PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-Q
May 10, 2013

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 March 31, 2013

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)

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

(703) 902-2800

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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	x
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 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 ¨

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, 2013**
Common Stock, $0.001 par value	13,953,971

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

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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, 2013	Three Months Ended March 31, 2012
NET REVENUE	$ 60,883	$ 68,002
OPERATING EXPENSES		
Cost of revenue (exclusive of depreciation included below)	29,470	33,505
Selling, general and administrative	22,575	27,156
Depreciation and amortization	6,600	7,597
(Gain) loss on sale or disposal of assets		43
Total operating expenses	58,645	68,301
INCOME (LOSS) FROM OPERATIONS	2,238	(299)
INTEREST EXPENSE	(4,216)	(6,879)
ACCRETION (AMORTIZATION) ON DEBT PREMIUM/DISCOUNT, net	(32)	(57)
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	112	(7,190)
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	18	4
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	1	1,951
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(1,879)	(12,470)
INCOME TAX BENEFIT (EXPENSE)	(50)	1,106
INCOME (LOSS) FROM CONTINUING OPERATIONS	(1,929)	(11,364)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(1,283)	4,612
NET INCOME (LOSS)	(3,212)	(6,752)
Less: Net (income) loss attributable to the noncontrolling interest		(106)
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (3,212)	$ (6,858)
BASIC INCOME (LOSS) PER COMMON SHARE:		
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (0.14)	$ (0.84)
Income (loss) from discontinued operations	(0.09)	0.34
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (0.23)	$ (0.50)
DILUTED INCOME (LOSS) PER COMMON SHARE:		
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (0.14)	$ (0.84)
Income (loss) from discontinued operations	(0.09)	0.34
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (0.23)	$ (0.50)

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic		13,909		13,744
Diluted		13,909		13,744
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED				
Income (loss) from continuing operations, net of tax	$	(1,929)	$	(11,470)
Income (loss) from discontinued operations, net of tax		(1,283)		4,612
Net income (loss)	$	(3,212)	$	(6,858)

See notes to condensed consolidated financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(UNAUDITED)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
NET INCOME (LOSS)	$ (3,212)	$ (6,752)
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation adjustment	(2,320)	1,190
COMPREHENSIVE INCOME (LOSS)	(5,532)	(5,562)
Less: Comprehensive (income) loss attributable to the noncontrolling interest		(302)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (5,532)	$ (5,864)

See notes to condensed consolidated financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

(UNAUDITED)

	March 31, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 13,844	$ 23,197
Accounts receivable (net of allowance for doubtful accounts receivable of $1,558 and $1,771 at March 31, 2013 and December 31, 2012, respectively)	18,565	17,871
Prepaid expenses and other current assets	5,372	5,792
Assets held for sale	39,284	40,066
Total current assets	77,065	86,926
RESTRICTED CASH	832	848
PROPERTY AND EQUIPMENT Net	66,198	65,315
GOODWILL	60,085	60,744
OTHER INTANGIBLE ASSETS Net	60,265	63,024
OTHER ASSETS	23,343	24,333
TOTAL ASSETS	$ 287,788	$ 301,190
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 14,217	$ 12,218
Accrued interconnection costs	2,131	2,992
Deferred revenue	8,293	8,821
Accrued expenses and other current liabilities	14,524	20,565
Accrued income taxes	7,701	7,741
Accrued interest	4,926	1,716
Current portion of long-term obligations	54	66
Liabilities held for sale	18,840	24,304
Total current liabilities	70,686	78,423
LONG-TERM OBLIGATIONS	127,069	127,046
DEFERRED TAX LIABILITY	11,194	11,367
CONTINGENT VALUE RIGHTS	14,792	14,904
OTHER LIABILITIES	948	947
Total liabilities	224,689	232,687
COMMITMENTS AND CONTINGENCIES (See Note 5)		
STOCKHOLDERS EQUITY:		
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; 13,938,574 and 13,965,155 shares issued and 13,906,948 and 13,933,529 shares outstanding at March 31, 2013 and December 31, 2012, respectively	14	14
Additional paid-in capital	98,662	98,534
Accumulated deficit	(26,410)	(23,198)
Treasury stock, at cost 31,626 shares at March 31, 2013 and December 31, 2012, respectively	(378)	(378)
Accumulated other comprehensive loss	(8,789)	(6,469)
Total stockholders equity	63,099	68,503

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 287,788	$ 301,190

See notes to condensed consolidated financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(in thousands)

(UNAUDITED)

		Common Stock					
	Total	Shares	Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)
Balance as of December 31, 2012	$ 68,503	13,934	$ 14	$ 98,534	$ (378)	$ (23,198)	$ (6,469)
Share-based compensation expense	523			523			
Proceeds from sale of common stock, net		9					
Taxes paid in lieu of shares issued for share-based compensation	(395)	(36)		(395)			
Net income (loss)	(3,212)					(3,212)	
Foreign currency translation adjustment	(2,320)						(2,320)
Balance as of March 31, 2013	$ 63,099	13,907	$ 14	$ 98,662	$ (378)	$ (26,410)	$ (8,789)

See notes to condensed consolidated financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(UNAUDITED)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (3,212)	$ (6,752)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for doubtful accounts receivable	736	1,344
Share-based compensation expense	523	1,702
Depreciation and amortization	6,600	14,521
(Gain) loss on sale or disposal of assets	(5)	864
(Accretion) amortization of debt premium/discount, net	32	57
Change in fair value of Contingent Value Rights	(112)	7,190
Deferred income taxes	(156)	1,158
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	186	(4,831)
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	(2,166)	10,152
(Increase) decrease in prepaid expenses and other current assets	1,019	(1,575)
(Increase) decrease in other assets	967	2,007
Increase (decrease) in accounts payable	(1,028)	(4,735)
Increase (decrease) in accrued interconnection costs	(1,698)	(754)
Increase (decrease) in accrued expenses, deferred revenue, other current liabilities and other liabilities, net	(6,374)	(4,528)
Increase (decrease) in accrued income taxes	94	(3,033)
Increase (decrease) in accrued interest	3,210	5,241
Net cash provided by (used in) operating activities	(1,384)	18,028
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(6,517)	(8,111)
Sale of property and equipment and other assets	5	
Cash acquired from business acquisitions, net of cash paid	(397)	(1,333)
(Increase) decrease in restricted cash		(85)
Net cash used in investing activities	(6,909)	(9,529)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term obligations	(80)	(1,823)
Payment of fees on restructuring of debt		(1,976)
Proceeds from sale of common stock, net		30
Payment of dividend equivalents	(394)	
Taxes paid in lieu of shares issued for share-based compensation	(395)	(92)
Net cash used in financing activities	(869)	(3,861)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(191)	491

NET CHANGE IN CASH AND CASH EQUIVALENTS		(9,353)		5,129
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		23,197		41,052
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	13,844	$	46,181
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest	$	52	$	1,000
Cash paid for taxes	$	125	$	2,225
Non-cash investing and financing activities:				
Capital lease additions	$	148	$	

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 (PTGi and, together with its subsidiaries, the Company, we and our) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 U.S. GAAP 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, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

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 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 Annual Report on Form 10-K.

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. Prior to July 31, 2012, the Company owned 45.6% of Globility Communications Corporation (Globility) through direct and indirect ownership structures. As a result of changes to the Telecommunications Act in Canada, the Company is no longer restricted by Canadian foreign ownership laws. Given these changes, Primus Telecommunications International, Inc. (PTII) purchased the remaining 54.4% of Globility on July 31, 2012. Prior to the purchase of the remaining 54.4%, 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 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 months ended March 31, 2012 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 sheets as of March 31, 2013 and December 31, 2012. See Note 11 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^{st}) 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 s 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; i.e., 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 also may utilize the provisions of Accounting Standards Update (ASU) No. 2011-08, Testing Goodwill for Impairment (ASU 2011-08), which allows the Company to use 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.

The Company s reporting units in 2011 were Australia, Canada and US/ICS. In May 2012, the Australian reporting unit was sold, and the reporting units were Canada and US/ICS. Subsequent to classifying ICS as a discontinued operation in the second quarter of 2012, the remaining reporting units are Canada and US.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

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 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, 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.

In addition to the foregoing, the Company reviews its goodwill and intangible assets for possible impairment whenever events or circumstances indicate that the carrying amounts of assets may not be recoverable. The factors that the Company considers important, and which could trigger an impairment review, include, but are not limited to: a significant decline in the market value of our common stock or debt securities for a sustained period; a material adverse change in economic, financial market, industry or sector trends; a material failure to achieve operating results relative to historical levels or projected future levels; and significant changes in operations or business strategy.

The current carrying values by reporting unit of the goodwill and other indefinite-lived intangible assets are disclosed in Note 3 Goodwill and Other Intangible Assets.

Valuation of Long-lived Assets (Held for Sale) In conjunction with the Company s commitment to dispose of its ICS business, it classified the net assets of ICS as held for sale and is required to measure them at the lower of carrying value or fair value less costs to sell.

The Company makes significant assumptions and estimates in the process of determining fair value regarding matters that are inherently uncertain, such as estimating future cash flows, discount rates and growth rates. The resulting cash flows are projected over an extended period of time, which subjects those assumptions and estimates to an even larger degree of uncertainty. While the Company believes that its estimates are reasonable, different assumptions could materially affect the valuation of the net assets of ICS.

The current year analysis of carrying value and fair value less costs to sell is disclosed in Note 11 Discontinued Operations.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

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 shares of Company common stock (subject to adjustment, the CVR Shares) in an original aggregate amount of up to 2,665,000 shares. 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 Dividends discussed in Note 7 Stockholders Equity, antidilution provisions in the CVR Agreement were triggered and the maximum aggregate number of CVR Shares issuable with respect to the CVRs was adjusted upward from 2,665,000 shares to 3,657,157 shares while the strike price with respect to the CVRs was adjusted downward from $35.95 to $26.20.

Due to the nature of the CVRs, the Company accounted for the instrument in accordance with ASC No. 815, Derivatives and Hedging (ASC 815), 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 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 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 PTGi s common stock price trends; in general, as the value of PTGi 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 PTGi s common stock decreases, the estimated fair value of the CVRs also decreases and as a result the Company recognizes 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 condensed consolidated financial statements in conformity with U.S. GAAP 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 PTGi s stock options required by ASC No. 718, Compensation Stock Compensation (ASC 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 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 and subsequent impairment assessment of goodwill, 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 BLACKIRON Data operating segment were reclassified to cost of revenue as part of the Company s new operating segment structure discussed in Note 10 Operating Segment and Related Information.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

Newly Adopted Accounting Principles

In February 2013, an update was issued to the Comprehensive Income Topic No. 220, ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires entities to disclose additional information about items reclassified out of accumulated other comprehensive income (AOCI). ASU 2013-02 does not change the current U.S. GAAP requirements, for either public or nonpublic entities, for interim financial statement reporting of comprehensive income. That is, a total for comprehensive income must be reported in condensed interim financial statements in either (1) a single continuous statement or (2) two separate but consecutive statements. Entities should disclose the changes in AOCI balances by component. Both before-tax and net-of-tax presentations of the information are acceptable as long as an entity presents the income tax benefit or expense attributed to each component of other comprehensive income and reclassification adjustments in either the financial statements or the notes to the financial statements. Entities should also disclose significant items reclassified out of AOCI by component either on the face of the income statement or as a separate footnote to the financial statements. On January 1, 2013, the Company adopted this update, which did not have a material impact on the condensed consolidated financial statements.

In January 2013, an update was issued to the Balance Sheet Topic ASC No. 210 to clarify the scope of the offsetting disclosure requirements of ASU 2011-11, Disclosures about Offsetting Assets and Liabilities. Under ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, the disclosure requirements would apply to derivative instruments accounted for in accordance with ASC 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending arrangements that are either offset on the balance sheet or subject to an enforceable master netting arrangement or similar agreement. On January 1, 2013, the Company adopted this update, which did not have a material impact on the condensed consolidated financial statements. Retrospective application is required for all comparative periods presented.

In July 2012, an update was issued to the Intangibles Goodwill and Other Topic ASC No. 350, ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment, which provides guidance to all entities, both public and nonpublic, that have indefinite-lived intangible assets, other than goodwill, reported in their financial statements. Under the amendments in this update, an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. An entity has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. On January 1, 2013, the Company adopted this update, which did not have a material impact on the condensed consolidated financial statements.

In December 2011, an update was issued to the Balance Sheet Topic ASC No. 210, ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, which contains new disclosure requirements regarding the nature of an entity s right of setoff and related arrangements associated with its financial instruments and derivative instruments. The new disclosures are designed to make financial statements that are prepared under U.S. GAAP more comparable to those prepared under International Financial Reporting Standards (IFRSs). Generally, it is more difficult to qualify for offsetting under IFRSs than it is under U.S. GAAP because under U.S. GAAP certain derivative and repurchase agreement arrangements are granted exceptions from the general

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

offsetting model. As a result, entities with significant financial instrument and derivative portfolios that report under IFRSs typically present positions on their balance sheets that are significantly larger than those of entities with similarly sized portfolios whose financial statements are prepared in accordance with U.S. GAAP. To facilitate comparison between financial statements prepared under U.S. GAAP and IFRSs, the new disclosures will give financial statement users information about both gross and net exposures. On January 1, 2013, the Company adopted this update, which did not have a material impact on the condensed consolidated financial statements.

New Accounting Pronouncements

In March 2013, an update was issued to the Foreign Currency Matters Topic No. 830, ASU 2013-05, Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity, which indicates that the entire amount of a cumulative translation adjustment related to an entity s investment in a foreign entity should be released when there has been a (1) sale of a subsidiary or group of net assets within a foreign entity and the sale represents the substantially complete liquidation of the investment in the foreign entity; (2) loss of a controlling financial interest in an investment in a foreign entity; or (3) step acquisition for a foreign entity. Early adoption is permitted and this accounting update should be applied prospectively from the beginning of the fiscal year of adoption. The Company s effective date for adoption is January 1, 2014. The Company does not foresee this accounting update having a material effect on its condensed consolidated financial statements in future periods, although that could change.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	March 31, 2013	December 31, 2012
Goodwill	$ 60,085	$ 60,744
Trade names	$ 27,000	$ 27,000

Goodwill

The changes in the carrying amount of goodwill by reporting unit for the three months ended March 31, 2013 are as follows (in thousands):

	United States	Canada	Total
Balance as of December 31, 2012	$ 26,582	$ 34,162	$ 60,744
Effect of change in foreign currency exchange rates		(659)	(659)
Balance as of March 31, 2013	$ 26,582	$ 33,503	$ 60,085

Trade Names

There was no change in the carrying amount of trade names by reporting unit for the three months ended March 31, 2013.

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Amortizable Intangible Assets

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

	March 31, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trade names	$ 3,500	$ (1,226)	$ 2,274	$ 3,500	$ (1,140)	$ 2,360
Customer relationships	92,405	(61,414)	30,991	94,142	(60,478)	33,664
Total	$ 95,905	$ (62,640)	$ 33,265	$ 97,642	$ (61,618)	$ 36,024

Amortization expense for trade names and customer relationships for the three months ended March 31, 2013 was $2.1 million compared to $2.8 million for the three months ended March 31, 2012.

The Company expects amortization expense for trade names and customer relationships for the remainder of 2013, the years ending December 31, 2014, 2015, 2016, 2017 and thereafter to be approximately $6.2 million, $6.1 million, $4.6 million, $3.6 million, $2.8 million and $10.0 million, respectively.

4. LONG-TERM OBLIGATIONS

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

	March 31, 2013	December 31, 2012
Obligations under capital leases and other	$ 80	$ 101
13% Senior Secured Notes due 2016	2,403	2,403
10% Senior Secured Notes due 2017	12,692	12,692
10% Senior Secured Exchange Notes due 2017	112,587	112,587
Subtotal	$ 127,762	$ 127,783
Original issue discount on Senior Secured Notes	(639)	(671)
Subtotal	$ 127,123	$ 127,112
Less: Current portion of long-term obligations	(54)	(66)
Total long-term obligations	$ 127,069	$ 127,046

The following table reflects the contractual payments of principal and interest for the Company s long-term obligations as of March 31, 2013:

Year Ending December 31,	Total

	Capital Leases and Other	13% Senior Secured Notes due 2016	10% Senior Secured Notes due 2017	10% Senior Secured Exchange Notes due 2017	
2013 (as of March 31, 2013)	$ 51	$ 312	$ 1,269	$ 10,383	$ 12,015
2014	30	312	1,269	11,259	12,870
2015	6	312	1,269	11,259	12,846
2016		2,716	1,269	11,259	15,244
2017			13,327	118,217	131,544
Thereafter					
Total minimum principal & interest payments	87	3,652	18,403	162,377	184,519
Less: Amount representing interest	(7)	(1,249)	(5,711)	(49,790)	(56,757)
Total long-term obligations	$ 80	$ 2,403	$ 12,692	$ 112,587	$ 127,762

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13% Senior Secured Notes due 2016

As of March 31, 2013, there was outstanding $2.4 million in aggregate principal amount of the 13% Senior Secured Notes due 2016 (the 13% Notes) issued by Primus Telecommunications Holding, Inc. (PTHI) and Primus Telecommunications Canada Inc. (PTCI), each of which is a wholly owned subsidiary of PTGi. 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.

10% Senior Secured Notes due 2017 and 10% Senior Secured Exchange Notes due 2017

Exchange Offers and Consent Solicitation; Issuance of the 10% Notes

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% Notes issued by PTHI and PTCI and the 14 $^1/_4$% Senior Subordinated Secured Notes due 2013 (the 14$^1/_4$% Notes) issued by Primus Telecommunications IHC, Inc., (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, PTHI issued $240.2 million in aggregate principal amount of the 10% Senior Secured Notes due 2017 (the 10% Notes) under that certain indenture, dated as of July 7, 2011 (as amended or supplemented from time to time, the 10% Notes Indenture), by and among PTHI, each of the Guarantors party thereto and U.S. Bank National Association, as Trustee and Collateral Trustee. An aggregate of $228.6 million in principal amount of 10% Notes was issued pursuant to the Exchange Offers, and PTHI issued an additional $11.6 million in 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 statements 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 PTHI and the guarantors of the 10% Notes, including PTGi (the Guarantors), including a first-priority pledge of all of the capital stock held by PTHI, the Guarantors and each subsidiary of PTGi 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 PTGi 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 PTHI and the Guarantors. The 10% Notes rank equal in right of payment with all existing and future senior indebtedness of PTHI and the Guarantors. The 10% Notes rank junior to any priority lien obligations entered into by PTHI or the Guarantors in accordance with the 10% Notes Indenture.

Prior to March 15, 2013, PTHI could 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, PTHI could 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, PTHI 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.

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Upon the occurrence of certain Changes of Control (as defined in the 10% Notes Indenture) with respect to the Company, PTHI must give holders of the 10% Notes an opportunity to sell their 10% Notes to PTHI at a purchase price of 100% of the principal amount of such 10% Notes, plus accrued and unpaid interest, if any, to the date of purchase. If PTGi 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, PTHI 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 PTGi and its restricted subsidiaries to, among other things: (i) incur additional indebtedness; (ii) pay dividends on, repurchase or make distributions in respect of PTGi 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.

Repurchases of 10% Notes

On September 17, 2012, PTHI consummated the repurchase of $119.0 million in aggregate principal amount of its 10% Notes for a purchase price equal to 109% of the principal amount thereof, plus accrued but unpaid interest to the date of repurchase, in each case pursuant to agreements with certain selling holders of 10% Notes. In connection with this repurchase, the sellers of the 10% Notes, representing a majority in principal amount of the outstanding 10% Notes, consented to amendments of the 10% Notes Indenture to remove substantially all of the restrictive and reporting covenants under the 10% Notes Indenture, as well as certain events of default and related provisions. PTHI, the Guarantors and U.S. Bank National Association, as Trustee, entered into a Supplemental Indenture, dated as of September 17, 2012 (the First Supplemental Indenture), to memorialize such 10% Notes Indenture amendments.

In connection with the September 2012 10% Notes repurchase, the Company incurred $10.9 million of premiums and other costs and wrote off $9.5 million of deferred financing costs and $0.7 million of original issue discount, all of which are included in gain (loss) on early extinguishment or restructuring of debt on the condensed consolidated statements of operations in the third quarter of 2012.

Prior to the September 2012 10% Notes repurchase, the Company repurchased $5.0 million in aggregate principal amount of the 10% Notes at 99% of face value in December 2011.

2012 Note Exchanges for Newly Issued 10% Exchange Notes

On November 14, 2012, PTHI consummated the exchange (the Note Exchange) of $79.7 million in aggregate principal amount of its 10% Notes for $86.9 million in aggregate principal amount of its 10% Senior Secured Exchange Notes due 2017 (the 10% Exchange Notes), which were newly issued pursuant to the Second Supplemental Indenture (as defined below) to the 10% Notes Indenture. PTHI also paid accrued but unpaid interest on the exchanged 10% Notes for the period from October 15, 2012 to, but not including,

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November 14, 2012. The 10% Exchange Notes accrue interest from November 14, 2012 and are guaranteed by the same entities, including PTGi, that guarantee the 10% Notes. The terms of the 10% Exchange Notes are substantially similar to those governing the 10% Notes, which are described in greater detail above under Exchange Offers and Consent Solicitation; Issuance of the 10% Notes, except that the applicable redemption price of the 10% Exchange Notes at any time such notes are redeemed is 100.00% of the principal amount of such 10% Exchange Notes redeemed, plus accrued and unpaid interest.

In connection with the Note Exchange, the participating noteholders consented to amendments to the 10% Notes Indenture contained in, and PTGi and the other Guarantors agreed to enter into, that certain Second Supplemental Indenture and First Amendment to Collateral Agreement, dated as of November 14, 2012 (the Second Supplemental Indenture), by and among PTHI, the Guarantors and U.S. Bank National Association, as Trustee and Collateral Trustee. Among other things, the Second Supplemental Indenture (i) reinstated substantially all of the events of default, restrictive and reporting covenants and related provisions and definitions of the 10% Notes Indenture that were eliminated by the First Supplemental Indenture, with certain amendments thereto to establish a new $50,000,000 restricted payment basket and to permit the incurrence of certain additional parity lien debt, (ii) established the 10% Exchange Notes issuable under the 10% Notes Indenture, (iii) authorized the Note Exchange and (iv) made certain other changes in the 10% Notes Indenture that are of a technical or conforming nature, including the amendment and restatement of certain provisions, the addition of certain definitions and the amendment of certain cross-references.

On December 19, 2012, PTHI consummated a second note exchange of $23.8 million in aggregate principal amount of its 10% Notes for $25.7 million in aggregate principal amount of its 10% Exchange Notes. PTHI also paid accrued but unpaid interest on the exchanged 10% Notes for the period from October 15, 2012 to, but not including, November 14, 2012.

The Company evaluated the application of ASC No. 470-50, Debt Modifications and Extinguishments (ASC 470-50), and concluded that the November and December 2012 note exchanges described above constituted a debt modification with respect to the 10% Notes. Under ASC 470-50, the premium of $9.1 million paid to the exchanging holders of 10% Notes, was capitalized and will be amortized over the life of the 10% Exchange Notes. It is included in other assets in the condensed consolidated balance sheets.

Outstanding 10% Notes and 10% Exchange Notes

As of March 31, 2013, there was (i) $12.7 million in aggregate principal amount of the 10% Notes outstanding and (ii) $112.6 million in aggregate principal amount of the 10% Exchange Notes outstanding. The 10% Notes and 10% Exchange 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. The 10% Notes and 10% Exchange Notes will mature on April 15, 2017.

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5. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments under purchase obligations and non-cancellable operating leases, including continuing obligations of discontinued operations, as of March 31, 2013 are as follows (in thousands):

Year Ending December 31,	Purchase Obligations	Operating Leases
2013 (as of March 31, 2013)	$ 3,786	$ 8,703
2014	4,335	8,814
2015	413	7,320
2016	373	6,234
2017	373	5,696
Thereafter	932	14,070
Total long-term obligations	$ 10,212	$ 50,837

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 $1.3 million and $2.7 million for the three months ended March 31, 2013 and 2012, respectively.

The Company s rent expense under operating leases was $1.2 million and $1.3 million for the three months ended March 31, 2013 and 2012, respectively.

Litigation

The Company is 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 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.

6. SHARE-BASED COMPENSATION

The Compensation Committee (the Committee) of the Board of Directors of PTGi administers PTGi 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 PTGi.

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

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The Company follows guidance which addresses the accounting for share-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.

No options were granted during the three months ended March 31, 2013 and 2012.

Total share-based compensation expense recognized by the Company in the three months ended March 31, 2013 and 2012 was $0.5 million and $1.7 million, respectively. Most of PTGi 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 PTGi s RSU activity during the three months ended March 31, 2013 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested December 31, 2012	286,208	$ 12.91
Granted		$
Vested	(123,526)	$ 10.87
Forfeitures		$
Unvested March 31, 2013	162,682	$ 14.46

As of March 31, 2013, PTGi had 0.2 million unvested RSUs outstanding with respect to $1.3 million of compensation expense that is expected to be recognized over the weighted average remaining vesting period of 1.1 years. The number of unvested RSUs expected to vest is 0.1 million.

Stock Options and Stock Appreciation Rights

A summary of PTGi s stock option and stock appreciation rights activity during the three months ended March 31, 2013 is as follows:

	Shares	Weighted Average Exercise Price
Outstanding December 31, 2012	212,244	$ 9.24
Granted		$
Exercised	(1,176)	$ 8.91
Forfeitures	(1,982)	$ 8.91
Outstanding March 31, 2013	209,086	$ 9.24
Eligible for exercise	153,423	$ 8.55

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

	Intrinsic Value	Weighted Average Remaining Life in Years
Options outstanding March 31, 2013	460,403	7.8
Options exercisable March 31, 2013	415,327	7.4

As of March 31, 2013, PTGi had approximately 56,000 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 1.0 year. The number of unvested stock options and stock appreciation rights expected to vest is approximately 52,000 shares, with a weighted average remaining life of 7.8 years, a weighted average exercise price of $9.20, and an intrinsic value of approximately $45,000.

7. STOCKHOLDERS EQUITY

As of March 31, 2013 and December 31, 2012, there were 13,906,948 and 13,933,529 shares of common stock outstanding, respectively.

Class A and B Warrants

In July 2009, PTGi issued (A) Class A warrants (the Class A Warrants) to purchase shares of PTGi s common stock, which are divided into three separate series (Class A-1, Class A-2 and Class A-3 Warrants), each of which series consists of 1,000,000 warrants to purchase an original aggregate amount of up to 1,000,000 shares of PTGi common stock; and (B) Class B warrants (the Class B Warrants and, together with the Class A Warrants, the Warrants) to purchase an original aggregate amount of up to 1,500,000 shares of PTGi common stock. In connection with the issuance of the Warrants, PTGi entered into a Warrant Agreement for each of the Class A Warrants and the Class B Warrants, in each case with Broadridge Financial Solutions, Inc. (successor-in-interest to StockTrans, Inc.), as warrant agent. The original exercise price with respect to (i) the Class A-1 Warrants was $12.22 per share; (ii) the Class A-2 Warrants was $16.53 per share; (iii) the Class A-3 Warrants was $20.50 per share; and (iv) the Class B Warrants was $26.01 per share. The Warrants have a five-year term and will expire on July 1, 2014. A holder may exercise Warrants by paying the applicable exercise price in cash. In addition, a holder may exercise Warrants on a cashless basis in connection with a change of control (as defined in each of the Class A and Class B Warrant Agreement), in connection with a transaction pursuant to an effective registration statement covering the sale of PTGi common stock underlying such Warrants, or if the exercise occurs on a date when the daily volume-weighted average price of the PTGi common stock for the immediately preceding 10 trading days exceeds 150% of the exercise price applicable to such Warrants. The Warrants are freely transferrable by the holder thereof.

Antidilution adjustment provisions in each of the Class A Warrant Agreement and Class B Warrant Agreement provide that the number of shares of PTGi common stock issuable upon exercise of the Warrants and the exercise prices of the Warrants will be adjusted in connection with any dividend or distribution of PTGi common stock, assets or cash (other than any regular cash dividend not to exceed in any fiscal year 45% of the consolidated net income of the Company), or any subdivision or combination of the PTGi common stock. In addition, the number of shares of PTGi common stock issuable upon exercise of the Warrants and the exercise

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prices of the Warrants are also subject to adjustment in connection with any issuance, grant or sale to any person of (A) rights, warrants, options, exchangeable securities or convertible securities entitling such person to subscribe for, purchase or otherwise acquire shares of PTGi common stock at a price per share less than the fair market value of the PTGi common stock on the trading day immediately prior to such issuance, sale or grant, subject to certain exceptions, or (B) shares of PTGi common stock at a price per share less than the fair market value of the PTGi common stock on the trading day immediately prior to such issuance, sale or grant. Additionally, if any transaction or event occurs in which all or substantially all of the outstanding PTGi common stock is converted into, exchanged for, or the holders thereof are otherwise entitled to receive on account thereof stock, other securities, cash or assets (each, a Fundamental Change Transaction) the holder of each Warrant outstanding immediately prior to the occurrence of such Fundamental Change Transaction shall have the right to receive upon exercise of the applicable Warrant the kind and amount of stock, other securities, cash and/or assets that such holder would have received if such Warrant had been exercised.

The Dividends that occurred in 2012 (discussed below under Special Dividends) triggered the antidilution adjustment provisions in the Warrant Agreements, such that (A) the exercise price with respect to (i) the Class A-1 Warrants was adjusted downward to $8.91, (ii) the Class A-2 Warrants was adjusted downward to $12.05, (iii) the Class A-3 Warrants was adjusted downward to $14.93, and (iv) the Class B Warrants was adjusted downward to $18.96; and (B) after taking into account exercised Warrants, the number of shares of PTGi common stock issuable upon exercise of (i) the Class A-1 Warrants was adjusted upward to 1,370,658, (ii) the Class A-2 Warrants was adjusted upward to 1,372,293, (iii) the Class A-3 Warrants was adjusted upward to 1,372,293, and (iv) the Class B Warrants was adjusted upward to 2,058,438. Due to the nature of the mandatory antidilution provisions applicable to the Warrants, the Company has evaluated the accounting impact of the modification accounting under ASC 718, and concluded that the modification of the terms of such instruments did not result in a significant change of fair value before and after the modification date.

Contingent Value Rights

In July 2009, the Company issued contingent value rights (CVRs), which allow holders to receive shares of PTGi common stock (subject to adjustment as described below, the CVR Shares), in an original aggregate amount of up to 2,665,000 shares. The CVRs may not be transferred by the holder thereof except in certain limited circumstances. Subject to the terms of the CVR Agreement governing the CVRs, holders of CVRs will receive their pro rata share of the CVR Shares if certain conditions are satisfied. A distribution of CVR Shares is required to be made by the Company if, as of any determination date (as described in the paragraph below), the Company s equity value (assuming cash exercise in full on such date of in-the-money warrants and options of the Company) divided by the sum of the number of shares of PTGi common stock then issued and outstanding plus the number of shares of PTGi common stock underlying warrants, options and similar securities of the Company (other than CVRs) that are then in-the-money exceeds the CVR strike price (subject to adjustment as described below, the CVR Strike Price) in an original amount of $35.95. The aggregate number of such shares of PTGi common stock is referred to as the Applicable Shares and the per share amount of any such excess over the CVR Strike Price is referred to as the Excess Equity Value Per Share. If such a distribution is required, the number of CVR Shares to be distributed by the Company equals the product of Excess Equity Value Per Share multiplied by the number of Applicable Shares divided by the CVR Strike Price. Such product of Excess Equity Value Per Share and the number of Applicable Shares is referred to as the Excess Equity Value.

The Company will determine if and to the extent a distribution of CVR Shares is required (i) on January 1 and July 1 of each year, commencing on the first such date (but in no event later than July 1, 2013) on which data

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is available to confirm that the Company s adjusted EBITDA for the immediately preceding four fiscal quarters is equal to at least $100 million, and (ii) upon the occurrence of certain change of control transactions involving the Company. Distributions of CVR Shares (if any) will be made within 45 calendar days of a determination by the Company that a distribution is required.

Notwithstanding the foregoing, no distribution of CVR Shares is required to be made by the Company unless Excess Equity Value exceeds $1 million as of any determination date.

Antidilution adjustment provisions in the CVR Agreement provide that the maximum number of CVR Shares and the CVR Strike Price will be adjusted from time to time in connection with any stock dividend or distribution, or subdivision, split, combination, reclassification or recapitalization of the PTGi common stock. In addition, if the Company distributes to holders of its common stock any of its assets (including but not limited to cash), securities or rights to purchase securities of the Company (other than any regular cash dividend not to exceed in any fiscal year 45% of the consolidated net income of the Company and its consolidated subsidiaries for the immediately preceding fiscal year), then the number of CVR Shares will be increased and the CVR Strike Price will be decreased, in each case pursuant to the terms of the CVR Agreement. Additionally, in case of any reclassification, merger, consolidation, capital reorganization or other change in the capital stock of the Company (other than in connection with certain change of control transactions involving the Company) in which all or substantially all of the outstanding shares of PTGi common stock are converted into or exchanged for stock, other securities or other property, the Company shall make appropriate provision so that the holders of CVRs shall thereafter be entitled to receive, at such time such holder would have otherwise been entitled to receive a distribution under the CVR Agreement, the kind and amount of stock and other securities and property having a value substantially equivalent to the value of PTGi common stock that the holders of CVRs would have been entitled to receive in connection with a distribution of CVR Shares immediately prior to such reclassification, merger, consolidation, reorganization or other change in the capital stock of the Company at a CVR Strike Price that, in each case, is reasonably determined by the Board of Directors of the Company after consultation with an independent valuation advisor to preserve, to the extent practicable, the intrinsic value of such CVR immediately prior to such event.

The CVRs will expire and the CVR Agreement will terminate upon the earliest to occur of: (1) the date upon which no further CVR Shares are available for distribution, (2) the consummation of certain change of control transactions (subject to any potential distribution of CVR Shares as a result thereof), and (3) July 1, 2019.

The Dividends that occurred in 2012 (discussed below under Special Dividends) triggered the antidilution adjustment provisions in the CVR Agreement, such that (A) the CVR Strike Price was adjusted downward to $26.20 and (B) the maximum number of CVR Shares issuable with respect to the CVRs was adjusted upward to 3,657,157. Due to the nature of the mandatory antidilution provisions applicable to the CVRs, the Company has evaluated the accounting impact of the modification accounting under ASC 718 and concluded that the modification of the terms of such instruments did not result in a significant change of fair value before and after the modification date.

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Special Dividends

During 2012, PTGi s Board of Directors declared three special cash dividends (the Dividends) with respect to PTGi s issued and outstanding common stock, as presented in the following table (Total Dividend amounts presented in thousands):

	Special Cash Dividend Per Share		
	$1.00	**$2.50**	**$0.50**
Declaration Date	June 20, 2012	November 14, 2012	December 11, 2012
Holders of Record Date	July 2, 2012	November 27, 2012	December 21, 2012
Payment Date	July 16, 2012	December 11, 2012	December 28, 2012
Total Dividend	13,804	34,551	6,910

In addition, with respect to unvested RSUs and restricted stock, the Company recorded, at the time of each Dividend, a dividend equivalent equal to the amount of each Dividend per RSU or share of restricted stock, as applicable, to holders of RSUs and restricted stock amounting to $1.3 million. The payment of the dividend equivalent will occur upon vesting of the RSU or share of restricted stock. With respect to certain outstanding stock options, in connection with each Dividend, the Company reduced the exercise price and increased 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 Dividends. Due to the nature of the discretionary antidilution provisions applicable to the RSUs, the Company has evaluated the accounting impact of the modification accounting under ASC 718 and concluded that the modification of the terms of such instruments did not result in a significant change in fair value before and after the modification date.

Stock Repurchase Program

On August 8, 2011, PTGi 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. PTGi 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. There were no repurchases in the year ending December 31, 2012 or in the three months ending March 31, 2013.

8. INCOME TAXES

The Company conducts business globally, and as a result, PTGi 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.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

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

Jurisdiction	Open Tax Years
United States Federal	2002 2012
Canada	2004 2012
United Kingdom	2004 2012
Netherlands	2007 2012

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 (ASC 740), 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, 2013, penalties and interest were immaterial. As of March 31, 2013, the gross unrecognized tax benefit on the balance sheet was $66.2 million.

As of February 28, 2011, and the completion of the merger of PTG Investments, a wholly owned subsidiary of the Company with and into Arbinet Corporation, the Company believes that an ownership change for tax purposes took place with respect to both PTGi and Arbinet. This conclusion is based on Schedule 13D and Schedule 13G filings concerning Company securities, as filed with the SEC. As a result of the ownership change, an annual limitation of $7.0 million is required under section 382 of the Company s then-existing NOLs. This limitation is in addition to the NOL utilization limitation of approximately $1.6 million due to the July 1, 2009, ownership change. The annual limitation under section 382 of Arbinet then-existing NOLs is approximately $2.2 million.

9. 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 $128.5 million and $125.4 million at March 31, 2013 and December 31, 2012, respectively. The aggregate carrying value of the Company s debt was $127.0 million and $127.0 million at March 31, 2013 and December 31, 2012, respectively.

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

		Fair Value as of March 31, 2013, using:		
	March 31, 2013	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)	$ 14,792		14,792	
Total	$ 14,792		14,792	

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

		Fair Value as of December 31, 2012, using:		
	December 31, 2012	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)	$ 14,904		14,904	
Total	$ 14,904		14,904	

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 pricing model using the following assumptions as of March 31, 2013: (1) expected life of 6.25 years; (2) risk-free rate of 1.08%; (3) expected volatility of 44.32%; (4) dividend yield of 0%; (5) exercise price of $26.20; (6) stock price of $11.05. Estimates of fair value represent the Company s best estimates based on a pricing model using the following assumptions as of March 31, 2012: (1) expected life of 7.25 years; (2) risk-free rate of 1.66%; (3) expected volatility of 47.93%; (4) dividend yield of 0%; (5) exercise price of $35.95; (6) stock price of $16.08. During the three months ended March 31, 2013 and 2012, ($0.1) million and $7.2 million, respectively, of (income) expense was recognized as a result of marking the CVRs to their fair value.

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

		Fair Value as of March 31, 2013, using:		
	March 31, 2013	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Goodwill	$ 60,085			60,085
Trade names	27,000			27,000
Net assets held for sale	20,444			20,444
Total	$ 107,529			107,529

		Fair Value as of December 31, 2012, using:		
	December 31, 2012	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Assets:			
Goodwill	$	60,744	60,744
Trade names		27,000	27,000
Net assets held for sale		15,762	15,762
Total	$	103,506	103,506

See Note 2 Summary of Significant Accounting Policies Goodwill and Other Intangible Assets and Summary of Significant Accounting Policies Valuation of Long-lived Assets (Held for Sale) for a discussion of the inputs and valuation techniques.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

10. OPERATING SEGMENT AND RELATED INFORMATION

As of March 31, 2013, the Company has two reportable geographic segments United States and Canada; and three reportable operating segments based on management s organization of the enterprise BLACKIRON Data, North America Telecom and Other. In 2012, as a result of the sale of its Australian segment and the classification of its ICS business unit as held for sale, the Company reorganized its remaining operating segments to better reflect its continuing operations. The BLACKIRON Data segment contains the pure data center operations in Canada, while the North America Telecom segment combines the retail telecom businesses in the United States and Canada. Other consists of non-core operations. 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 intersegment revenues are eliminated. The Company has no single customer representing greater than 10% of its revenues.

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net Revenue by Geographic Region		
United States	$ 7,814	$ 10,096
Canada	53,069	57,906
Total	$ 60,883	$ 68,002
Net Revenue by Segment		
BLACKIRON Data	$ 9,633	$ 8,197
North America Telecom	51,250	59,805
Total	$ 60,883	$ 68,002
Provision for Doubtful Accounts Receivable		
BLACKIRON Data	$ 53	$ 7
North America Telecom	657	420
Total	$ 710	$ 427
Income (Loss) from Operations		
BLACKIRON Data	$ 1,301	$ 1,330
North America Telecom	5,383	5,205
Total From Operating Segments	6,684	6,535
Corporate	(4,446)	(6,834)
Total	$ 2,238	$ (299)
Capital Expenditures		
BLACKIRON Data	$ 3,865	$ 2,368
North America Telecom	2,642	2,649

Other (1)		9		2,971
Total From Operating Segments		6,516		7,988
Corporate		1		123
Total	$	6,517	$	8,111

(1) Other includes capital expenditures from discontinued operations.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

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

	March 31, 2013	December 31, 2012
Property and Equipment Net		
BLACKIRON Data	$ 33,750	$ 31,998
North America Telecom	31,763	32,632
Total From Operating Segments	65,513	64,630
Corporate	685	685
Total	$ 66,198	$ 65,315

	March 31, 2013	December 31, 2012
Assets		
BLACKIRON Data	$ 38,354	$ 36,108
North America Telecom	123,725	132,725
Other (1)	41,708	46,493
Total From Operating Segments	203,787	215,326
Corporate	84,001	85,864
Total	$ 287,788	$ 301,190

(1) Other includes assets from 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 March 31, 2013	Three Months Ended March 31, 2012
Retail Voice	$ 34,115	$ 42,676
Data/Internet	19,251	17,681
Retail VoIP	7,517	7,645
Total	$ 60,883	$ 68,002

11. DISCONTINUED OPERATIONS

Discontinued Operations year ended December 31, 2012

On May 31, 2012, the Company completed the previously announced sale of its Australian segment to M2 Telecommunications Group Ltd. (M2), an Australian telecommunications company, for 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). 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

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

indemnification claims pursuant to the purchase agreement. The purchase price was also subject to a customary post-closing working capital adjustment. In the fourth quarter of 2012, the Company and M2 settled on a working capital adjustment and the escrow was released. The Company received $5.4 million and M2 received $4.4 million. The $4.4 million was recorded as an adjustment to the gain that was recorded in the second quarter of 2012, which resulted in a net gain for the year ended December 31, 2012 of 94.3 million.

On June 28, 2012, the Board of Directors of PTGi committed to dispose of the Company s ICS business unit and as a result classified ICS as a discontinued operation. The Company continues to actively solicit a sale or other disposition of its ICS business unit. In conjunction with the commitment to dispose of ICS and classification of ICS as a discontinued operation, the Company evaluated the carrying value of ICS in the second quarter of 2012 which resulted in it being higher than its fair value less costs to sell by $10.3 million and have attributed such adjustment to the long-lived assets of ICS. As the adjustment is related to ICS, it is classified within Income (loss) from discontinued operations, net of tax on the consolidated statements of operations in the second quarter of 2012. The Company performed the same analysis as of March 31, 2013 and December 31, 2012 and determined that the fair value less costs to sell exceeded the carrying value and therefore no additional adjustment was required.

As a result of these events, the Company s condensed consolidated financial statements reflect the Australian and ICS business units as discontinued operations for the three months ended March 31, 2013 and 2012. Accordingly, revenue, costs and expenses of the discontinued operations have been excluded from the respective captions in the condensed consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as income or loss (where applicable) from discontinued 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 sheets as of March 31, 2013 and December 31, 2012.

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net revenue	$ 58,789	$ 166,690
Operating expenses	59,902	163,586
Income (loss) from operations	(1,113)	3,104
Interest expense		(248)
Interest income and other income (expense)	(55)	154
Foreign currency transaction gain (loss)	(115)	2,799
Income (loss) before income tax	(1,283)	5,809
Income tax (expense) benefit		(1,197)
Income (loss) from discontinued operations	$ (1,283)	$ 4,612

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

Summarized assets and liabilities of ICS classified as held for sale as of March 31, 2013 and December 31, 2012 are as follows (in thousands):

	March 31, 2013	December 31, 2012
Accounts receivable	$ 16,076	$ 16,070
Prepaid expenses and other current assets	3,347	4,196
Restricted cash	472	487
Long-lived assets	19,389	19,313
Assets held for sale	$ 39,284	$ 40,066
Accounts payable	$ 7,163	10,580
Accrued interconnection costs	5,870	6,961
Accrued expenses and other liabilities	5,807	6,763
Liabilities held for sale	$ 18,840	$ 24,304

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 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 CVRs and Warrants.

The Company had no dilutive common share equivalents during the three months ended March 31, 2013, due to the results of operations being a loss from continuing operations, net of tax. For the three months ended March 31, 2013, 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;

6.2 million shares issuable upon exercise of Warrants; and

3.7 million shares issuable upon exercise of CVRs.

The Company had no dilutive common share equivalents during the three months ended March 31, 2012, due to the results of operations being a loss from continuing operations, net of tax. For the three months ended March 31, 2012, the following were potentially dilutive but were 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 under the Management Compensation Plan;

4.5 million shares issuable upon exercise of Warrants; and

2.7 million shares issuable upon exercise of CVRs.

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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 March 31, 2013	Three Months Ended March 31, 2012
Income (loss) from continuing operations, net of tax	$ (1,929)	$ (11,470)
Income (loss) from discontinued operations, net of tax	(1,283)	4,612
Net income (loss) attributable to Primus Telecommunications Group, Incorporated-basic	$ (3,212)	$ (6,858)
Net income (loss) attributable to Primus Telecommunications Group, Incorporated-diluted	$ (3,212)	$ (6,858)
Weighted average common shares outstanding-basic	13,909	13,744
Weighted average common shares outstanding-diluted	13,909	13,744
Basic income (loss) per common share:		
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (0.14)	$ (0.84)
Income (loss) from discontinued operations	(0.09)	0.34
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (0.23)	$ (0.50)
Diluted income (loss) per common share:		
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (0.14)	$ (0.84)
Income (loss) from discontinued operations	(0.09)	0.34
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (0.23)	$ (0.50)

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

13. RELATED PARTY TRANSACTIONS

The Company had no transactions with related parties in the three months ended March 31, 2013 and 2012.

14. SUBSEQUENT EVENTS

Divestiture of BLACKIRON

On April 17, 2013, PTGi and PTCI entered into an equity purchase agreement (the BLACKIRON Purchase Agreement), with Rogers Communications Inc., a Canadian telecommunications company listed on the Toronto Stock Exchange, and Rogers Data Services Inc., a wholly owned subsidiary of Rogers Communications Inc. (Rogers), to sell to Rogers all of the outstanding equity of BLACKIRON Data ULC (BLACKIRON), a direct wholly owned subsidiary of PTCI, for approximately CAD$200 million (the BLACKIRON Transaction). The purchase price is subject to potential downward or upward post-closing adjustments based on net working capital and cash at closing. In addition, CAD$20 million of the purchase price was placed in escrow to be released 15 months after the closing date, subject to any deductions required to satisfy indemnification obligations of PTGi and PTCI under the BLACKIRON Purchase Agreement. The BLACKIRON Purchase Agreement also contains customary indemnification obligations, representations, warranties and covenants for a transaction of this nature. In addition, subject to certain exceptions, PTGi and its subsidiaries also agreed for a period of two years from the closing date to certain restrictions on competing with BLACKIRON as provided in the BLACKIRON Purchase Agreement. The BLACKIRON Transaction signed and closed on April 17, 2013. The BLACKIRON Transaction was approved by the Board of Directors of PTGi as well as the special committee of the Board of Directors of PTGi.

Pending Divestiture of North America Telecom

On May 10, 2013, PTGi announced that PTGi and each of PTHI, Primus Telecommunications International, Inc. (PTII) and Lingo Holdings, Inc. (Lingo Holdings , and together with PTHI and PTII, the Sellers), direct or indirect wholly owned subsidiaries of PTGi, entered into an equity purchase agreement dated as of May 10, 2013 (the North America Telecom Purchase Agreement) with PTUS, Inc. (US Acquireco) and PTCAN, Inc. (CAN Acquireco and together with US Acquireco, the Purchasers), affiliates of York Capital Management, an investment firm, to sell to the Purchasers all of the outstanding equity of each of Primus Telecommunications, Inc. (PTI), Lingo, Inc. (Lingo), iPrimus, USA, Inc. (iPrimus), 3620212 Canada Inc. (Primus Canada), Primus Telecommunications Canada Inc. (PTCI), Telesonic Communications Inc. (Telesonic), and Globility Communications Corporation (Globility , and together with PTI, Lingo, iPrimus, Primus Canada, PTCI and Telesonic, the Companies), indirect or direct wholly owned subsidiaries of PTGi, for approximately $129 million (the North America Telecom Transaction). The purchase price is subject to potential downward or upward post-closing adjustments based on net working capital and cash at closing. The North America Telecom Purchase Agreement contains customary indemnification obligations, representations, warranties and covenants for a transaction of this nature. Certain indemnification obligations are subject to a cap of approximately $12.9 million. In addition, the North America Telecom Purchase Agreement provides that the Sellers must, for 14 months after the closing of the North America Telecom Transaction, maintain a minimum balance of cash and cash equivalents necessary to satisfy PTGi s indemnification obligations under the North America Telecom Purchase Agreement.

Pursuant to the terms of the North America Telecom Purchase Agreement, $6.45 million of the purchase price will be placed in escrow to be released 14 months after the closing date, subject to any deductions required to satisfy indemnification obligations of PTGi under the North America Telecom Purchase Agreement. In

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

addition, $4 million of the purchase price will be placed in escrow to cover any payments required in connection with the post-closing working capital and cash adjustments, which escrow amount will be released when such adjustments are conclusively agreed upon. Furthermore, $4.8 million of the purchase price will be placed in escrow to cover certain tax liabilities, which escrow amount will be released after a positive ruling with respect to the underlying matter is received or 30 days after expiration of the applicable statute of limitations relating to the underlying matter.

The North America Telecom Purchase Agreement also contains certain termination rights for PTGi, the Sellers and the Purchasers, including the right of PTGi and the Sellers, in certain circumstances, to terminate the North America Telecom Purchase Agreement and accept a superior proposal. If the North America Telecom Purchase Agreement is terminated, in certain circumstances, the Sellers would be required to pay to the Purchasers reasonable costs and expenses incurred by the Purchasers of up to 1% of the purchase price or a termination fee equal to $3.87 million. In certain circumstances in which the North America Telecom Purchase Agreement is terminated or the Purchasers breach the North America Telecom Purchase Agreement, Purchasers would be required to pay to PTGi a reverse termination fee equal to $25 million as liquidated damages.

The Companies conduct PTGi s North America retail telecommunications operations in the United States and Canada.

The transactions contemplated by the North America Telecom Purchase Agreement were approved by the Board of Directors of PTGi as well as the special committee of the Board of Directors of PTGi. The North America Telecom Transaction will require PTGi stockholder approval and regulatory approvals, and is subject to customary closing conditions. The North America Telecom Transaction is currently expected to close by the third quarter of the year ending December 31, 2013, with the exception of the sale of PTI. Subject to regulatory approvals, the sale of PTI is expected to close subsequent to the third quarter of the year ending December 31, 2013. Approximately $126 million, subject to any adjustments pursuant to the North America Telecom Purchase Agreement, is required to be paid on the initial closing, with the remainder to be paid upon closing of the sale of PTI.

The following unaudited pro forma consolidated financial information is presented to illustrate the effect of the Company s disposition of BLACKIRON and North America Telecom on its historical financial position and operating results. The unaudited pro forma condensed consolidated balance sheet as of March 31, 2013 is based on the historical statements of the Company as of March 31, 2013 after giving effect to the transactions as if the dispositions had occurred on March 31, 2013. The unaudited pro forma condensed consolidated statements of operations for the three months ended March 31, 2013 and 2012 are based on the historical financial statements of the Company after giving effect to the transactions as if the dispositions had occurred on January 1, 2012.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEETS

		Pro Forma Adjustments			
	As Reported March 31, 2013	BLACKIRON Data Operations (a)	North America Telecom Operations (b)	Other Adjustments	Pro Forma March 31, 2013
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 13,844	$ (327)	$ (4,672)	$ 170,651 **(c)**	$ 291,634
				112,138 **(d)**	
Accounts receivable, prepaid expenses and other current assets	23,937	(2,790)	(20,360)		787
Assets held for sale	39,284				39,284
Total current assets	77,065	(3,117)	(25,032)	282,789	331,705
RESTRICTED CASH	832	(74)	(758)		
PROPERTY AND EQUIPMENT Net	66,198	(33,750)	(31,763)		685
GOODWILL	60,085	(912)	(32,500)	(26,673) **(e)**	
OTHER INTANGIBLE ASSETS Net	60,265	(503)	(32,762)	(27,000) **(f)**	
OTHER ASSETS	23,343		(909)	19,556 **(g)**	57,240
				15,250 **(h)**	
TOTAL ASSETS	$ 287,788	$ (38,356)	$ (123,724)	$ 263,922	$ 389,630
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES:					
Accounts payable, accrued interconnection costs, accrued expenses and other current liabilities	$ 30,872	$ (8,054)	$ (20,446)	$	$ 2,372
Deferred revenue	8,293	(544)	(7,749)		
Accrued income taxes	7,701		(3,464)		4,237
Accrued interest	4,926		(31)		4,895
Current portion of long-term obligations	54	(29)	(25)		
Liabilities held for sale	18,840				18,840
Total current liabilities	70,686	(8,627)	(31,715)		30,344
LONG-TERM OBLIGATIONS	127,069	(26)	(824)		126,219
CONTINGENT VALUE RIGHTS	14,792				14,792
OTHER LIABILITIES	12,142		(1,215)	(10,503) **(f)**	35,230
				19,556 **(g)**	
				15,250 **(h)**	
Total liabilities	224,689	(8,653)	(33,754)	24,303	206,585
COMMITMENTS AND CONTINGENCIES					

STOCKHOLDERS EQUITY:					
Preferred stock					
Common stock	14				14
Additional paid-in capital	98,662				98,662
Accumulated deficit	(26,410)	(29,703)	(89,970)	170,651 **(c)**	93,536
				112,138 **(d)**	
				(26,673) **(e)**	
				(16,497) **(f)**	
Treasury stock, at cost	(378)				(378)
Accumulated other comprehensive loss	(8,789)				(8,789)
Total stockholders equity	63,099	(29,703)	(89,970)	239,619	183,045
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 287,788	$ (38,356)	$ (123,724)	$ 263,922	$ 389,630

See accompanying notes to unaudited pro forma condensed consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

	As Reported Three Months Ended March 31, 2013	Pro Forma Adjustments BLACKIRON Data Operations (i)	Pro Forma Adjustments North America Telecom Operations (j)	Pro Forma Three Months Ended March 31, 2013
NET REVENUE	$ 60,883	$ (9,633)	$ (51,250)	$
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)	29,470	(4,438)	(25,032)	
Selling, general and administrative	22,575	(2,227)	(15,903)	4,445
Depreciation and amortization	6,600	(1,667)	(4,932)	1
Total operating expenses	58,645	(8,332)	(45,867)	4,446
INCOME (LOSS) FROM OPERATIONS	2,238	(1,301)	(5,383)	(4,446)
INTEREST EXPENSE	(4,216)	1	81	(4,134)
ACCRETION (AMORTIZATION) ON DEBT PREMIUM/DISCOUNT, net	(32)			(32)
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	112			112
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	18	(1)	(18)	(1)
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	1		77	78
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(1,879)	(1,301)	(5,243)	(8,423)
INCOME TAX BENEFIT (EXPENSE)	(50)	(168)	107	(111)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(1,929)	(1,469)	(5,136)	(8,534)
Less: Net (income) loss attributable to the noncontrolling interest				
INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (1,929)	$ (1,469)	$ (5,136)	$ (8,534)
BASIC INCOME (LOSS) PER COMMON SHARE:				
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (0.14)			$ (0.61)
DILUTED INCOME (LOSS) PER COMMON SHARE:				
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (0.14)			$ (0.61)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	13,909			13,909
Diluted	13,909			13,909

See accompanying notes to unaudited pro forma condensed consolidated financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

	As Reported Three Months Ended March 31, 2012	Pro Forma Adjustments BLACKIRON Data Operations (i)	Pro Forma Adjustments North America Telecom Operations (j)	Pro Forma Three Months Ended March 31, 2012
NET REVENUE	$ 68,002	$ (8,197)	$ (59,805)	$
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)	33,505	(3,377)	(30,128)	
Selling, general and administrative	27,156	(1,310)	(19,056)	6,790
Depreciation and amortization	7,597	(2,180)	(5,416)	1
(Gain) loss on sale or disposal of assets	43			43
Total operating expenses	68,301	(6,867)	(54,600)	6,834
INCOME (LOSS) FROM OPERATIONS	(299)	(1,330)	(5,205)	(6,834)
INTEREST EXPENSE	(6,879)		62	(6,817)
ACCRETION (AMORTIZATION) ON DEBT PREMIUM/DISCOUNT, net	(57)			(57)
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(7,190)			(7,190)
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	4		104	108
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	1,951		(71)	1,880
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(12,470)	(1,330)	(5,110)	(18,910)
INCOME TAX BENEFIT (EXPENSE)	1,106		(1,352)	(246)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(11,364)	(1,330)	(6,462)	(19,156)
Less: Net (income) loss attributable to the noncontrolling interest	(106)			(106)
INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (11,470)	$ (1,330)	$ (6,462)	$ (19,262)
BASIC INCOME (LOSS) PER COMMON SHARE:				
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (0.84)			$ (1.40)
DILUTED INCOME (LOSS) PER COMMON SHARE:				
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (0.84)			$ (1.40)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	13,744			13,744

Diluted	13,744	13,744

See accompanying notes to unaudited pro forma condensed consolidated financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Pro Forma Adjustments

The unaudited pro forma condensed consolidated balance sheet as of March 31, 2013 includes the following adjustments:

(a) To reflect the disposition of BLACKIRON s specified balance sheet accounts as of March 31, 2013.

(b) To reflect the disposition of North America Telecom s specified balance sheet accounts as of March 31, 2013.

(c) To reflect the cash received from Rogers Communications Inc. for the sale of BLACKIRON, net of transaction costs directly related to the sale and amounts deposited into escrow.

(d) To reflect the cash received from York Capital Management for the sale of North America Telecom, net of transaction costs directly related to the sale and amounts deposited into escrow.

(e) To reflect the impairment of the remaining carrying value of goodwill of the US reporting unit. The fair value of goodwill is measured by the operations of the US retail portion of the North America Telecom operating segment.

(f) To reflect the sale of the Company s trade names attributable to North America Telecom, net of deferred taxes, to York Capital Management.

(g) To reflect the amount of proceeds deposited into escrow and deferral of gain on the BLACKIRON sale.

(h) To reflect the amount of proceeds deposited into escrow and deferral of gain on the North America Telecom sale.

The unaudited pro forma condensed consolidated statements of operations for the three months ended March 31, 2013 and 2012 include the following adjustments:

(i) To reflect the removal of the operating results of BLACKIRON as if the transaction occurred on January 1, 2012.

(j) To reflect the removal of the operating results of North America Telecom as if the transaction occurred on January 1, 2012.

Separation Agreement with Peter D. Aquino

On April 26, 2013, the Company announced that Peter D. Aquino, who has served as our Executive Chairman since January 2013, resigned from all positions with the Company, effective April 30, 2013. In connection with Mr. Aquino s resignation, the Company entered into a Separation and Release Agreement (the Separation Agreement) with Mr. Aquino. Pursuant to the Separation Agreement, Mr. Aquino s employment with the Company is deemed terminated without cause for purposes of that certain Employment Agreement, dated October 12, 2010 (as amended on January 17, 2013, the Employment Agreement), between Mr. Aquino and the Company, and Mr. Aquino became entitled to the following severance benefits: (i) severance pay equal to $2,800,000, such payment to be made in a lump sum on May 15, 2013; (ii) a bonus in the amount of $750,000, payable in a lump sum on May 15, 2013; (iii) all outstanding stock options and other grants (including all amounts or RSUs payable or granted under Mr. Aquino s short term incentive awards pursuant to the

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

Employment Agreement), as applicable, becoming 100% vested and exercisable, payable or deliverable (as applicable) in accordance with their terms, which resulted in (A) the accelerated vesting of 41,586 unvested RSUs held by Mr. Aquino and a payment of $166,344 for dividend equivalents accrued with respect to such unvested RSUs and (B) a payment of $2,872,500 with respect to Mr. Aquino s unpaid short term incentive awards, payable in a lump sum on May 15, 2013, and (iv) if Mr. Aquino elects to continue his health insurance under COBRA, the Company will pay the COBRA premiums until April 30, 2014. The Separation Agreement also contains customary release and non-disparagement provisions. The Separation Agreement terminates and supersedes the Employment Agreement, except for the provisions of the Employment Agreement addressing confidentiality, competitive activities and inventions.

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 the information in 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, 2012. Some of the information contained in this discussion and analysis includes forward-looking statements that involve risks and uncertainties. You should review the Risk Factors section in Part II, Item 1A of this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2012 as well as the section below entitled Special Note Regarding Forward-Looking Statements 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.

Unless the context otherwise requires, in this Quarterly Report on Form 10-Q, PTGi means Primus Telecommunications Group, Incorporated and the Company, we and our mean PTGi together with its subsidiaries.

Introduction and Overview of Operations

We are an integrated facilities-based communications services provider offering a portfolio of international and domestic voice, wireless, Internet, Voice over Internet Protocol (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 classify our services into three categories: Growth Services, Traditional Services and International Carrier Services (ICS). As of March 31, 2013, we provided these services from our three business units: North America Telecom, BLACKIRON Data and ICS. As of March 31, 2013, our two primary reportable operational segments were North America Telecom and BLACKIRON Data.

Our focus has been on expanding our Growth Services in our North America Telecom and BLACKIRON Data business units. Within the North America Telecom unit, Growth Services include our broadband, VoIP and on-net Ethernet services. Our BLACKIRON Data unit contained the pure data center operations in Canada and operated as BLACKIRON Data ULC (BLACKIRON), a wholly owned subsidiary of Primus Telecommunications Canada Inc., a Canadian corporation and wholly owned subsidiary of PTGi (PTCI). Through our BLACKIRON Data unit, we focused on expansion of our collocation facilities, cloud computing and managed services. Both units fulfilled the demand for high quality, competitively priced communications and data center services. This demand has been driven, in part, by the explosion of data being generated on a daily basis, 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 include our domestic and international long-distance voice, local landline, wireless, 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.

As discussed below under Recent Developments Divestiture of BLACKIRON, on April 17, 2013, we consummated the divestiture of BLACKIRON. As a result, we will no longer operate a BLACKIRON Data business unit subsequent to such date. In addition, as discussed below under Recent Developments Continued Pursuit of Divestiture of ICS Business Unit, the Company is currently pursuing a sale or other disposition or disposal of its ICS business unit, which no longer is a separate reportable business segment and 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 or 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 BLACKIRON

On April 17, 2013, PTGi and PTCI entered into an equity purchase agreement (the BLACKIRON Purchase Agreement), with Rogers Communications Inc., a Canadian telecommunications company listed on the Toronto Stock Exchange, and Rogers Data Services Inc., a wholly owned subsidiary of Rogers Communications Inc. (Rogers), to sell to Rogers all of the outstanding equity of BLACKIRON, which operated our BLACKIRON Data business unit, for approximately CAD$200 million (the BLACKIRON Transaction). The purchase price is subject to potential downward or upward post-closing adjustments based on net working capital and cash at closing. In addition, CAD$20 million of the purchase price was placed in escrow to be released 15 months after the closing date, subject to any deductions required to satisfy indemnification obligations of PTGi and PTCI under the BLACKIRON Purchase Agreement. The BLACKIRON Purchase Agreement also contains customary indemnification obligations, representations, warranties and covenants for a transaction of this nature. In addition, subject to certain exceptions, PTGi and its subsidiaries also agreed for a period of two years from the closing date to certain restrictions on competing with BLACKIRON as provided in the BLACKIRON Purchase Agreement. The BLACKIRON Transaction signed and closed on April 17, 2013. The BLACKIRON Transaction was approved by the Board of Directors of PTGi as well as the special committee of the Board of Directors of PTGi (the Special Committee), which was originally formed in September 2011 in connection with our strategic review of possible transactions to maximize shareholder value.

Pending Divestiture of North America Telecom

On May 10, 2013, PTGi announced that PTGi and each of PTHI, Primus Telecommunications International, Inc. (PTII) and Lingo Holdings, Inc. (Lingo Holdings , and together with PTHI and PTII, the Sellers), direct or indirect wholly owned subsidiaries of PTGi, entered into an equity purchase agreement dated as of May 10, 2013 (the North America Telecom Purchase Agreement) with PTUS, Inc. (US Acquireco) and PTCAN, Inc. (CAN Acquireco and together with US Acquireco, the Purchasers), affiliates of York Capital Management, an investment firm, to sell to the Purchasers all of the outstanding equity of each of Primus Telecommunications, Inc. (PTI), Lingo, Inc. (Lingo), iPrimus, USA, Inc. (iPrimus), 3620212 Canada Inc. (Primus Canada), Primus Telecommunications Canada Inc. (PTCI), Telesonic Communications Inc. (Telesonic), and Globility Communications Corporation (Globility , and together with PTI, Lingo, iPrimus, Primus Canada, PTCI and Telesonic, the Companies), indirect or direct wholly owned subsidiaries of PTGi, for approximately $129 million (the North America Telecom Transaction). The purchase price is subject to potential downward or upward post-closing adjustments based on net working capital and cash at closing. The North America Telecom Purchase Agreement contains customary indemnification obligations, representations, warranties and covenants for a transaction of this nature. Certain indemnification obligations are subject to a cap of approximately $12.9 million. In addition, the North America Telecom Purchase Agreement provides that the Sellers must, for 14 months after the closing of the North America Telecom Transaction, maintain a minimum balance of cash and cash equivalents necessary to satisfy PTGi s indemnification obligations under the North America Telecom Purchase Agreement.

Pursuant to the terms of the North America Telecom Purchase Agreement, $6.45 million of the purchase price will be placed in escrow to be released 14 months after the closing date, subject to any deductions required to satisfy indemnification obligations of PTGi under the North America Telecom Purchase Agreement. In addition, $4 million of the purchase price will be placed in escrow to cover any payments required in connection with the post-closing working capital and cash adjustments, which escrow amount will be released when such adjustments are conclusively agreed upon. Furthermore, $4.8 million of the purchase price will be placed in escrow to cover certain tax liabilities, which escrow amount will be released after a positive ruling with respect to the underlying matter is received or 30 days after expiration of the applicable statute of limitations relating to the underlying matter.

The North America Telecom Purchase Agreement also contains certain termination rights for PTGi, the Sellers and the Purchasers, including the right of PTGi and the Sellers, in certain circumstances, to terminate the North America Telecom Purchase Agreement and accept a superior proposal. If the North America Telecom Purchase Agreement is terminated, in certain circumstances, the Sellers would be required to pay to the Purchasers reasonable costs and expenses incurred by the Purchasers of up to 1% of the purchase price or a termination fee equal to $3.87 million. In certain circumstances in which the North America Telecom Purchase Agreement is terminated or the Purchasers breach the North America Telecom Purchase Agreement, Purchasers would be required to pay to PTGi a reverse termination fee equal to $25 million as liquidated damages.

The Companies conduct PTGi s North America retail telecommunications operations in the United States and Canada.

The transactions contemplated by the North America Telecom Purchase Agreement were approved by the Board of Directors of PTGi as well as the special committee of the Board of Directors of PTGi. The North America

Telecom Transaction will require PTGi stockholder approval and regulatory approvals, and is subject to customary closing conditions. The North America Telecom Transaction is currently expected to close by the third quarter of the year ending December 31, 2013, with the exception of the sale of PTI. Subject to regulatory approvals, the sale of PTI is expected to close subsequent to the third quarter of the year ending December 31, 2013. Approximately $126 million, subject to any adjustments pursuant to the North America Telecom Purchase Agreement, is required to be paid on the initial closing, with the remainder to be paid upon closing of the sale of PTI.

Continued Pursuit of Divestiture of ICS Business Unit

On June 28, 2012, PTGi s Board of Directors committed to dispose 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. The Company continues to actively solicit a sale or other disposition of its ICS business unit. See Note 11 Discontinued Operations to the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

In addition to the possible sale or other disposition or disposal of ICS, the Special Committee continues to explore and evaluate other strategic alternatives to enhance shareholder value, which may include (but may not be limited to) a sale, merger or other business combination, a recapitalization, a joint venture arrangement, the sale or spinoff of our assets or one or more of our business units, or the continued execution of our business plans. There is no set timetable for completion of the evaluation process, and we do not intend to provide updates or make any comments regarding the evaluation of strategic alternatives, unless our Board of Directors has approved a specific transaction or otherwise deems disclosure appropriate.

Foreign Currency

Foreign currency can have a major impact on our financial results. During the three months ended March 31, 2013, approximately 87% 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 USD). The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive the majority of our net revenue and incur a significant portion of our operating costs from outside the 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 risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the following exchange rates: USD/Canadian dollar (CAD) and USD/British pound sterling (GBP). 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 rates due to fluctuations in the USD/Australian dollar (AUD) exchange rate. 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 months ended March 31, 2013, as compared to the three months ended March 31, 2012, the USD was weaker on average as compared to the CAD and GBP. The following tables demonstrate the impact of currency fluctuations on our net revenue for the three months ended March 31, 2013 and 2012:

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

	For the Three Months Ended March 31,			
	2013	**2012**	**Variance $**	**Variance %**
Canada	$ 53,069	$ 57,906	$ (4,837)	-8.4%
Australia (1)		70,129	(70,129)	-100.0%
United Kingdom (1)	35,161	63,339	(28,178)	-44.5%

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

	For the Three Months Ended March 31,			
	2013	**2012**	**Variance $**	**Variance %**
Canada (in CAD)	$ 53,478	$ 58,010	$ (4,532)	-7.8%
Australia (1) (in AUD)		66,453	(66,453)	-100.0%
United Kingdom (1) (in GBP)	22,612	40,389	(17,777)	-44.0%

(1) 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 Critical Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2012 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, 2012.

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 (U.S. GAAP) and Securities and Exchange Commission (SEC) disclosure rules, the Company s results of operations for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012.

We also present detailed changes in results, excluding currency impacts, since a large portion of our revenues is 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 U.S. 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. We believe that the comparison of the combined financial results provides management and investors with a meaningful analysis of our performance and trends for comparative purposes. In addition, it should be noted that the application of fresh-start accounting will have a significant non-cash impact on our future results of operations, but will have no impact on the underlying cash flows of the Company.

Discontinued Operations

2012 Developments During the second quarter of 2012, the Company sold its Australian segment. Additionally, the Board of Directors of PTGi committed to dispose of the Company s ICS business unit and as a result classified ICS as a discontinued operation. The Company continues to actively solicit a sale or other disposition of its ICS business unit.

As a result of these events, the Company s condensed consolidated financial statements for all periods presented reflect the Australian and ICS business units as discontinued operations for the three months ended March 31, 2013 and 2012. Accordingly, revenue, costs and expenses of the discontinued operations have been excluded from the respective captions in the condensed consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as income or loss (where applicable) from discontinued 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 sheets as of March 31, 2013 and December 31, 2012.

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net revenue	$ 58,789	$ 166,690
Operating expenses	59,902	163,586
Income (loss) from operations	(1,113)	3,104
Interest expense		(248)
Interest income and other income (expense)	(55)	154
Foreign currency transaction gain (loss)	(115)	2,799
Income (loss) before income tax	(1,283)	5,809
Income tax (expense) benefit		(1,197)
Income (loss) from discontinued operations	$ (1,283)	$ 4,612

Results of Operations

Results of operations for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012

***Net revenue*: **Net revenue, exclusive of the currency effect, decreased $6.8 million, or 10.0%, to $61.2 million for the three months ended March 31, 2013 from $68.0 million for the three months ended March 31, 2012. Inclusive of the currency effect which accounted for a decrease of $0.3 million, net revenue decreased $7.1 million to $60.9 million for the three months ended March 31, 2013 from $68.0 million for the three months ended March 31, 2012.

	Exclusive of Currency Effect Quarter Ended				Quarter-over-Quarter			Inclusive of Currency Effect Quarter Ended	
	March 31, 2013		March 31, 2012					March 31, 2013	
(in thousands)	Net Revenue	% of Total	Net Revenue	% of Total	Variance	Variance %	Currency Effect	Net Revenue	% of Total
BLACKIRON Data	$ 9,689	15.8%	$ 8,197	12.1%	$ 1,492	18.2%	$ (56)	$ 9,633	15.8%
North America Telecom	51,506	84.2%	59,805	87.9%	(8,299)	-13.9%	(256)	51,250	84.2%
Total Net Revenue	$ 61,195	100.0%	$ 68,002	100.0%	$ (6,807)	-10.0%	$ (312)	$ 60,883	100.0%

BLACKIRON Data: BLACKIRON Data net revenue, exclusive of the currency effect, increased $1.5 million, or 18.2%, to $9.7 million for the three months ended March 31, 2013 from $8.2 million for the three months ended March 31, 2012. The net revenue increase is primarily due to continued growth in colocation, network connectivity and managed/cloud services. Inclusive of the currency effect which accounted for a $0.1 million decrease, net revenue increased $1.4 million to $9.6 million for the three months ended March 31, 2013 from $8.2 million for the three months ended March 31, 2012.

North America Telecom: North America Telecom net revenue, exclusive of the currency effect, decreased $8.3 million, or 13.9%, to $51.5 million for the three months ended March 31, 2013 from $59.8 million for the three months ended March 31, 2012. The net revenue decrease is primarily attributable to a decrease of $3.6 million in retail voice services, a decrease of $1.6 million in local services, a decrease of $1.4 million in other services, a decrease of $1.3 million in prepaid voice services, a decrease of $0.5 million in wireless services, a decrease of $0.1 million in data and hosting services and a decrease of $0.1 million in VoIP services offset, in part, by an increase of $0.3 million in Internet services. Inclusive of the currency effect which accounted for a $0.3 million decrease, net revenue decreased $8.6 million to $51.2 million for the three months ended March 31, 2013 from $59.8 million for the three months ended March 31, 2012.

***Cost of revenue*:** Cost of revenue, exclusive of the currency effect, decreased $3.9 million to $29.6 million, or 48.4% of net revenue, for the three months ended March 31, 2013 from $33.5 million, or 49.3% of net revenue, for the three months ended March 31, 2012. Inclusive of the currency effect, which accounted for a $0.1 million decrease, cost of revenue decreased $4.0 million to $29.5 million for the three months ended March 31, 2013 from $33.5 million for the three months ended March 31, 2012.

	Exclusive of Currency Effect Quarter Ended				Quarter-over-Quarter			Inclusive of Currency Effect Quarter Ended	
	March 31, 2013		March 31, 2012					March 31, 2013	
(in thousands)	Cost of Revenue	% of Net Revenue	Cost of Revenue	% of Net Revenue	Variance	Variance %	Currency Effect	Cost of Revenue	% of Net Revenue
BLACKIRON Data	$ 4,469	46.1%	$ 3,377	41.2%	$ 1,092	32.3%	$ (31)	$ 4,438	46.1%
North America Telecom	25,156	48.8%	30,128	50.4%	(4,972)	-16.5%	(124)	25,032	48.8%
Total Cost of Revenue	$ 29,625	48.4%	$ 33,505	49.3%	$ (3,880)	-11.6%	$ (155)	$ 29,470	48.4%

BLACKIRON Data: BLACKIRON Data cost of revenue, exclusive of the currency effect, increased $1.1 million to $4.5 million, or 46.1% of net revenue, for the three months ended March 31, 2013 from $3.4 million, or 41.2% of net revenue, for the three months ended March 31, 2012. The increase is primarily attributable to an increase in net revenue of $1.5 million. Inclusive of the currency effect, which accounted for an insignificant decrease, cost of revenue increased $1.0 million to $4.4 million for the three months ended March 31, 2013 from $3.4 million for the three months ended March 31, 2012.

North America Telecom: North America Telecom cost of revenue, exclusive of the currency effect, decreased $5.0 million to $25.1 million, or 48.8% of net revenue, for the three months ended March 31, 2013 from $30.1 million, or 50.4% of net revenue, for the three months ended March 31, 2012. The decrease is primarily attributable to a decrease in net revenue of $8.3 million. Inclusive of the currency effect, which accounted for a $0.1 million decrease, cost of revenue decreased $5.1 million to $25.0 million for the three months ended March 31, 2013 from $30.1 million for the three months ended March 31, 2012.

***Selling, general and administrative expenses*:** Selling, general and administrative expenses (SG&A), exclusive of the currency effect, decreased $4.5 million to $22.7 million, or 37.0% of net revenue, for the three months ended March 31, 2013 from $27.2 million, or 39.9% of net revenue, for the three months ended March 31, 2012. Inclusive of the currency effect, which accounted for a $0.1 million decrease, SG&A decreased $4.6 million to $22.6 million for the three months ended March 31, 2013 from $27.2 million for the three months ended March 31, 2012.

	Exclusive of Currency Effect Quarter Ended				Quarter-over-Quarter			Inclusive of Currency Effect Quarter Ended	
	March 31, 2013		March 31, 2012					March 31, 2013	
(in thousands)	SG&A	% of Net Revenue	SG&A	% of Net Revenue	Variance	Variance %	Currency Effect	SG&A	% of Net Revenue
BLACKIRON Data	$ 2,240	23.1%	$ 1,310	16.0%	$ 930	71.0%	$ (13)	$ 2,227	23.1%
North America Telecom	15,970	31.0%	19,056	31.9%	(3,086)	-16.2%	(67)	15,903	31.0%
Corporate	4,445	0.0%	6,790	0.0%	(2,345)	-34.5%		4,445	0.0%
Total SG&A	$ 22,655	37.0%	$ 27,156	39.9%	$ (4,501)	-16.6%	$ (80)	$ 22,575	37.1%

BLACKIRON Data: BLACKIRON Data SG&A, exclusive of the currency effect, increased $0.9 million to $2.2 million, or 23.1% of net revenue, for the three months ended March 31, 2013 from $1.3 million, or 16.0% of net revenue, for the three months ended March 31, 2012. The increase is primarily attributable to an increase of $0.7 million in salaries and benefits, an increase of $0.1 million in advertising expenses and an increase of $0.1 million in travel and entertainment expenses and professional fees. Inclusive of the currency effect, which accounted for an insignificant decrease, SG&A increased $0.9 million to $2.2 million for the three months ended March 31, 2013 from $1.3 million for the three months ended March 31, 2012.

North America Telecom: North America Telecom SG&A, exclusive of the currency effect, decreased $3.1 million to $16.0 million, or 31.0% of net revenue, for the three months ended March 31, 2013 from $19.1 million, or 31.9% of net revenue, for the three months ended March 31, 2012. The decrease is attributable to a decrease of $1.5 million in salaries and benefits, a decrease of $0.7 million in sales and marketing expenses, a decrease of $0.5 million in general and administrative expenses, a decrease of $0.2 million in advertising expenses, a decrease of $0.1 million in professional fees and a decrease of $0.1 million in occupancy expenses. Inclusive of the currency effect, which accounted for a $0.1 million decrease, SG&A decreased $3.2 million to $15.9 million for the three months ended March 31, 2013 from $19.1 million for the three months ended March 31, 2012.

Corporate: Corporate SG&A decreased $2.3 million to $4.4 million for the three months ended March 31, 2013 from $6.8 million for the three months ended March 31, 2012. The decrease is attributable to a decrease of $2.2 million in salaries and benefits and a decrease of $0.3 million in general and administrative expenses offset, in part, by an increase of $0.1 million in professional fees and an increase of $0.1 million in occupancy expenses.

Depreciation and amortization expense: Depreciation and amortization expense decreased $1.0 million to $6.6 million for the three months ended March 31, 2013 from $7.6 million for the three months ended March 31, 2012. 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 $4.2 million for the three months ended March 31, 2013 from $6.9 million for the three months ended March 31, 2012. The decrease was due to the repurchase of a portion of the outstanding 10% Notes in September 2012. See Note 4 Long-Term Obligations to the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Gain (loss) from contingent value rights valuation: The loss from the change in fair value of the contingent value rights decreased $7.3 million to a $0.1 million gain for the three months ended March 31, 2013 from a $7.2 million loss for the three months ended March 31, 2012. Estimates of fair value represent the Company s best estimates based on a pricing model and are correlated to and reflective of our common stock trends. Generally, as the fair value of our common stock increases/decreases, the fair value of the contingent value rights increases/decreases and a loss/gain from contingent rights valuation is recorded.

Foreign currency transaction gain (loss): Foreign currency transaction gain decreased $2.0 million to an insignificant gain for the three months ended March 31, 2013 from a gain of $2.0 million for the three months ended March 31, 2012. 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 March 2012.

Income tax benefit (expense): Income tax benefit decreased $1.2 million to an expense of $0.1 million for the three months ended March 31, 2013 from a benefit of $1.1 million for the three months ended March 31, 2012. Included in the expense is a provision for foreign withholding tax, state taxes and an ASC 740 provision, partially offset by prior year return to provision benefit adjustment.

Liquidity and Capital Resources

Important Long-Term Liquidity and Capital Structure Developments:

Divestiture of BLACKIRON

On April 17, 2013, pursuant to the BLACKIRON Purchase Agreement, we consummated the BLACKIRON Transaction in which we divested our BLACKIRON subsidiary, which operated our BLACKIRON Data business unit, for a purchase price of approximately CAD$200 million. The purchase price is subject to potential downward or upward post-closing adjustments based on net working capital and cash at closing. In addition, CAD$20 million of the purchase price was placed in escrow to be released 15 months after the closing date, subject to any deductions required to satisfy indemnification obligations of PTGi and PTCI under the BLACKIRON Purchase Agreement. The BLACKIRON Purchase Agreement also contains customary indemnification obligations, representations, warranties and covenants for a transaction of this nature. In addition, subject to certain exceptions, PTGi and its subsidiaries also agreed for a period of two years from the closing date to certain restrictions on competing with BLACKIRON as provided in the BLACKIRON Purchase Agreement. The BLACKIRON Transaction was approved by the Board of Directors of PTGi as well as the Special Committee of the Board of Directors of PTGi.

Pending Divestiture of North America Telecom

On May 10, 2013, PTGi announced that PTGi and each of PTHI, Primus Telecommunications International, Inc. (PTII) and Lingo Holdings, Inc. (Lingo Holdings , and together with PTHI and PTII, the Sellers), direct or indirect wholly owned subsidiaries of PTGi, entered into an equity purchase agreement dated as of May 10, 2013 (the North America Telecom Purchase Agreement) with PTUS, Inc. (US Acquireco) and PTCAN, Inc. (CAN Acquireco and together with US Acquireco, the Purchasers), affiliates of York Capital Management, an investment firm, to sell to the Purchasers all of the outstanding equity of each of Primus Telecommunications, Inc. (PTI), Lingo, Inc. (Lingo), iPrimus, USA, Inc. (iPrimus), 3620212 Canada Inc. (Primus Canada), Primus Telecommunications Canada Inc. (PTCI), Telesonic Communications Inc. (Telesonic), and Globility Communications Corporation (Globility , and together with PTI, Lingo, iPrimus, Primus Canada, PTCI and Telesonic, the Companies), indirect or direct wholly owned subsidiaries of PTGi, for approximately $129 million (the North America Telecom Transaction). The purchase price is subject to potential downward or upward post-closing adjustments based on net working capital and cash at closing. The North America Telecom Purchase Agreement contains customary indemnification obligations, representations, warranties and covenants for a transaction of this nature. Certain indemnification obligations are subject to a cap of approximately $12.9 million. In addition, the North America Telecom Purchase Agreement provides that the Sellers must, for 14 months after the closing of the North America Telecom Transaction, maintain a minimum balance of cash and cash equivalents necessary to satisfy PTGi s indemnification obligations under the North America Telecom Purchase Agreement.

Pursuant to the terms of the North America Telecom Purchase Agreement, $6.45 million of the purchase price will be placed in escrow to be released 14 months after the closing date, subject to any deductions required to satisfy indemnification obligations of PTGi under the North America Telecom Purchase Agreement. In addition, $4 million of the purchase price will be placed in escrow to cover any payments required in connection with the post-closing working capital and cash adjustments, which escrow amount will be released when such adjustments are conclusively agreed upon. Furthermore, $4.8 million of the purchase price will be placed in escrow to cover certain tax liabilities, which escrow amount will be released after a positive ruling with respect to the underlying matter is received or 30 days after expiration of the applicable statute of limitations relating to the underlying matter.

The North America Telecom Purchase Agreement also contains certain termination rights for PTGi, the Sellers and the Purchasers, including the right of PTGi and the Sellers, in certain circumstances, to terminate the North America Telecom Purchase Agreement and accept a superior proposal. If the North America Telecom Purchase Agreement is terminated, in certain circumstances, the Sellers would be required to pay to the Purchasers reasonable costs and expenses incurred by the Purchasers of up to 1% of the purchase price or a termination fee equal to $3.87 million. In certain circumstances in which the North America Telecom Purchase Agreement is terminated or the Purchasers breach the North America Telecom Purchase Agreement, Purchasers would be required to pay to PTGi a reverse termination fee equal to $25 million as liquidated damages.

The Companies conduct PTGi s North America retail telecommunications operations in the United States and Canada.

The transactions contemplated by the North America Telecom Purchase Agreement were approved by the Board of Directors of PTGi as well as the special committee of the Board of Directors of PTGi. The North America Telecom Transaction will require PTGi stockholder approval and regulatory approvals, and is subject to customary closing conditions. The North America Telecom Transaction is currently expected to close by the third quarter of the year ending December 31, 2013, with the exception of the sale of PTI. Subject to regulatory approvals, the sale of PTI is expected to close subsequent to the third quarter of the year ending December 31, 2013. Approximately $126 million, subject to any adjustments pursuant to the North America Telecom Purchase Agreement, is required to be paid on the initial closing, with the remainder to be paid upon closing of the sale of PTI.

Continued Pursuit of Divestiture of ICS Business Unit

In connection with the Special Committee s evaluation of strategic alternatives to maximize shareholder value, the Company s Board of Directors committed to dispose of the Company s ICS business unit on June 28, 2012 and continues to actively solicit a sale or other disposition of such business unit. As a result of holding the ICS business unit out for sale, such business unit has been classified as a discontinued operation and its held for sale assets and liabilities have been removed from the specific line items on the condensed consolidated balance sheets as of March 31, 2013 and December 31, 2012. See Note 11 Discontinued Operations to the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

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 used in operating activities was $1.4 million for the three months ended March 31, 2013 as compared to net cash provided by operating activities of $18.0 million for the three months ended March 31, 2012. For the three months ended March 31, 2013, net income, net of non-cash operating activity, provided $4.6 million of cash. Other major drivers included an increase in accrued interest of $3.2 million and a decrease in prepaid expenses and other current assets of $1.0 million, partially offset by a decrease in accrued expenses, deferred revenue, other current liabilities and other liabilities, net of $6.4 million, an increase in accounts receivable of $2.2 million and a decrease in accrued interconnection costs of $1.7 million.

Net cash used in investing activities was $6.9 million for the three months ended March 31, 2013 as compared to $9.5 million for the three months ended March 31, 2012. Net cash used in investing activities during the three months ended March 31, 2013 included $6.5 million of capital expenditures and $0.4 million used in the acquisition of businesses.

Net cash used in financing activities was $0.9 million for the three months ended March 31, 2013 as compared to $3.9 million for the three months ended March 31, 2012. Net cash used in financing activities during the three months ended March 31, 2013 included $0.4 million used to satisfy the tax obligations for shares issued under share-based compensation arrangements, $0.4 million used to pay dividend equivalents to our shareholders and $0.1 million used to reduce the principal amounts outstanding on capital leases.

Short- and Long-Term Liquidity Considerations and Risks; Contractual Obligations

As of March 31, 2013, we had $13.8 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 March 31, 2013, we had $10.2 million in future minimum purchase obligations, $50.8 million in future operating lease payments and $127.8 million of indebtedness.

The obligations set forth in the table below reflect the contractual payments of principal and interest that existed as of March 31, 2013:

		Payments Due By Period			
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
13% Senior Secured Notes due 2016	$ 3,652	$ 312	$ 624	$ 2,716	$
10% Senior Secured Notes due 2017	18,403	1,269	2,538	14,596	
10% Senior Secured Exchange Notes due 2017	162,377	10,383	22,518	129,476	
Capital leases and other	87	51	36		
Operating leases	50,837	8,703	16,134	11,930	14,070
Purchase obligations	10,212	3,786	4,748	746	932
Total minimum principal & interest payments	245,568	24,504	46,598	159,464	15,002
Less: Amount representing interest	(56,757)	(11,968)	(25,683)	(19,106)	
Total contractual obligations	$ 188,811	$ 12,536	$ 20,915	$ 140,358	$ 15,002

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 condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Related Party Transactions

The Company had no transactions with related parties in the three months ended March 31, 2013 and 2012.

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. T 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:

the proposed divestiture of PTGi s North America Telecom operations, including the risk that we may not obtain stockholder and regulatory approval of the transactions contemplated by the definitive agreement on the proposed terms and schedule; the risk that the transaction will impair our ability to maintain third party relationships following the announcement of the transaction; the risk that the parties may not be able to satisfy the conditions to closing of the transactions contemplated by the definitive agreement; and the risk that the transactions contemplated by the definitive agreement may not be completed in the time frame expected by the parties or at all;

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;

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;

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, forecasts, 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 three months ended March 31, 2013, approximately 87% 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 risk of loss regarding foreign currency exchange rates is caused primarily by fluctuations in the following exchange rates: USD/CAD and USD/GBP. 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. 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. We historically have not engaged in hedging transactions. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies.

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 months ended March 31, 2013, as compared to the three months ended March 31, 2012, the USD was weaker on average as compared to the CAD and GBP. As a result, the revenue of our subsidiaries whose local currency is CAD and GBP increased (decreased) (7.8%) and (44.0%), respectively, in their local currencies compared to the three months ended March 31, 2012, and increased (decreased) (8.4%) and (44.5%), respectively, in USD.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief 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, as amended, 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, as amended, 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 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 Chief Financial Officer concluded that no changes in our internal control over financial reporting have occurred during the three months ended March 31, 2013 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 is subject to claims and legal proceedings that arise in the ordinary course of its 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 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 flows. 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 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, 2012:

The sale of BLACKIRON reduced our revenue.

As described above under Management s Discussion and Analysis of Financial Condition and Results of Operations Recent Developments Divestiture of BLACKIRON, the Company divested its BLACKIRON subsidiary, which operated our BLACKIRON Data business unit, to Rogers Communications Inc. or one of its affiliates on April 17, 2013. Our BLACKIRON Data business unit accounted for approximately $9.7 million, or 15.8%, of our net revenues, exclusive of the currency effect, for the three months ended March 31, 2013 and approximately $34.1 million, or 12.9%, of our net revenues, exclusive of the currency effect, for the fiscal year ended December 31, 2012. Following the divestiture of BLACKIRON, our ability to produce revenues will therefore be 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.

Failure to consummate the pending divestiture of North America Telecom could negatively impact our stock price, business and financial results.

As described above under Management s Discussion and Analysis of Financial Condition and Results of Operations Recent Developments Pending Divestiture of North America Telecom, we announced that the Company entered into an equity purchase agreement dated as of May 8, 2013 (the North America Telecom Purchase Agreement) with affiliates of York Capital Management to sell all of the outstanding equity of each of Primus Telecommunications, Inc. (PTI), Lingo, Inc. (Lingo), iPrimus, USA, Inc. (iPrimus), 3620212 Canada Inc. (Primus Canada), Primus Telecommunications Canada Inc. (PTCI), Telesonic Communications Inc. (Telesonic), and Globility Communications Corporation (Globility , and together with PTI, Lingo, iPrimus, Primus Canada, PTCI and Telesonic, the Companies), indirect or direct wholly owned subsidiaries of PTGi, for approximately $129 million (the North America Telecom Transaction). The purchase price is subject to potential downward or upward post-closing adjustments based on net working capital and cash at closing. The North America Telecom Purchase Agreement contains customary indemnification obligations, representations, warranties and covenants for a transaction of this nature. The North America Telecom Transaction was approved by the Board of Directors of PTGi as well as the special committee of the Board of Directors of PTGi. The North America Telecom Transaction will require PTGi stockholder approval and regulatory approvals, and is subject to customary closing conditions. The North America Telecom Transaction is currently expected to close by the third or fourth quarter of 2013.

The announcement of the proposed transaction, whether or not consummated, may result in the loss of key personnel and may disrupt our sales and marketing or other key business activities in our North America Telecom segment, which may have an impact on our financial performance. Until the proposed transaction is consummated, there may be continuing uncertainty for our employees, customers, suppliers and other business partners in our North America Telecom segment, which could negatively impact our business and financial results. We cannot predict whether the closing conditions for the proposed transaction will be satisfied. As a result, we cannot assure you that the proposed transaction will be completed. If the closing conditions for the proposed transaction are not satisfied or waived pursuant to the North America Telecom Purchase Agreement, or if the transaction is not completed for any other reason, the market price of our common stock may decline.

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

PTGi s repurchases of its common stock during the first quarter of 2013 were as follows:

Issuer Purchases of Equity Securities

Period	**Total Number of Shares Purchased**	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Announced Plans or Programs**	**Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (in millions)**
Shares purchased in satisfaction of tax withholding obligations (1)				
January 1, 2013 to January 31, 2013	43,387	$ 10.47		$
February 1, 2013 to February 28, 2013		$		$
March 1, 2013 to March 31, 2013		$		$
Total	43,387	$ 10.47		$
Shares purchased under a stock repurchase program (2)				
January 1, 2013 to January 31, 2013		$		$ 14.6
February 1, 2013 to February 28, 2013		$		$ 14.6
March 1, 2013 to March 31, 2013		$		$ 14.6
Total		$		$ 14.6

(1) Upon vesting of restricted stock units awarded by PTGi to employees, PTGi 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 above reflects shares of common stock withheld to satisfy tax withholding obligations during the three months ended March 31, 2013.

(2) On August 8, 2011, PTGi 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, PTGi may repurchase common stock from time to time in the open-market, privately negotiated transactions or block trades. During the three months ended March 31, 2013, PTGi did not purchase shares of common stock in connection with our stock repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Named Executive Officer Compensation Matters

On May 9, 2013, the Compensation Committee, in recognition of the leadership and contributions of certain Named Executive Officers (as defined in the Proxy Statement) of the Company in connection with the Company s announced sale of its North America retail telecommunications operations (NA Telecom) (i) awarded special cash bonuses; (ii) accelerated the vesting of restricted stock units upon termination; and (iii) awarded 2013 bonuses at the target amount, pro-rated conditioned upon employee remaining employed past June 30, 2013. The awards and vesting for each such Named Executive Officers: (A) Andrew Day, (i) if NA Telecom is sold to a third party and (a) Mr. Day is not hired by successor company the special bonus will be $350,000, plus $700,000 in severance; or (b) Mr. Day is hired by successor company the special bonus will be $780,000; (ii) vesting of 17,368 restricted stock units upon termination; and (iii) 2013 pro-rated bonus; (B) James Keeley, (i) payment of the special cash bonus of $285,000; (ii) vesting of 8,386 restricted stock units; and (iii) 2013 pro-rated bonus; (C) Richard Ramlall, (i) payment of the special cash bonus of $250,000; (ii) vesting of 15,263 restricted stock units upon termination; and (iii) 2013 pro-rated bonus; and (D) John Filipowicz, (i) payment of the special cash bonus of $285,000; (ii) vesting of 7,071 restricted stock units upon termination; and (iii) 2013 pro-rated bonus. For Messrs. Keeley, Ramlall and Filipowicz, the payment of the special bonuses is subject to and will occur upon the earliest of (a) termination due to Corporate wind-down; or (b) upon the first closing of NA Telecom; or (c) the decision of the Special Committee to end its previously announced exploration of strategic alternatives.

ITEM 6. EXHIBITS

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on May 10, 2013.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

Date: May 10, 2013

By: /s/ JAMES C. KEELEY
James C. Keeley
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
10.1^	Amendment to Executive Employment Agreement, dated January 17, 2013, by and between PTGi and Peter D. Aquino (incorporated by reference to Exhibit 10.1 to PTGi s Current Report on Form 8-K, filed on January 18, 2013) (File No. 001-35210).
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 March 31, 2013, formatted in extensible business reporting language (XBRL); (i) Unaudited Condensed Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012, (ii) Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2013 and 2012, (iii) Unaudited Condensed Consolidated Balance Sheets at March 31, 2013 and December 31, 2012, (iv) Unaudited Condensed Consolidated Statements of Stockholders Equity for the three months ended March 31, 2013, (v) Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012, and (vi) Notes to Unaudited 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.

^ Indicates management contract or compensatory plan or arrangement.