PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-Q
May 20, 2011

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

OR

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

Commission File No. 0-29092

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	54-1708481

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

(703) 902-2800

(Registrant s telephone number, including area code)

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

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 o No o

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 o Accelerated filer o Non-accelerated filer o Smaller reporting company x

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

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 x No o

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

Class	Outstanding as of April 30, 2011
Common Stock $0.001 par value	13,373,744

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
NET REVENUE	$223,723	$193,017
OPERATING EXPENSES		
Cost of revenue (exclusive of depreciation included below)	152,256	121,991
Selling, general and administrative	53,952	50,118
Depreciation and amortization	15,121	17,869
(Gain) loss on sale or disposal of assets	53	10
Goodwill impairment	14,679	
Total operating expenses	236,061	189,988
INCOME (LOSS) FROM OPERATIONS	(12,338)	3,029
INTEREST EXPENSE	(8,693)	(9,326)
ACCRETION (AMORTIZATION) ON DEBT PREMIUM/DISCOUNT, net	(50)	(44)
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(4,384)	(2,043)
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	(55)	210
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	4,048	5,829
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	(21,472)	(2,345)
REORGANIZATION ITEMS, net		1
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(21,472)	(2,344)
INCOME TAX BENEFIT (EXPENSE)	830	2,170
INCOME (LOSS) FROM CONTINUING OPERATIONS	(20,642)	(174)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	20	(689)
NET INCOME (LOSS)	(20,622)	(863)
Less: Net (income) loss attributable to the noncontrolling interest	1,367	(136)
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$(19,255)	$(999)
BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE:		
	$(1.73)	$(0.03)

Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated		
Income (loss) from discontinued operations		(0.07)
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (1.73)	$ (0.10)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic and Diluted	11,148	9,645
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED		
Income (loss) from continuing operations, net of tax	$ (19,275)	$ (310)
Income (loss) from discontinued operations	20	(689)
Net income (loss)	$ (19,255)	$ (999)

See notes to condensed consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS (in thousands, except share amounts) (unaudited)

	March 31, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$65,665	$41,534
Accounts receivable (net of allowance for doubtful accounts receivable of $10,675 and $6,854)	90,719	76,828
Prepaid expenses and other current assets	20,667	19,439
Total current assets	177,051	137,801
RESTRICTED CASH	12,308	12,117
PROPERTY AND EQUIPMENT Net	157,519	138,488
GOODWILL	71,208	63,731
OTHER INTANGIBLE ASSETS Net	149,216	147,749
OTHER ASSETS	18,893	14,573
TOTAL ASSETS	$586,195	$514,459
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$54,533	$36,942
Accrued interconnection costs	30,982	29,571
Deferred revenue	13,193	12,891
Accrued expenses and other current liabilities	52,666	46,491
Accrued income taxes	7,318	7,678
Accrued interest	10,464	2,152
Current portion of long-term obligations	1,172	1,143
Total current liabilities	170,328	136,868
LONG-TERM OBLIGATIONS	242,680	242,748
DEFERRED TAX LIABILITY	32,077	32,208
CONTINGENT VALUE RIGHTS	23,482	19,098
OTHER LIABILITIES	3,042	503
Total liabilities	471,609	431,425
COMMITMENTS AND CONTINGENCIES (See Note 6.)		
STOCKHOLDERS EQUITY (DEFICIT):		
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; 13,356,164 and 9,801,463 shares issued and outstanding	13	10
Additional paid-in capital	137,969	86,984
Accumulated earnings (deficit)	(31,610)	(12,355)
Accumulated other comprehensive income (loss)	5,838	4,751
Total stockholders equity before noncontrolling interest	112,210	79,390
Noncontrolling interest	2,376	3,644
Total stockholders equity	114,586	83,034
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$586,195	$514,459

See notes to condensed consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (20,622)	$ (863)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Reorganization items, net		(1)
Provision for doubtful accounts receivable	2,251	1,834
Share based compensation expense	1,082	87
Depreciation and amortization	15,124	19,048
(Gain) loss on sale or disposal of assets	53	10
Goodwill impairment	14,679	
Accretion (amortization) of debt premium/discount, net	50	44
Change in fair value of Contingent Value Rights	4,384	2,043
Deferred income taxes	(406)	(2,303)
Unrealized foreign currency transaction gain on intercompany and foreign debt	(4,072)	(5,854)
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	1,093	2,689
(Increase) decrease in prepaid expenses and other current assets	437	(689)
(Increase) decrease in other assets	(2,068)	148
Increase (decrease) in accounts payable	(1,554)	(2,881)
Increase (decrease) in accrued interconnection costs	762	865
Increase (decrease) in accrued expenses, deferred revenue, other current liabilities and other liabilities, net	(2,946)	(4,993)
Increase (decrease) in accrued income taxes	(570)	(83)
Increase (decrease) in accrued interest	8,283	8,633
Net cash provided by (used in) operating activities before cash reorganization items	15,960	17,734
Cash effect of reorganization items		(137)
Net cash provided by (used in) operating activities	15,960	17,597

CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(6,373)	(4,913)
Sale of property and equipment and intangible assets		26
Cash acquired from business acquisition, net of cash paid	10,000	
Sales (purchase) of marketable securities	4,087	
(Increase) decrease in restricted cash	(200)	(51)
Net cash provided by (used in) investing activities	7,514	(4,938)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term obligations	(276)	(3,389)
Proceeds from sale of common stock	242	
Net cash provided by (used in) financing activities	(34)	(3,389)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	691	271
NET CHANGE IN CASH AND CASH EQUIVALENTS	24,131	9,541
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	41,534	42,538
CASH AND CASH EQUIVALENTS, END OF PERIOD	$65,665	$ 52,079
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$461	$ 723
Cash paid for taxes	$84	$ 236
Non-cash investing and financing activities:		
Capital lease additions	$	$ 19
Accrued deferred financing costs	$	$ 513
Acquisition purchase consideration recorded in working-capital and long-term liabilities	$2,804	$
Business acquisition purchased with Company common stock	$50,609	$

See notes to condensed consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
NET INCOME (LOSS)	$ (20,622)	$ (863)
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation adjustment	1,186	(198)
COMPREHENSIVE INCOME (LOSS)	(19,436)	(1,061)
Less: Comprehensive (income) loss attributable to the noncontrolling interest	1,268	(246)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (18,168)	$ (1,307)

See notes to condensed consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements of Primus Telecommunications Group, Incorporated and subsidiaries (the Company or Primus) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and Securities and Exchange Commission (SEC) regulations. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such principles and regulations. In the opinion of management, the financial statements reflect all adjustments (all of which are of a normal and recurring nature), which are necessary to present fairly the financial position, results of operations, cash flows and comprehensive income (loss) for the interim periods. The results for the Company s three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The results for all periods presented in this quarterly Form 10-Q reflect the activities of certain operations as discontinued operations (see Note 11 Discontinued Operations).

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

2. ACQUISITIONS

Arbinet Corporation Acquisition

On February 28, 2011, the Company completed its previously announced acquisition of Arbinet Corporation, a Delaware corporation (Arbinet). Arbinet Corporation is a provider of wholesale telecom exchange services to carriers and the Company purchased Arbinet to supplement its existing International Carrier Services 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
Total consideration transferred	$ 50,609

(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.

(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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Preliminary 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, represent the Company s best estimates and valuations developed with the assistance of independent appraisers and, where the following have not yet been completed or are not available, industry data and trends and by reference to relevant market rates and transactions. The following 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, the allocation of the consideration value is subject to additional adjustment until the Company has completed its analysis, but not to exceed one year after the date of acquisition, which was February 28, 2011, to provide the Company with the time to complete the valuation of its assets and liabilities.

The following table summarizes the assets acquired and liabilities assumed (in thousands):

Cash & cash equivalents	$	12,415
Marketable securities		4,044
Accounts receivable		16,205
Other current assets		1,309
Property, plant and equipment(1)		20,233
Intercompany receivable		309
Goodwill(3)		19,360
Customer list(2)		900
Other intangible assets		700
Other assets		1,738
Total assets acquired	$	77,213
Trade payables	$	18,280
Accrued interconnection costs		143
Accrued liabilities		2,312
Other current liabilities		3,182
Current portion of long-term obligations		68
Long-term obligations		99
Other long-term liabilities		2,520

Total liabilities assumed	$ 26,604
Net assets acquired	$ 50,609

(1) Property, plant and equipment were measured primarily using an income approach. The fair value measurements of the assets were based, in part, on significant inputs not observable in the market and thus represent a Level 3 measurement. The significant inputs included Arbinet resources, assumed future revenue profiles, weighted average cost of capital of 13.0 percent, gross margin at 7.2 percent and assumptions on the timing and amount of future development and operating costs. The property, plant and equipment additions were segmented as part of a new stand-alone reporting unit which will be aggregated with International Carrier Services when integration activities are substantially complete.

(2) Identifiable intangible assets and other assets were measured using a combination of an income approach and a market approach (Level 3). Identifiable intangible assets subject to amortization, the customer list, will be amortized over 15 years.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(3) Goodwill was the excess of the consideration transferred over the net assets recognized and represents the future economic benefits, primarily as a result of expected synergies expected from the combination, arising from other assets acquired that could not be individually identified and separately recognized. Goodwill was recognized as part of a new stand-alone reporting unit which will be aggregated with International Carrier Services when integration activities are substantially complete. Goodwill is not amortized and is not deductible for tax purposes.

Arbinet Results and Pro Forma Impact of Merger

The following table presents revenues for Arbinet for the periods presented (in thousands):

	Three Months Ended March 31, 2011	Acquisition Date Through March 31, 2011
Net revenue	$ 79,867	$ 26,780

Transaction-related costs were expensed as incurred except for $0.9 million of costs incurred to issue common stock to effect the merger which were recorded as an offset to additional paid in capital. The Company incurred $1.6 million in transaction costs related to the merger. The transaction-related costs recognized in the line item selling, general, and administrative expenses, in the condensed consolidated statement of operations during the quarter ended March 31, 2011 were $0.2 million. The fair value of the total consideration paid for the assets acquired and liabilities assumed increased significantly from the date of the merger agreement, November 10, 2010, to the closing date February 28, 2011. This event triggered the Company to perform a Step 1 impairment test as related to the goodwill which arose from this acquisition. See Note 4 Goodwill and Other Intangible Assets, for more details on the testing. The results of the Step 1 and Step 2 tests required the Company to recognize $14.7 million of impairment expense. The following table presents pro forma information for the Company as if the merger of Arbinet had occurred at the beginning of each period presented (in thousands, except for per share amounts):

	Three months ended March 31,	
	2011	2010
Net revenue	$ 275,885	$ 277,870
Net income (loss) attributable to continuing operations for Primus	$ 18,012	$ (5,250)
Net income (loss) attributable to discontinued operations for Primus	$ 20	$ (689)
Income (loss) per common share for continuing operations net of tax	$ 1.62	$ (0.54)
Income (loss) per common share for discontinued operations	$	$ (0.07)

The historical financial information was adjusted to give effect to the pro forma events that were directly attributable to the merger and factually supportable. The unaudited pro forma consolidated results are not necessarily indicative of what the consolidated results of operations actually would have been had we completed the merger on January 1, 2011 or January 1, 2010. In addition, the unaudited pro forma consolidated results do not purport to project the future results of operations of the combined company.

Incentive Program

Under the terms of the merger agreement, outstanding Arbinet stock-based awards were converted into Primus stock-based awards based on the merger exchange ratio. The converted Arbinet awards, granted under Arbinet s 1997 and 2004 Stock Incentive Plans, include restricted stock awards, stock options, stock appreciation rights and restricted stock units. The grant date for the converted Arbinet awards is considered to be the effective date of the merger for purposes of calculating fair value. The maximum term of the Arbinet awards is ten years. No additional awards will be issued under either Arbinet plan.

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Unlimitel Inc. and HMNET Technologies, Inc. Acquisitions

During the first quarter of 2011 one of the Company s Canadian subsidiaries completed the acquisition of the customer base and fixed assets of Unlimitel Inc. (Unlimitel) and HMNet Technologies Inc. (HMNet), commercial VoIP providers. The total consideration transferred to complete the acquisitions was approximately $3.1 million. The cash payments associated with the acquisition are as follows: $1.0 million was paid upon closing, $0.3 million was paid during the second quarter of 2011, $1.4 million is payable upon the one-year anniversary of the closing date, and $0.4 million is payable upon the two-year anniversary of the closing date.

The table below sets forth the final Unlimitel and HMNet purchase price allocation (in thousands). The purchase price allocation resulted in goodwill of $1.9 million. The valuation of intangible assets was evaluated using Level 3 inputs.

	As of March 31, 2011
Cash and cash equivalents	$ 331
Property and equipment	136
Identifiable intangible asset:	
Customer relationships	1,229
Goodwill	1,842
Other assets and liabilities, net	(119)
Deferred income tax	(318)
Allocation of purchase consideration	$ 3,101

The customer relationships above are subject to amortization and have a useful life of five years. The useful life of the customer relationships was estimated at the time of the acquisition based on the period of time from which the Company expects to derive benefits from the customer relationships. The identifiable intangible assets are amortized using the pattern of benefits method, which results in accelerated amortization in the early periods of the useful life.

Goodwill from our Unlimitel and HMNet acquisitions is a result of the value of acquired employees along with the expected synergies from the combination of Unlimitel Inc. and HMNet Technologies Inc., and our operations. Goodwill resulting from the acquisition of Unlimitel Inc. and HMNet Technologies Inc., is not deductible for tax purposes.

Hyperlink Australia Pty Ltd. Acquisition

During the first quarter of 2011 one of the Company s Australian subsidiaries completed the acquisition of the customer relationships and fixed assets of Hyperlink Australia Pty Ltd. (Hyperlink), a managed data center services provider. The total consideration transferred to complete the acquisition of Hyperlink totaled $1.5 million which included routine working capital adjustments.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The table below sets forth the final Hyperlink purchase price allocation (in thousands). The fair value of the property and equipment were determined based on Level 3 inputs. The valuation of intangible assets was evaluated using Level 3 inputs.

	As of March 31, 2011
Property and equipment	$ 128
Identifiable intangible assets:	
Customer relationships	1,467
Other assets and liabilities, net	(69)
Allocation of purchase consideration	$ 1,526

The customer relationships above are subject to amortization and have a useful life of three years. The useful life of the customer relationships was estimated at the time of the acquisition based on the period of time from which the Company expects to derive benefits from the customer relationships. The identifiable intangible assets are amortized using the pattern of benefits method, which results in accelerated amortization in the early periods of the useful life.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The consolidated financial statements include the Company s accounts, its wholly-owned subsidiaries and all other subsidiaries over which the Company exerts control. The Company owns 45.6% of Globility Communications Corporations (GCC) through direct and indirect ownership structures. The results of GCC and its subsidiary are consolidated with the Company s results based on guidance from the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 810 Consolidation. All intercompany profits, transactions and balances have been eliminated in consolidation.

ASC No. 810 changed the presentation of outstanding noncontrolling interests in one or more subsidiaries or the deconsolidation of those subsidiaries. Reconciliations at the beginning and the end of the period of the total equity, equity attributable to the Company and equity attributable to the noncontrolling interest for the three months ended March 31, 2011 and three months ended March 31, 2010 are as follows (in thousands):

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Discontinued Operations During 2010 the Company classified its European retail operations as discontinued operations. The Company has applied retrospective adjustments to the three months ended March 31, 2010 to reflect the effects of the discontinued operations that occurred subsequent to March 31, 2010. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. See Note 11 Discontinued Operations, for further information.

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 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. 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.

Other estimates associated with the accounting for these acquisitions and subsequent assessment of impairment of the assets may change as additional information becomes available regarding the assets acquired and liabilities assumed.

Goodwill and Other Intangible Assets Under ASC No. 350 (ASC 350), Intangibles Goodwill and Other, 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 useful lives and are subject to the provisions of ASC No. 360, Property, Plant and Equipment.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 by comparing the fair value of a reporting unit with its carrying amount. 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 shall be determined in the same manner as the amount of goodwill recognized in a business combination is determined, that is 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.

Our reporting units are the same as our 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 they each provide telecommunications services for which all of the resources and costs are drawn from the same pool, and are evaluated using the same business factors by management.

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 management 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, as well as industry and general economic data 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 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 useful lives. Such assets are subject to the impairment provisions of ASC No. 360, wherein 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 former holders of the Company s common stock prior to the effectiveness of the Reorganization Plan contingent value rights (CVRs) to receive up to an aggregate of 2,665,000 shares (the CVR Shares) of Primus 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 the as of July 1, 2009.

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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 these 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. The 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 9 Fair Value of Financial Instruments and Derivatives .

Use of Estimates The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the 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 of certain assets and liabilities, the calculation used in determining the fair value of the Company s stock options required by ASC No. 718, 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 our discontinued operations.

Newly Adopted Accounting Principles

In January 2010, an update was issued to the Fair Value Measurements and Disclosures Topic, ASC 820, Fair Value Measurements, which requires new disclosures for fair value measurements and provides clarification for existing disclosures requirements. More specifically, this update requires (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e., present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. This update was effective for the Company on January 1, 2010, except for Level 3 reconciliation disclosures which went into effect on January 1, 2011. On January 1, 2011 the Company adopted this update and did not have a material impact on the disclosures to the condensed consolidated financial statements.

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In December 2010, an update was made to the Intangibles Goodwill and Other Topic, ASC 350, ASU 2010-28, Goodwill Impairment Testing in Reporting Units with a zero or negative carrying amount which provides guidance for all entities that have recognized goodwill and have one or more reporting units whose carrying amount for purposes of performing Step 1 of the goodwill impairment test is zero or negative. The update modifies Step 1 so that for those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This update became effective for us on January 1, 2011. We do not foresee this accounting update having a material effect on our consolidated financial statements in future periods, although that could change.

On February 28, 2011, the Company adopted changes to the disclosure of pro forma information for business combinations ASU 2010-29, Business Combinations Disclosure of Supplementary Pro-Forma Information , issued by the FASB. These changes clarify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination, that occurred during the current year, had occurred as of the beginning of the comparable prior annual reporting period only. For the Company, this would be as of January 1, 2010, see Note 2 Acquisitions. Also, the existing supplemental pro forma disclosures were expanded to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings, if any. The adoption of these changes had no impact on our consolidated financial statements.

New Accounting Pronouncements

On January 1, 2011, the Company prospectively adopted the Financial Accounting Standards Board (FASB) update to revenue recognition for multiple-deliverable arrangements. The update requires the establishment of a selling price hierarchy for determining the selling price of a deliverable. The hierarchy is: vendor specific objective evidence if available, third party evidence if vendor-specific objective evidence is not available or estimated selling price if neither of the aforementioned are available. The residual method of revenue allocation is no longer permissible. We believe that this accounting standard update will not change our units of accounting for bundled arrangements, or the allocation of our products and services. We do not foresee this accounting update having a material effect on our consolidated financials in future periods, although that could change.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Generally accepted accounting principles in the United States require the Company to perform a goodwill impairment test, a two-step test, annually and more frequently when negative conditions or a triggering event arise.

On February 28, 2011 the Company acquired Arbinet for stock consideration of $50.6 million in a stock for stock transaction. See Note 2 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

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$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 expense.

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

	March 31, 2011	December 31, 2010
Trade names	$ 76,900	$ 76,200
Goodwill	$ 71,208	$ 63,731

The changes in the carrying amount of trade names and goodwill by reporting unit for the three months ended March 31, 2011 are as follows (in thousands):

Goodwill

	United States	Canada	Australia	Brazil	Total
Balance as of December 31, 2010	$29,960	$31,775	$1,950	$ 46	$63,731
Effect of change in foreign currency exchange rates		924	29	1	954
Acquisition of business	19,360	1,842			21,202
Accumulated impairment loss	(14,679)				(14,679)
Balance as of March 31, 2011	$34,641	$34,541	$1,979	$ 47	$71,208

Trade Names

	United States	Canada	Australia	Europe	Brazil	Total
Balance as of December 31, 2010	$ 76,200	$	$	$	$	$ 76,200
Acquisition of business	700					700
Balance as of March 31, 2011	$ 76,900	$	$	$	$	$ 76,900

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

	March 31, 2011			December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trade names	$ 4,093	$ (611)	$ 3,482	$ 4,083	$ (593)	$ 3,490
Customer relationships	110,979	(42,145)	68,834	104,553	(36,494)	68,059
Total	$ 115,072	$ (42,756)	$ 72,316	$ 108,636	$ (37,087)	$ 71,549

Amortization expense for trade names and customer relationships for the three months ended March 31, 2011 and 2010 was $4.7 million and $5.4 million, respectively.

The Company expects amortization expense for trade names and customer relationships for the remainder of 2011, the years ended December 31, 2012, 2013, 2014, 2015, and thereafter to be approximately $15.2 million, $13.7 million, $10.1 million, $7.2 million, $5.5 million and $20.6 million, respectively.

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5. LONG-TERM OBLIGATIONS

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

	March 31, 2011	December 31, 2010
Obligations under capital leases and other	$ 1,597	$ 1,667
Senior Secured Notes	130,000	130,000
Senior Subordinated Secured Notes	114,015	114,015
Subtotal	$ 245,612	$ 245,682
Original issue discount on Senior Secured Notes	(1,760)	(1,791)
Subtotal	$ 243,852	$ 243,891
Less: Current portion of long-term obligations	(1,172)	(1,143)
Total long-term obligations	$ 242,680	$ 242,748

The following table reflects the contractual payments of principal and interest for the Company s long-term obligations as of March 31, 2011 as follows:

Year Ending December 31,	Capital Leases and Other	13% Senior Secured Notes	14¼% Senior Subordinated Secured Notes	Total
2011 (as of March 31, 2011)	$ 1,012	$ 16,900	$ 16,247	$ 34,159
2012	432	16,900	16,247	33,579
2013	216	16,900	122,139	139,255
2014	20	16,900		16,920
2015		16,900		16,900
Thereafter		146,947		146,947
Total minimum principal & interest payments	1,680	231,447	154,633	387,760
Less: Amount representing interest	(83)	(101,447)	(40,618)	(142,148)
Total long-term obligations	$ 1,597	$ 130,000	$ 114,015	$ 245,612

6. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments under capital leases and other purchase obligations and non-cancellable operating leases as of March 31, 2011 are as follows (in thousands):

Year Ending December 31,	Capital Leases and Other	Purchase Obligations	Operating Leases
2011 (as of March 31, 2011)	$ 1,012	$ 25,558	$ 14,612
2012	432	8,138	17,469
2013	216	3,162	14,271
2014	20	1,162	10,019
2015		54	7,942
Thereafter			19,835
Total minimum lease payments	1,680	38,074	84,148
Less: amount representing interest	(83)		
	$ 1,597	$ 38,074	$ 84,148

The Company has contractual obligations to utilize an external vendor for certain customer support functions and to utilize network facilities from certain carriers with terms greater than one year. Generally, the Company does not purchase or commit to purchase quantities in excess of normal usage or amounts that cannot be used within the contract term or at rates below or above market value. The Company made purchases under purchase commitments of $8.6 million and $7.0 million for the three months ended March 31, 2011 and 2010, respectively.

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The Company s rent expense under operating leases was $4.2 million and $3.8 million for the three month s ended March 31, 2011 and 2010, respectively.

Litigation

Legal Proceedings

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 favorable to the Company or its subsidiary or that the resolution of such matter will not have a material adverse effect upon the Company s business, 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, consolidated financial position, results of operations or cash flow.

7. SHARE BASED COMPENSATION

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.

The Company typically issues new shares of common stock upon the exercise of stock options, as opposed to using treasury shares.

The Company uses a Black-Scholes option valuation model to determine the fair value of share-based compensation under the accounting guidance. The Black-Scholes model incorporates various assumptions including the expected term of awards, volatility of stock price, risk-free rates of return and dividend yield. The expected term of an award is no less than the award vesting period and is based on the Company s historical experience. Expected volatilities are based on historical realized volatility of the stock of the Company and guideline companies. The risk-free interest rate is approximated using rates available on U.S. Treasury securities in effect at the time of grant with a remaining term similar to the award s expected life. The Company uses a dividend yield of zero in the Black-Scholes option valuation model as it does not anticipate paying cash dividends in the foreseeable future.

No options were granted during the three months ended March 31, 2011 and 2010. The fair value of each option grant would have been estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions shown as a weighted average for the year:

	Three Months Ended March 31,	
	2011	2010
Expected option lives	4 Years	4 Years
Risk-free interest rates	3.1%	2.0%
Expected volatility	52%	42%
Dividend yield	0.0%	0.0%

Total share-based compensation expense recognized by the Company in the three months ended March 31, 2011 and 2010 was, $1.1 million and $0.1 million, respectively. Most of the Company s stock options vest ratably during the vesting period. The Company recognizes compensation expense for options using the straight-line basis, reduced by estimated forfeitures.

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

At the closing of the acquisition of Arbinet on February 28, 2011, the Company reserved approximately 95,000 additional shares of its common stock for issuance in connection with its assumption of Arbinet s outstanding options, warrants, stock appreciation rights and restricted stock units. As of March 31, 2011, 208 shares were reserved for warrants to purchase common stock. These warrants are exercisable at $34.32 per share and will expire in 2012. Also as of March 31, 2011, there were 8,330 RSUs outstanding from the amounts originally assumed by Primus.

Restricted Stock Units (RSUs)

On March 11, 2011, the Company granted 28,891 RSU s at a market price of $14.73. Under the terms of the award, the RSUs would vest in thirds beginning immediately, then on December 31, 2011, and lastly on December 31, 2012. As of March 31, 2011, the Company had 0.3 million unvested RSU s outstanding of which $1.9 million of compensation expense is expected to be recognized over the weighted average remaining period of 1.28 years. The number of unvested RSU s expected to vest is 0.3 million.

Stock Options and Stock Appreciation Rights

A summary of the Company s stock option and stock appreciation rights activity during the three months ended March 31, 2011 is as follows:

	Three Months Ended March 31, 2011	
	Shares	Weighted Average Exercise Price
Outstanding December 31, 2010	185,300	$ 11.34
Granted		$
Exercised	(29,761)	$ 12.20
Forfeitures		$
Arbinet merger	87,195	$ 14.99
Outstanding March 31, 2011	242,734	$ 12.54

Eligible for exercise	185,675	$ 13.08

The following table summarizes information about the Company s stock options and stock appreciation rights outstanding at March 31, 2011:

As of March 31, 2011, the Company had 0.1 million unvested awards outstanding of which $0.2 million of compensation expense is expected to be recognized over the weighted average remaining period of 1.42 years. The number of unvested awards expected to vest is 0.1 million shares, with a weighted average remaining life of 8.61 years, a weighted average exercise price of $12.32, and an intrinsic value of $0.4 million.

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8. INCOME TAXES

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

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

Jurisdiction	Open Tax Years
United States Federal	2002 2010
Australia	2002 2010
Canada	2004 2010
United Kingdom	2004 2010
Netherlands	2007 2010

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

The Company adopted the provisions of ASC No. 740, Income Taxes, on January 1, 2007. It is expected that the amount of unrecognized tax benefits, reflected in the Company s financial statements, will change in the next twelve months; however, the Company does not expect the change to have a significant impact on the results of operations or the financial position of the Company. During the three months ended March 31, 2011, the Company recorded $0.1 million of penalties and interest. As of March 31, 2011, the gross unrecognized tax benefit on the balance sheet was $88.4 million.

Pursuant to Section 382 of the Internal Revenue Code, 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 the Schedule 13D and Schedule 13G filings concerning Company securities, as filed with the United States Securities and Exchange Commission. 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.

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9. FAIR VALUE OF FINANCIAL INSTRUMENTS AND DERIVATIVES

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate fair value due to relatively short periods to maturity. The estimated aggregate fair value of the Company s 13% Senior Secured Notes and 14¼% Senior Subordinated Secured Notes, based on quoted market prices, was $247.8 million at December 31, 2010.

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

	March 31, 2011	Fair Value as of March 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)	23,483		23,483	
Total	$ 23,483		$ 23,483	

	December 31, 2010	Fair Value as of December 31, 2010, using: Quoted prices in Active Markets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

		for Identical Assets (Level 1)
Liabilities:		
Contingent Value Rights (CVR)	$ 19,098	$ 19,098
Total	$ 19,098	$ 19,098

The CVRs are marked to fair value at each balance sheet date. The change in value is reflected in our condensed consolidated statements of operation. Estimates of fair value represent the Company s best estimates based on a Black-Scholes pricing model. During the three months ended March 31, 2011, $4.4 million of expense was recognized as a result of marking the CVRs to their fair value. During the three months ended March 31, 2010, $2.0 million of expense was recognized as a result of marking the CVRs to their fair value.

10. OPERATING SEGMENT AND RELATED INFORMATION

The Company has six reportable operating segments based on management s organization of the enterprise United States, Canada, Europe, Australia, Brazil and the International Carrier Services (ICS) business from the United States and Europe, which is managed as a separate global segment, into which Arbinet will be integrated. The Company evaluates the performance of its segments and allocates resources to them based upon net revenue and income (loss) from operations. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Net revenue by geographic segment is reported on the basis of where services are provided. The Company has no single customer representing greater than 10% of its revenues. 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 ICS business are indistinguishable from the respective geographic segments. Therefore, any reporting related to the ICS business for assets, capital expenditures or other balance sheet items is impractical.

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net Revenue by Geographic Region		
United States	$ 39,550	$ 27,380
Canada	60,836	57,476
Australia	71,926	69,898
Europe	44,640	32,993
Brazil	6,771	5,270
Total	$ 223,723	$ 193,017
Net Revenue by Segment		
United States	$ 11,183	$ 13,866
Canada	60,836	57,476
Australia	71,910	69,898
International Carrier Services	73,023	46,507
Brazil	6,771	5,270
Total	$ 223,723	$ 193,017
Provision for Doubtful Accounts Receivable		
United States	$ 486	$ 531
Canada	813	845
Australia	697	737
International Carrier Services	166	(490)
Brazil	107	83
Total	$ 2,269	$ 1,706
Income (Loss) from Operations		
United States	$ 415	$ (791)
Canada	4,527	2,942
Australia	3,719	3,794
International Carrier Services	(16,577)	851
Brazil	325	322
Total From Operating Segments	(7,591)	7,118

Corporate	(4,747)	(4,089)
Total	$ (12,338)	$ 3,029
Capital Expenditures		
United States	$ 232	$ 191
Canada	2,589	2,225
Europe		83
Australia	3,052	2,274
International Carrier Services	276	
Brazil	224	140
Total	$ 6,373	$ 4,913

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

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	March 31, 2011	December 31, 2010
Property and Equipment Net		
United States	$ 24,429	$ 8,039
Canada	56,796	56,476
Europe	3,764	1,650
Australia	70,413	70,357
Brazil	2,117	1,966
Total	$ 157,519	$ 138,488

	March 31, 2011	December 31, 2010
Assets		
United States	$ 160,630	$ 107,298
Canada	210,778	206,310
Europe	57,067	52,278
Australia	146,015	137,717
Brazil	11,705	10,856
Total	$ 586,195	$ 514,459

The Company offers four main products retail voice, ICS, Data/Internet and retail VoIP. Net revenue information with respect to the Company s products is as follows (in thousands):

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Retail voice	$ 91,708	$ 90,933
International carrier services	73,023	46,507
Data/Internet	50,901	46,863
Retail VoIP	8,091	8,714
Total	$ 223,723	$ 193,017

11. DISCONTINUED OPERATIONS

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

During the third quarter 2010, the Company committed to dispose of and began actively soliciting the disposition of its Europe segment, also known as the Company s remaining European retail operations. The Company sold its Belgian operations, to Webcetra BVBA, for a sale price of approximately $1.3 million during the third quarter and as a result, recorded a $40 thousand gain from the sale. In October 2010 the Company completed the sale of its United Kingdom retail operations customer base and certain of its assets to NewCall Telecom Ltd., for a sale price of approximately $6.8 million including a note receivable of $2.1 million, and completed the sale of its Italian retail operations customer base for approximately $0.2 million; as a result the Company recorded gain of $2.4 million and loss of $0.3 million, respectively, from the sale of these assets. The Company sold its operations located in France, to AFone, during December 2010 for a sale price of approximately $4.0 million. In addition, AFone assumed all of the existing liabilities of the France operations. Consequently the Company recognized a gain from the sale of these operations of approximately $0.9 million. Consideration received from the sale of the France operations included a note receivable of $1.3 million.

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net revenue	$ 18	$ 12,764
Operating expenses	323	13,424
Income (loss) from operations	(305)	(660)
Interest expense		(11)
Interest income and other income	335	2
Foreign currency transaction gain (loss)	(10)	152
Income (loss) before income tax	20	(517)
Income tax expense		(172)
Income (loss) from discontinued operations	$ 20	$ (689)

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

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

Potentially dilutive common shares for the Company include the dilutive effects of common shares issuable under our Management Compensation Plan, as amended, including stock options and RSUs, using the treasury stock method, as well as stock warrants and CVRs.

The Company had no dilutive common share equivalents during the three months ended March 31, 2011, due to the results of operations being a net loss. For the three months ended March 31, 2011, the following were potentially dilutive but were excluded from the calculation of diluted loss per common share due to their antidilutive effect:

0.7 million shares issuable upon exercise of stock options and RSUs,
4.5 million shares issuable upon exercise of stock warrants, and
2.7 million shares issuable upon exercise of CVRs.

For the three months ended March 31, 2010, the following could potentially dilute income per common share in the future but was excluded from the calculation of diluted loss per common share due to their antidilutive effect:

- 0.6 million shares issuable upon exercise of stock options and RSUs,
- 4.5 million shares issuable upon exercise of stock warrants, and
- 2.7 million shares issuable upon exercise of CVRs.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Income (loss) from continuing operations	$ (19,275)	$ (310)
Income (loss) from discontinued operations, net of tax	20	(689)
Net income (loss) attributable to common stockholders basic and diluted	(19,255)	(999)
Weighted average common shares outstanding basic and diluted	11,148	9,645
Basic and diluted income (loss) per common share:		
Income (loss) from continuing operations attributable to common stockholders	$ (1.73)	$ (0.03)
Income (loss) from discontinued operations		(0.07)
Net income (loss) attributable to common stockholders	$ (1.73)	$ (0.10)

13. GUARANTOR/NON-GUARANTOR CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The 14¼% Senior Subordinated Secured Notes of Primus Telecommunications IHC, Inc. (IHC) were fully, unconditionally, jointly and severally guaranteed by Primus Telecommunications Group, Incorporated (Group) on a senior basis and by Primus Telecommunications Holding Inc (Holding), Primus Telecommunications, Inc., TresCom International Inc., Least Cost Routing, Inc., TresCom U.S.A., Inc., iPRIMUS USA, Inc., and iPRIMUS.com, Inc., all 100% indirectly owned subsidiaries of the Company. The Company has a 100% ownership in Holding and no direct subsidiaries other than Holding.

On July 1, 2009, IHC, each of the other guarantors and U.S. Bank National Association, as collateral agent, entered into a First Amendment to the Collateral Agreement (the Amended Collateral Agreement), to provide that the obligations of both IHC and Primus Telecommunications International, Inc. (PTII), an indirect wholly owned subsidiary of the Company, were secured by PTII s assets, including 65% of the voting stock of foreign subsidiaries owned by PTII. In addition, on July 1, 2009, Group and Holding entered into an Assumption Agreement in favor of U.S. Bank National Association, as collateral agent, pursuant to which each of Group and Holding became party to the Amended Collateral Agreement. As a result, Group and Holding s existing guarantees of the 14¼% Senior Subordinated Secured Notes are secured by a lien on the property of Group and Holding, respectively.

Accordingly, the following consolidating condensed financial information for the three months ended March 31, 2011 and the three months ended March 31, 2010 are included for (a) Group on a stand-alone basis; (b) IHC on a stand-alone basis; (c) the Other Guarantors on a combined basis; (d) Group s indirect non-guarantor subsidiaries on a combined basis and (e) the Company on a consolidated basis. On February 28, 2011, the Company completed its merger with Arbinet. The quarter ended March 31, 2011 includes one month of activity for Arbinet which is included in the non-guarantor subsidiaries on a combined basis. The guarantees of the U.S. Arbinet subsidiaries were perfected in April 2011.

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

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (in thousands)

	For the Three Months Ended March 31, 2011					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$		$ 25,712	$ 198,011	$	$ 223,723
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			21,531	130,725		152,256
Selling, general and administrative	889		7,883	45,180		53,952
Depreciation and amortization			1,053	14,068		15,121
Loss on sale or disposal of assets				53		53
Goodwill impairment				14,679		14,679
Total operating expenses	889		30,467	204,705		236,061
LOSS FROM OPERATIONS	(889)		(4,755)	(6,694)		(12,338)
INTEREST EXPENSE		(4,062)	(2,935)	(1,696)		(8,693)
ACCRETION (AMORTIZATION) ON DEBT PREMIUM/DISCOUNT, net			(32)	(18)		(50)
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(4,384)					(4,384)
INTEREST INCOME AND OTHER INCOME (EXPENSE), net				(55)		(55)
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)		1,367		2,681		4,048
INTERCOMPANY INTEREST	(176)	3,814	(2,380)	(1,258)		

MANAGEMENT FEE			1,753	(1,753)		
ROYALTY FEE		3,447		(3,447)		
INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES	(5,449)	4,566	(8,349)	(12,240)		(21,472)
INCOME TAX BENEFIT (EXPENSE)	96	(243)	(292)	1,269		830
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(5,353)	4,323	(8,641)	(10,971)		(20,642)
EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(13,902)		(5,261)		19,163	
INCOME (LOSS) FROM CONTINUING OPERATIONS	(19,255)	4,323	(13,902)	(10,971)	19,163	(20,642)
INCOME FROM DISCONTINUED OPERATIONS, net of tax				20		20
NET INCOME (LOSS)	(19,255)	4,323	(13,902)	(10,951)	19,163	(20,622)
Less: Net loss attributable to the noncontrolling interest				1,367		1,367
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$(19,255)	$4,323	$(13,902)	$(9,584)	$19,163	$(19,255)
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income (loss) from continuing operations, net of tax	$(19,255)	$4,323	$(13,902)	$(9,604)	$19,163	$(19,275)
Income (loss) from discontinued operations				20		20
Net income (loss)	$(19,255)	$4,323	$(13,902)	$(9,584)	$19,163	$(19,255)

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (in thousands)

	For the Three Months Ended March 31, 2010					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$	$	$ 22,036	$ 170,981	$	$ 193,017
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			16,909	105,082		121,991
Selling, general and administrative	860	5	9,085	40,168		50,118
Depreciation and amortization			1,534	16,335		17,869
Loss on sale or disposal of assets				10		10
Total operating expenses	860	5	27,528	161,595		189,988
INCOME (LOSS) FROM OPERATIONS	(860)	(5)	(5,492)	9,386		3,029
INTEREST EXPENSE		(4,399)	(3,018)	(1,909)		(9,326)
ACCRETION (AMORTIZATION) ON DEBT PREMIUM/DISCOUNT, net			(28)	(16)		(44)
LOSS FROM CONTINGENT VALUE RIGHTS VALUATION	(2,031)					(2,031)
INTEREST INCOME AND OTHER INCOME (EXPENSE), net			1	197		198
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)		1,476	(4)	4,357		5,829
INTERCOMPANY INTEREST	(313)	3,847	(2,503)	(1,031)		
MANAGEMENT FEE			1,590	(1,590)		
ROYALTY FEE		3,307		(3,307)		
INCOME (LOSS) BEFORE	(3,204)	4,226	(9,454)	6,087		(2,345)

REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES						
REORGANIZATION ITEMS NET	1					1
INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES	(3,203)	4,226	(9,454)	6,087		(2,344)
INCOME TAX BENEFIT (EXPENSE)		(229)	(430)	2,829		2,170
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(3,203)	3,997	(9,884)	8,916		(174)
EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	2,204		12,088			

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