined that the Excess Proceeds from this transaction equaled \$183.3 million (after taking into account the Retention Amount and costs and expenses related to the transaction) (the Offer Amount).

Pursuant to the 10% Notes Indenture, because no 10% Notes were tendered in the Offer to Purchase (and thus no Excess Proceeds were used to purchase 10% Notes), (i) the Company may use all Excess Proceeds that were the subject of the Offer to Purchase (i.e., the Offer Amount) for general corporate purposes not otherwise prohibited by the 10% Notes Indenture and (ii) the amount of Excess Proceeds for purposes of the 10% Notes Indenture was reset at zero.

#### *Pursuit of Divestiture of ICS Business Unit*

In connection with the Special Committee's continued evaluation of strategic alternatives discussed above, on June 28, 2012, the Company's Board of Directors committed to dispose of and is actively soliciting a sale or other disposition of the Company's ICS business unit. As a result of holding the ICS business unit out for sale, such business unit has been classified as a discontinued operation for the quarterly period ended June 30, 2012. See Note 12 Discontinued Operations to the notes to our condensed consolidated financial statements included elsewhere in this report.

#### *Exchange Offers and Consent Solicitation*

On July 7, 2011, in connection with the consummation of the private (i) exchange offers (the Exchange Offers) for any and all outstanding Units representing the 13% Senior Secured Notes due 2016 (the 13% Notes) issued by Holding and Primus Telecommunications Canada Inc. (Primus Canada), and the 14<sup>3</sup>/<sub>4</sub>% Senior Subordinated Secured Notes due 2013 (the 14<sup>3</sup>/<sub>4</sub>% Notes) issued by Primus Telecommunications IHC, Inc. (IHC), (ii) consent solicitation (the Consent Solicitation) to amend the indenture governing the 13% Notes and release the collateral securing the 13% Notes, and (iii) related transactions, Holding issued \$240.2

million aggregate principal amount of 10% Senior Secured Notes due 2017 (the "10% Notes"). An aggregate of \$228.6 million principal amount of 10% Notes was issued pursuant to the Exchange Offers, and Holding issued an additional \$11.6 million aggregate principal amount of 10% Notes for cash, the proceeds of which were used to redeem all 14 1/4% Notes that were not exchanged pursuant to the Exchange Offers and thereby discharge all of our obligations with respect to the 14 1/4% Notes. In connection with the Exchange Offers, the Company also incurred \$6.9 million of third party costs which are included in gain (loss) on early extinguishment or restructuring of debt on the condensed consolidated statement of operations in the third quarter of 2011.

The 10% Notes and related guarantees are secured by a pledge of and first lien security interest in (subject to certain exceptions) substantially all of the assets of Holding and the guarantors of the 10% Notes, including the Company (the "Guarantors"), including a first-priority pledge of all of the capital stock held by Holding, the Guarantors and each subsidiary of the Company that is a foreign subsidiary holding company (which pledge, in the case of the capital stock of each non-U.S. subsidiary and each subsidiary of the Company that is a foreign subsidiary holding company is limited to 65% of the capital stock of such subsidiary).

The 10% Notes rank senior in right of payment to existing and future subordinated indebtedness of Holding and the Guarantors. The 10% Notes rank equal in right of payment with all existing and future senior indebtedness of Holding and the Guarantors. The 10% Notes rank junior to any priority lien obligations entered into by Holding or the Guarantors in accordance with the indenture governing the 10% Notes (the "10% Notes Indenture").

Prior to March 15, 2013, Holding may redeem up to 35% of the aggregate principal amount of the 10% Notes at the redemption premium of 110% of the principal amount of the 10% Notes redeemed, plus accrued and unpaid interest, with the net cash proceeds of certain equity offerings. Prior to March 15, 2013, Holding may redeem some or all of the 10% Notes at a make-whole premium as set forth in the 10% Notes Indenture. On or after March 15, 2013, Holding may redeem some or all of the 10% Notes at a premium that will decrease over time as set forth in the 10% Notes Indenture, plus accrued and unpaid interest.

Upon the occurrence of certain Changes of Control (as defined in the 10% Notes Indenture) with respect to the Company, Holding must give holders of the 10% Notes an opportunity to sell their 10% Notes to Holding at a purchase price of 101% of the principal amount of such 10% Notes, plus accrued and unpaid interest, if any, to the date of purchase. If the Company or any of its restricted subsidiaries consummates certain Asset Sales (as defined in the 10% Notes Indenture) and does not choose to use all of the net proceeds of such Asset Sale for specified purposes, Holding may be required to use the remaining net proceeds from such Asset Sale (which are defined as "Excess Proceeds" under the 10% Notes Indenture) to offer to repurchase the 10% Notes using such Excess Proceeds at a purchase price of 100% of their principal amount, plus accrued and unpaid interest.

The 10% Notes Indenture contains covenants that, subject to certain exceptions, limit the ability of each of the Company and its restricted subsidiaries to, among other things: (i) incur additional indebtedness; (ii) pay dividends on, repurchase or make distributions in respect of the Company's capital stock or make other restricted payments; (iii) make certain investments; (iv) sell, transfer or otherwise convey certain assets; (v) create certain liens; (vi) designate future subsidiaries as unrestricted subsidiaries; (vii) consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; and (viii) enter into certain transactions with affiliates. The 10% Notes Indenture contains other customary terms, including, but not limited to, events of default, which, if any of them occurs, would permit or require the principal, premium, if any, and interest, if any, on all of the then outstanding 10% Notes to be due and payable immediately.

Under the 10% Notes Indenture, either Holding or any Guarantor may incur additional senior secured debt, equal in right of payment to the 10% Notes, in the future that is subject to security interests in the same collateral as the 10% Notes and the related guarantees, in an aggregate principal amount outstanding (including the aggregate principal amount outstanding under the 10% Notes) equal to 2.25 times condensed consolidated EBITDA of the Company for the prior four fiscal quarters.

### ***Changes in Cash Flows***

Our principal liquidity requirements arise from cash used in operating activities, purchases of network equipment, including switches, related transmission equipment and capacity, development of back-office systems, expansion of data center facilities, interest and principal payments on outstanding debt and other obligations and income taxes. 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 \$16.2 million for the six months ended June 30, 2012 as compared to \$15.0 million for the six months ended June 30, 2011. For the six months ended June 30, 2012, net income, net of non-cash operating activity, provided \$15.3 million of cash. Other major drivers included a decrease in accounts receivable of \$13.3 million, partially offset by a decrease in accounts payable of \$10.5 million.

Net cash provided by investing activities was \$157.6 million for the six months ended June 30, 2012 as compared to net cash used in investing activities of \$0.3 million for the six months ended June 30, 2011. Net cash provided by investing activities during the six months ended June 30, 2012 included \$177.7 million of net proceeds from the sale of Primus Australia, partially offset by \$18.7 million of capital expenditures, \$1.3 million used in the acquisition of businesses and \$0.1 million from the increase in restricted cash.

Net cash used in financing activities was \$5.0 million for the six months ended June 30, 2012 as compared to \$24.5 million for the six months ended June 30, 2011. Net cash used in financing activities during the six months ended June 30, 2012 included \$1.6 million used to reduce the principal amounts outstanding on capital leases, leased fiber capacity, financing facilities and other long-term obligations, \$2.0 million used to pay fees related to the Exchange Offers and Consent Solicitation and \$1.5 million was used to satisfy the tax obligations for shares issued under share-based compensation arrangements; partially offset by \$0.1 million in proceeds from the sale of common stock.

### ***Short- and Long-Term Liquidity Considerations and Risks***

As of June 30, 2012, we had \$209.7 million of cash and cash equivalents. We believe that our existing cash and cash equivalents will be sufficient to fund our debt service requirements, other fixed obligations (such as capital leases, vendor financing and other long-term obligations), and other cash needs for our operations for at least the next twelve months.

As of June 30, 2012, we have \$10.8 million in future minimum purchase obligations, \$59.2 million in future operating lease payments and \$237.7 million of indebtedness.

### Contractual Obligations

The obligations reflected in the table below reflect the contractual payments of principal and interest that existed as of June 30, 2012:

| Year Ending December 31,                    | Capital Leases<br>and Other | 13% Senior<br>Secured Notes<br>due 2016 | 10% Senior<br>Secured Notes<br>due 2017 | Purchase<br>Obligations | Operating<br>Leases | Total      |
|---------------------------------------------|-----------------------------|-----------------------------------------|-----------------------------------------|-------------------------|---------------------|------------|
| 2012 (as of June 30, 2012)                  | \$ 65                       | \$ 156                                  | \$ 11,762                               | \$ 3,180                | \$ 6,789            | \$ 21,952  |
| 2013                                        | 37                          | 312                                     | 23,523                                  | 4,121                   | 11,911              | 39,904     |
| 2014                                        |                             | 312                                     | 23,523                                  | 3,486                   | 8,901               | 36,222     |
| 2015                                        |                             | 312                                     | 23,523                                  | 41                      | 7,079               | 30,955     |
| 2016                                        |                             | 2,716                                   | 23,523                                  |                         | 5,748               | 31,987     |
| Thereafter                                  |                             |                                         | 242,092                                 |                         | 18,747              | 260,839    |
| Total minimum principal & interest payments | 102                         | 3,808                                   | 347,946                                 | 10,828                  | 59,175              | 421,859    |
| Less: Amount representing interest          | (3)                         | (1,405)                                 | (112,715)                               |                         |                     | (114,123)  |
| Total long-term obligations                 | \$ 99                       | \$ 2,403                                | \$ 235,231                              | \$ 10,828               | \$ 59,175           | \$ 307,736 |

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.

### New Accounting Pronouncements

For a discussion of our New Accounting Pronouncements, refer to Note 2 Summary of Significant Accounting Policies to our unaudited condensed consolidated financial statements included elsewhere in this report.

### Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains or incorporates a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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, opportunity, goal, objective, growth, outcome, strategy, provide, commitment, result, seek, pursue, ongoing, include or in the negative of such terms or comparable terminology. Forward-looking statements inherently involve certain risks and uncertainties and are not guarantees of performance, results, or the creation of shareholder value, although they are based on our current plans or assessments which we believe to be reasonable as of the date hereof.

Factors or risks that could cause our actual results to differ materially from the results we anticipate include, but are not limited to:

continuing uncertain global economic conditions;

significant changes in the competitive environment, including as a result of industry consolidation, and the effect of competition in our markets, including our pricing policies;

uncertainties from our announcement of our exploration and evaluation of strategic alternatives that may enhance shareholder value or our ability to complete any transactions arising out of that evaluation, including the pursuit of a divestiture of our ICS business unit;

our possible inability to generate sufficient liquidity, margins, earnings per share, cash flow and working capital;

our ability to attract and retain customers;

our expectations regarding increased competition, pricing pressures, and declining usage patterns in our traditional products;

the effectiveness and profitability of our growth products and bundled service offerings, the pace and cost of customer migration onto our networks, and the successful network platform migration to reduce costs and increase efficiencies;

risks associated with the merger of Arbinet, including but not limited to our ability to realize the anticipated benefits of the merger of Arbinet or the timing associated with any such benefits, or volatility in the volume and mix of trading activity on the Arbinet Exchange;

strengthening of the U.S. dollar against foreign currencies, which may reduce the amount of U.S. dollars generated from foreign operating subsidiaries and adversely affect our ability to service our significant debt obligations and pay corporate expenses;

our compliance with complex laws and regulations in the U.S. and internationally;

further changes in the telecommunications or Internet industry, including rapid technological, regulatory and pricing changes in our principal markets;

our liquidity and possible inability to service our substantial indebtedness or an occurrence of a default or event of default under our indentures;

our expectations regarding the timing, extent and effectiveness of our 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, synergies, asset dispositions, fixed asset and goodwill impairment charges, tax and withholding expense, selling, general and administrative expenses, product plans, performance and results;

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

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

our possible inability to hire and retain qualified executive management, sales, technical and other personnel.

Other unknown or unpredictable factors could also affect our business, financial condition and results. Although we believe that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that any of the estimated or projected results will be realized. You should not place undue reliance on these forward-looking statements, which apply only as of the date hereof. Subsequent events and developments may cause our views to change. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so.



### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposures relate to changes in foreign currency exchange rates.

*Foreign currency exchange rates* Foreign currency can have a major impact on our financial results. During the six months ended June 30, 2012, approximately 85% of our net revenue was derived from sales and operations outside the U.S. The reporting currency for our condensed 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 the majority of our net revenue and incur a significant portion of our operating costs from outside the U.S., 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/GBP, and USD/EUR. Due to the large percentage of our revenue derived outside of the U.S., changes in the USD relative to one or more of the foregoing currencies could have an adverse impact on our future results of operations. In addition, prior to the sale of Primus Australia during the quarterly period ended June 30, 2012, we also experienced risk of loss regarding foreign currency exchange due to fluctuations in the USD/Australian dollar ( AUD ) exchange rate. See Management's Discussion and Analysis of Financial Condition and Results of Operations Recent Developments Divestiture of Primus Australia. 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 condensed consolidated statements of operations. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies.

We historically have not engaged in hedging transactions. However, in connection with the divestiture of Primus Australia described above under Management's Discussion and Analysis of Financial Condition and Results of Operations Recent Developments Divestiture of Primus Australia, we entered into a cash flow hedging agreement to mitigate the movements in the AUD versus the USD between the announcement date of the sale to the closing date of the sale, which occurred on May 31, 2012.

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 of our international subsidiaries and may distort comparisons from year to year. By way of example, when the USD strengthens compared to the CAD, there could be a negative or positive effect on the reported results for our Canadian operating segment, depending upon whether the business in our Canadian operating segment is operating profitably or at a loss. It takes more profits in CAD to generate the same amount of profits in USD and a greater loss in CAD to generate the same amount of loss in USD. The opposite is also true. For instance, when the USD weakens against the CAD, there is a positive effect on reported profits and a negative effect on the reported losses for our Canadian operating segment.

In the six months ended June 30, 2012, as compared to the six months ended June 30, 2011, the USD was stronger on average as compared to the CAD, AUD, GBP, and EUR. As a result, the revenue of our subsidiaries whose local currency is CAD, AUD, GBP, and EUR increased (decreased) (6.2%), (21.5%), (10.0%), and 1,928.6%, respectively, in their local currencies compared to the six months ended June 30, 2011, and increased (decreased) (8.9%), (21.0%), (12.7%), and 2,018.2%, in USD, respectively.



#### **ITEM 4. CONTROLS AND PROCEDURES**

##### **Evaluation of Disclosure Controls and Procedures.**

Our management evaluated, with the participation of our Chief Executive Officer and Acting 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, 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 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.

##### **Changes in Internal Control.**

An evaluation of our internal controls over financial reporting was performed under the supervision of, and with the participation of, management, including our Chief Executive Officer and Acting Chief Financial Officer, to determine whether any changes have occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based upon this evaluation, our Chief Executive Officer and Acting Chief Financial Officer concluded that no changes in our internal control over financial reporting have occurred during the three months ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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

### ITEM 1A. RISK FACTORS

Except as set forth below, there have been no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011:

#### *The sale of Primus Australia substantially reduced our revenue.*

As described above under Management's Discussion and Analysis of Financial Condition and Results of Operations Recent Developments Divestiture of Primus Australia, the Company divested its Australian operations pursuant to the sale of Primus Australia to M2, which transaction was consummated on May 31, 2012. Our Australian operations accounted for approximately \$66.8 million, or 28.6%, of our net revenues, exclusive of the currency effect, for the three months ended March 31, 2012 and approximately \$254.9 million, or 27.2%, of our net revenues, exclusive of the currency effect, for the fiscal year ended December 31, 2011. Following the divestiture of Primus Australia, our ability to produce revenues will therefore be substantially reduced. There can be no assurance that the proceeds from the divestiture and the revenues and profits generated from the remaining operations of the Company, along with other capital that we have access to, will be adequate to sustain our business objectives.

#### *We may encounter difficulties and incur costs in pursuing the divestiture plan associated with our ICS business unit, which could adversely impact our business and results of operations.*

As described above under Management's Discussion and Analysis of Financial Condition and Results of Operations Recent Developments Pursuit of Divestiture of ICS Business Unit, on June 28, 2012, the Company's Board of Directors committed to dispose of and is actively soliciting a sale or other disposition of the Company's ICS business unit. We may not be able to achieve the full strategic and financial benefits we expect from the divestiture of our ICS business unit. For example, we may encounter difficulties identifying buyers or be unable to sell the business identified for divestiture. There is no guarantee that the planned divestiture will occur or will not be significantly delayed, and there can be no assurance that analysts and investors will place greater value on the Company following any such divestiture. Completion of the plan of divestiture is also subject to a number of factors. Our divestiture plan may require a substantial amount of management, administrative and operational resources. These demands may distract our employees from the day-to-day operations of our other business units. If we are unable to successfully address any of these risks, our business and results of operations may be adversely impacted.

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

#### Share Repurchases

Upon vesting of restricted stock units awarded by the Company to employees, the Company withholds shares to cover employees' tax withholding obligations, other than for employees who have chosen to satisfy their tax withholding requirements in the form of a cash payment. The table below reflects shares of common stock withheld to satisfy tax withholding obligations during the three months ended June 30, 2012.

On August 8, 2011, the Company's Board of Directors authorized a stock repurchase program of up to \$15 million of its common stock through August 8, 2013. Under the stock repurchase program, the Company may repurchase common stock from time to time in the open-market, privately negotiated transactions or block trades. During the six months ended June 30, 2012, the Company did not purchase shares of common stock in connection with our stock repurchase program:

| Period                                                                 | Total<br>Number of<br>Shares<br>Purchased | Average Price<br>Paid Per Share | Total<br>Number of Shares<br>Purchased as Part of<br>Announced Plans<br>or<br>Programs | Approximate Dollar<br>Value of Shares<br>that May Yet be<br>Purchased<br>Under the<br>Plans or programs<br>(in millions) |
|------------------------------------------------------------------------|-------------------------------------------|---------------------------------|----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| <i>Shares purchased in satisfaction of tax withholding obligations</i> |                                           |                                 |                                                                                        |                                                                                                                          |
| April 1, 2012 to April 30, 2012                                        | 6,314                                     | \$ 16.74                        |                                                                                        | \$                                                                                                                       |
| May 1, 2012 to May 31, 2012                                            |                                           | \$                              |                                                                                        | \$                                                                                                                       |
| June 1, 2012 to June 30, 2012                                          | 33,001                                    | \$ 16.36                        |                                                                                        | \$                                                                                                                       |
| Total                                                                  | 39,315                                    | \$ 16.42                        |                                                                                        | \$                                                                                                                       |

*Shares purchased under a stock repurchase program*

|                                 |    |         |
|---------------------------------|----|---------|
| April 1, 2012 to April 30, 2012 | \$ | \$ 14.6 |
| May 1, 2012 to May 31, 2012     | \$ | \$ 14.6 |
| June 1, 2012 to June 30, 2012   | \$ | \$ 14.6 |
| Total                           | \$ | \$ 14.6 |

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

(a) Exhibits (see Exhibit Index following signatures page below)

**SIGNATURES**

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

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

Date: August 9, 2012

By: /s/ James C. Keeley  
**James C. Keeley**

**Acting Chief Financial Officer, Vice President,  
Corporate Controller, and Treasurer**

**(Principal Financial and Accounting Officer)**

**EXHIBIT INDEX**

| <b>Exhibit Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.2                   | Second Amended and Restated By-Laws of Primus Telecommunications Group, Incorporated (incorporated by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K, filed April 27, 2012)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 10.1                  | Equity Purchase Agreement, dated April 15, 2012, by and among M2 Telecommunications Group Ltd, Primus Telecommunications International Inc. and Primus Telecommunications Group, Incorporated (incorporated by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K, filed April 19, 2012)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 31                    | Certifications (filed herewith).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| 32*                   | Certification (filed herewith).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 101**                 | The following materials from the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2012, formatted in extensible business reporting language (XBRL); (i) Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011, (ii) Unaudited Condensed Consolidated Balance Sheets at June 30, 2012 and December 31, 2011, (iii) Unaudited Condensed Consolidated Statements of Stockholders' Equity (Deficit) for the six months ended June 30, 2012, (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011, (v) Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2012 and 2011, and (vi) Notes to Condensed Consolidated Financial Statements (filed herewith). |

\* These certifications are being furnished and will not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Such certifications 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, as amended, except to the extent that the registrant specifically incorporates it by reference.

\*\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.