PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-K
March 15, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the fiscal year ended December 31, 2011

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	**N/A**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.001 per share

Contingent Value Rights

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 x

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

The fair market value of the stock held by non-affiliates is $205,428,540 based on the sale price of the shares on June 30, 2011.

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 ¨

As of March 15, 2012, 13,825,277 shares of Common Stock, par value $0.001, were outstanding.

Documents Incorporated by Reference:

Portions of the definitive Proxy Statement to be delivered to Stockholders in connection with the Annual Meeting of Stockholders are incorporated by reference into Part III.

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PART I

Introductory Note

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 Australia, Canada, and the United States. Our primary markets are Australia and Canada, where we have deployed significant network infrastructure. We classify our services into three categories: Growth Services, Traditional Services and International Carrier Services.

Our focus is on expanding our Growth Services, which includes our broadband, SME VoIP, Australian on-network local services, data, and data center services, to fulfill the demand for high quality, competitively priced communications services. This demand is being driven, in part, by the globalization of the world s economies, the global trend toward telecommunications deregulation and the migration of communications traffic to the Internet. We manage our Traditional Services, which includes our domestic and international long-distance voice, local landline services, including Australia off-network local services, wireless, residential VoIP services, prepaid cards, and dial-up Internet services, for cash flow generation that we reinvest to develop and market our Growth Services, particularly in our primary markets of Australia and Canada. We also provide our International Carrier Services voice termination services to other telecommunications carriers and resellers requiring IP or time-division multiplexing access.

On February 28, 2011, we completed the merger (the Merger) of PTG Investments, Inc., a Delaware corporation and a wholly-owned subsidiary of the Company, with and into Arbinet Corporation (Arbinet). As a result of the Merger, Arbinet became a wholly-owned subsidiary of the Company. In connection with the Merger, each share of Arbinet s common stock issued and outstanding immediately prior to the effective time of the Merger was canceled and converted into the right to receive 0.5817 of a share of Company common stock. The Company is in the process of integrating Arbinet s operations and network platform into the Company s International Carrier Services segment.

Unless we indicate otherwise, references in this filing to we, us, our, PTGi, and the Company mean Primus Telecommunications Group, Incorporated and its subsidiaries and affiliates

ITEM 1. BUSINESS

General

We are an integrated facilities-based communications services provider offering a portfolio of international and domestic voice, wireless, Internet, VoIP, data, colocation and data center services to customers located primarily in Australia, Canada, and the United States. Our primary markets are Australia and Canada, where we have deployed significant network infrastructure. We classify our services into three categories: Growth Services, Traditional Services and International Carrier Services.

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Through our increased investments in infrastructure and sales and marketing spending focused on our Growth Services we believe that over time our growth in revenue from Growth Services will exceed the decline in our revenue from Traditional Services, and that Growth Services will therefore increase as a percentage of our total retail revenue.

We target customers with significant telecommunications needs, including small- and medium-sized enterprises (SMEs), multinational corporations, residential customers, and other telecommunication carriers and resellers. We provide services over our global, facilities-based network, which consists of:

- 11 data centers in 7 cities in Canada and Australia (this includes 1 data center under construction in Toronto)
- 19 carrier-grade international gateway and domestic switching systems (the hardware/software devices that direct voice traffic across the network), Internet routers and media gateways in the U.S., Canada, western Europe and the Asia-Pacific region;
- approximately 500 interconnection points to our network, or points of presence (POPs), which includes digital subscriber line access multiplexers (DSLAMs), which is equipment that allows digital traffic to flow over copper wiring, within our service regions and other markets;
- undersea and land-based fiber optic transmission line systems that we own or lease and that carry voice and data traffic across the network;
- a global network that uses a high-bandwidth network standard ATM+IP; and
- a global VoIP network based on routers and gateways with an open network architecture which connects our partners in over 150 countries.

Our Services

Within our three main service categories, Growth Services, Traditional Services and International Carrier Services, we offer our customers a wide range of products, including:

Growth Services:

- data center services (colocation and managed services);
- Internet, including residential and business broadband services;
- SME VoIP services;
- local landline services in Australia that utilize our owned network (or on-net or on-network services); and

data, including frame relay.

Traditional Services:

- domestic and international long-distance voice services;
- local landline services, including local services in Australia that do not utilize our owned network (or off-net or off-network services);
- prepaid phone card services;
- residential VoIP services;
- wireless Mobile Virtual Network Operator (MVNO) services; and
- dial-up Internet services.

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International Carrier Services:

Internet-based protocol and time-division multiplexing international carrier services access and transport.

More specifically, our International Carrier Services segment (or ICS) combines our recently acquired Arbinet subsidiary with our existing international wholesale operations. ICS is now the only major global provider to offer international carrier services customers the option to either acquire direct international connections through traditional interconnect arrangements or manage their access needs through the world s leading online voice trading exchange thexchange™ (the Exchange). The Arbinet acquisition has substantially increased the scale of ICS global wholesale business, adding approximately 7.6 billion minutes annually and approximately $250 million in consolidated annual revenue. With this addition, ICS is currently ranked among the leading international telecommunications carrier service providers in the world based on number of minutes carried annually.

Growth Opportunities

We continue to selectively target growth opportunities in areas of growing demand for telecommunications, including broadband, SME VoIP, Australian on-net local services, data, and data hosting center services. In order to accomplish this objective, we have sought, and continue to seek to:

- manage our Traditional Services business for cash flow generation and prudently reinvest that cash flow in additional sales and marketing spending to gain market share, develop innovative and differentiated services, expand coverage and capacity of our existing network infrastructure to service new customers and to migrate existing customers onto our network and meet our debt service obligations;

- prudently expand Growth Services through our enhanced sales and marketing programs in order to steadily improve net revenue and contribution from these Growth Services; and

- make targeted and prudent investments in support systems intended to reduce customer churn and customer service costs.

Strategy

PTGi s objective is to continue to unlock the value intrinsic in the sum of its parts by building a scalable platform for growth, expanding margins and positive free cash flow by capturing existing and new consumer and SME opportunities in its primary markets, and by evaluating its asset portfolio to invest in sustainable growth businesses and divest non-core assets. Key elements of the Company s strategy to achieve these objectives include:

- ***Manage Traditional Services for Cash Flow and Reinvest in Growth Services.*** As the overall market shifts towards IP-based, wireless and broadband communications, PTGi actively manages its profitable base of Traditional Services, such as long distance voice and prepaid cards, to maximize free cash flow. This cash flow is then reinvested into the expansion of higher margin, on-network and high-ROI projects and services such as data centers, SME VoIP, data, and metro fiber services. Specifically, PTGi is expanding its base of 11 data centers to meet the ongoing demand in Canada and Australia for high quality, competitively priced services; and is lighting its metro fiber rings in the largest markets in Australia, positioning the company to enter the over 5,000 commercial buildings it passes with state-of-the-art high-capacity enterprise services. This overall strategy is enabling PTGi to expand operating margins while funding substantial new growth initiatives that, in combination with strategic tuck-in acquisitions, should over time exceed the decline in revenue from Traditional Services.

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Focus on Primary Markets of Australia and Canada, Where PTGi is an Established Alternative Telecom Provider, and on International Carrier Services. PTGi is focused on investing in its primary markets of Australia and Canada where the Company has the scalability, network and service offerings to effectively compete. The Company is also leveraging its scale in Canada to take advantage of the large market opportunity in the U.S. for next generation business voice and managed data center services. The Primus brand name is well recognized nationally in Canada and Australia. Additionally, through the Arbinet acquisition, PTGi has substantially increased the scale and competitiveness of International Carrier Services, its global wholesale unit, which is now the only major global provider to offer international carrier services customers the option to either acquire direct international connections through traditional interconnect arrangements or manage their access needs through the Exchange.

Bundle Traditional Voice Services with Growth Products to Increase Margins and Create Customer Loyalty. By bundling its traditional voice services with one or more of its local, broadband, wireless, data and data center services, combined with a prudent approach to sales and marketing investment, PTGi is able to increase net revenue per customer, enhance its profitability and improve its competitive ability to attract and retain additional new customers.

Leverage Network Infrastructure to Accelerate On-Net and Facilities-Based Services Growth. PTGi has made significant capital investments in its global and local network infrastructure and actively targets customers it can serve through its own facilities (on-net) which provide higher margins, improved provisioning processes and better overall customer retention. By increasing the volume of voice and data traffic that PTGi carries over its network, or through its ongoing initiatives of migrating existing customers on-net, the Company is able to reduce operating costs as a percentage of revenue and introduce new products and services more capital efficiently through utilization of available network and data center facility infrastructure.

Leverage Best Practices across Divisions. As the marketplace for next-generation products and services continuously evolves, PTGi focuses on sharing best practices across its operating divisions to leverage the knowledge and experience of each division. This strategy creates opportunities to improve marketing and product development, and to leverage costs and capital investment across divisions.

Use excess cash to opportunistically buy down debt and/or repurchase shares. PTGi has strengthened its balance sheet by exchanging existing debt for lower-cost debt, achieving approximately $9 million in annual interest savings. For more detail concerning PTGi s 2011 Exchange Offers and Consent Solicitation, see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Recent Developments Recent Developments Involving Existing Notes that May Impact Future Results and Liquidity. Our share repurchase authorization remains in effect, and PTGi intends to take an opportunistic approach to the buyback of common shares or the repurchase of outstanding debt to further strengthen its balance sheet.

Unlock Value Embedded in the Sum of the Parts. PTGi s new senior management team is focused on driving individual business unit performance and executing on its key initiatives in order to create a track record of consistency and free cash flow growth from operations. This ability to create value through performance is expected to enhance total enterprise value of the consolidated PTGi portfolio.

2009 Voluntary Reorganization under Chapter 11

On March 16, 2009, Primus Telecommunications Group, Incorporated (Group) and three of its non-operating holding company subsidiaries, Primus Telecommunications Holding, Inc. (Holding or PTHI), Primus Telecommunications International, Inc. (PTII) and Primus Telecommunications IHC, Inc., (IHC and together with Group, Holding and PTII, collectively, the Holding Companies) each filed a voluntary petition in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court) for reorganization relief (Reorganization) under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101 et seq., as amended (the Bankruptcy Code). None of Group s operating companies in the United States, Australia, Canada, India, Europe or Brazil were included in the Bankruptcy Court filing. These operating units continued to manage and to operate their businesses normally during the financial reorganization of the Holding Companies. A consensual plan of reorganization (the Plan or Plan of Reorganization) was confirmed by the Bankruptcy Court on June 12, 2009 (the Confirmation Date). On July 1, 2009 (the Effective Date), the Holding Companies consummated their reorganization under the Bankruptcy Code and the Plan became effective. For additional detail concerning the effects of the Plan of Reorganization, see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Emergence from Voluntary Reorganization under Chapter 11 Proceedings.

References to Successor or Successor Company show the operations of the reorganized Company from and including July 1, 2009. References to Predecessor or Predecessor Company refer to the operations of the Company prior to July 1, 2009, except for Predecessor s July 1, 2009 statements of operations, which reflect only the effect of the plan adjustments and fresh-start accounting as of such date and do not reflect any operating results.

Operating Segments

We operate our business segments through a corporate shared services model and through operating segment managers responsible for specific geographic regions in which we operate. We assess performance and allocate resources based on the following operating segments:

Australia. Our Australian operations represented 29.0% of our net revenue for the year ended December 31, 2011. We are among the largest fixed line carriers and internet service providers in Australia. Our Australian operations offer a comprehensive range of international and domestic long-distance voice, broadband and dial-up Internet, wireless, local, VoIP, data and data hosting center products, servicing residential and business sectors. Our network employs Nortel DMS-100 telephone exchanges in Sydney, Melbourne, Brisbane, Perth and Adelaide operating through 66 POPs to provide national coverage for voice services. In November 2011, our Australian operations acquired the operating assets of Access International Group Pty Ltd, a leading phone card services provider in Australia. We operate a prepaid calling platform as well as a platform for delivery of enhanced toll-free service. The voice network supports direct access integrated services digital network (ISDN) and telephone line services across Sydney, Melbourne, Brisbane, Perth and Adelaide and some select regional areas of the country. VoIP services are offered to business and consumer customers using softswitch platforms operating in Sydney and Melbourne. Primus Australia owns a national IP network for delivery of business and consumer Internet service. Dial-up Internet is available nationally under a single access code. Digital subscriber line (DSL) service is provided on-net through over 280 Primus DSLAMs and via wholesale DSLAM access providing reach to more than 400 exchanges nationally. The DSLAMs are capable of delivering a full suite of telecommunication products, including asymmetric and symmetric IP services, telephone line, ISDN, frame relay and asynchronous transfer mode (ATM). Primus Australia offers ATM, frame relay, IP virtual private networking (VPN) with quality of service (QoS) and managed routers. Metropolitan fiber networks exist in Sydney, Melbourne, Brisbane, Perth and Adelaide to provide high capacity backhaul for domestic carrier interconnects, DSLAM backhaul and fiber connectivity to select customer premises.

Our data center in Melbourne offers managed hosting, colocation, and e-commerce applications. Other data center locations in Sydney and Melbourne are primarily used for colocation services. The Company plans to add growth capacity to these locations in the future.

We market our services primarily through a combination of direct sales to independent agents, corporate and SME customers, Internet-based marketing aimed at residential customers, and telemarketing and media advertising aimed at residential customers.

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We operate a call center in Melbourne that services all of Australia. We employ staff in Sydney who runs our Australian network management center that operates seven days per week, 24 hours per day, 365 days per year.

Canada. Our Canadian operations represented 24.9% of our net revenue for the year ended December 31, 2011. We believe we are one of the largest alternative consumer service providers in Canada based on net revenue. We provide international and domestic long-distance voice, local, broadband and dial-up Internet, data and data center services, VoIP and wireless services to SMEs, residential customers and government agencies. We have sales and customer service offices in key cities throughout Canada, including Vancouver, Toronto, Ottawa, and Edmonton. We operate international gateway switching, infrastructure in Toronto, Montreal, Ottawa, London, Edmonton and Vancouver and a nationwide SS7 network with signal transfer points (STPs) in Vancouver and Toronto. We maintain POPs in all major cities in Canada, and have use of a nationwide integrated network backbone for our voice, data, Internet and private line services. Each of the 25 nodes on the backbone is equipped with synchronous optical networking (SONET) add/drop, ATM, and IP equipment to provide a complete spectrum of voice and data communications products to our customers. Additionally, we operate next generation IP voice switches in Toronto, Vancouver, Montreal, Ottawa, London and Edmonton which provide on-net equal access coverage to an estimated 90% of the population of Canada. Together with and through a competitive local exchange carrier (CLEC) partner, we are co-located at 70 incumbent local exchange carriers (ILECs) central offices to provide DSL services, T1 access, network interconnection and local dial-tone. We operate a voice dial access network which consists of 69 POPs across the country.

We also own and operate a total of eight data centers (this includes 1 data center under construction in Toronto) in five major cities in Canada: two data centers in Ottawa, Ontario (totaling 14,800 potential max raised square feet), three data centers in Toronto, Ontario (totaling 36,400 potential max raised square feet), one data center in London, Ontario (totaling 30,000 potential max raised square feet), one data center in Edmonton, Alberta (totaling 8,200 potential max raised square feet), one data center in Vancouver, British Columbia (totaling 2,200 potential max raised square feet) through which we offer collocation, managed hosting, storage and other value added services. We have an extensive Internet network and we believe that we provide dial-up and ISDN Internet coverage to over 700 communities across Canada through a network of 51 POPs.

We market our services primarily through a combination of direct sales to independent agents, corporate and SME customers, Internet-based marketing aimed at residential customers, and telemarketing and media advertising aimed at residential customers.

International Carrier Services. Our International Carrier Services operations represented 41.6% of our net revenue for the year ended December 31, 2011. Our International Carrier Services business segment provides domestic and international minute transport and termination services and targets a diverse customer base including Tier 1 international carriers, multi-national carriers, wireless providers, VoIP providers, cable companies and Internet service providers (ISPs). As discussed above, we completed the acquisition of Arbinet on February 28, 2011, and we are in the process of integrating Arbinet operations and network platform into our existing International Carrier Services operations. The integration was focused on efficiencies through best practices and overall reductions.

United States. Our U.S. operations represented 4.5% of our net revenue for the year ended December 31, 2011. In the U.S., we provide international and domestic voice, data, business-class broadband, hosted IP-PBX, SIP trunking and VoIP services to SMEs and residential customers. We use a direct sales organization to sell to business customers. Our direct sales personnel offer business customers voice and hosted IP-PBX services. See Sales and Marketing; Direct Sales Force. To reach residential customers, we have advertised in national and regional newspapers, other publications and television channels whose market targets are expatriates to offer competitive rates for international and domestic telephone calls, data, Internet and VoIP services. We also sell retail VoIP services through Web-based on-line interactive marketing. We utilize independent agents to reach and enhance sales to both business and residential customers. We maintain customer service centers in Florida, and also outsource selected customer service functions. We outsource our 24-hour global network management to a third-party control center in India which monitors our global voice, Internet and data traffic. Additionally, we offer local and long-distance voice, and DSL services to SMEs in Puerto Rico. Currently, our Canadian senior management team is managing the U.S. Retail business. The focus continues to be on increased revenue, free cash flow and EBITDA, as well as customer service and customer growth.

Brazil. During the fourth quarter of 2011, the Company sold its Brazilian segment. As a result, the Company has applied retrospective adjustments for 2010, 2009, 2008 and 2007 to reflect the effects of the discontinued operations that occurred subsequent to December 31, 2010. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as income, or loss, as applicable, from discontinued operations. See Note 20 Discontinued Operations, for further information.

Europe. During the third quarter of 2010, the Company discontinued its Europe segment, which was also known as European retail operations and has presented the results of the Europe segment as discontinued operations and held for sale as of September 30, 2010. As a result, the Company has applied retrospective adjustments for 2009, 2008 and 2007 to reflect the effects of the discontinued operations that occurred subsequent to December 31, 2009. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as income, or loss, as applicable, from discontinued operations. See Note 20 Discontinued Operations, for further information.

Our European International Carrier Services operations are headquartered in London.

Network

General. We operate a global telecommunications network consisting of traditional and next-generation international gateway and domestic switches and related peripheral equipment, carrier-grade routers and switches for Internet and data services, data hosting and colocation centers, and undersea and trans-continental fiber optic cable systems. To ensure high-quality communications services, our network employs digital switching and fiber optic technologies, incorporates the use of SS7/C7 signaling and is supported by comprehensive network monitoring and technical support services.

Switching Systems. Our network makes use of 19 carrier-grade international gateway and domestic switch systems, Internet routers and media gateways in the U.S., Canada, western Europe, and the Asia-Pacific region.

We also operate a global VoIP network with an open network architecture which connects with our partners in over 150 countries through the use of open settlement protocol.

Fiber Optic Cable Systems. We have purchased and leased undersea and land-based fiber optic cable transmission capacity to connect our various switching systems. We either lease lines on a term basis for a fixed cost or purchase economic interests in transmission capacity through minimum assignable ownership units or indefeasible rights of use to international traffic destinations.

Throughout the previous years we have purchased or acquired through acquisitions various oceanic fiber capacity and land-based capacity. This capacity along with leased fiber capacity allows our switching platforms in our operating units to be connected and pass voice and data traffic.

Foreign Carrier Agreements. In selected countries where competition with the traditional Post Telegraph and Telecommunications companies (PTTs) is limited, we have entered into foreign carrier agreements with PTTs or other service providers which permit us to provide traffic into and receive return traffic from these countries.

Network Management and Control. We own and operate network management control centers in Toronto, Canada; London, England; and Sydney, Australia, which are used to monitor and control our switching systems, global data network, and other digital transmission equipment used in our network. Additional network monitoring, network management, and traffic management services are supported from our contingent Network Management Center (NOC) located in Gurgaon India. These network management control centers operate seven days per week, 24 hours per day, 365 days per year.

Network for Data and Internet Services. We have built an Internet backbone network that enables our global network to carry Internet and data traffic for our business, residential, carrier and ISP customers. This network uses packet switched technology, including IP and ATM. This network allows us to offer to customers data and voice communications services, including dial-up, broadband and dedicated Internet access, hosting, e-commerce, managed VPN services, VoIP, ATM and frame relay data services.

Data Centers. We offer world-class data center facilities with advanced 24 hours per day, 365 days per year customer access, onsite engineering support and help desk services; dedicated HVAC and environmental control systems; multi-stage fire suppression systems; uninterruptible power supply and backup generator; redundant data connections and services; routing and switching; shared and secure rack space; physical access technologies and practices; closed-circuit television and video security systems; and 24 x 7 building system and network monitoring. Our Australian data center facilities in Melbourne and Sydney occupy approximately 46,100 potential max raised square feet. Canada offers national data center coverage with locations in Toronto, Vancouver, Edmonton, London, and Ottawa, with approximately 91,600 potential max raised square feet.

Customers

Our residential customers are attracted to us because of competitive pricing as compared to traditional carriers and responsive customer service and support. We offer VoIP, broadband and dial-up Internet access, local access and wireless products to our residential customers in select markets. We are expanding our local and broadband offerings to additional markets and bundling them with traditional voice services.

Our business sales and marketing efforts primarily target SMEs with data, voice, Internet and managed hosting needs. We also target large multinational businesses.

We compete for the business of other telecommunications carriers and resellers primarily on the basis of price, service quality and presence. Sales to other carriers and resellers help us to negotiate better termination costs for our retail business units and increase the utilization of our network, thereby reducing our fixed costs per minute of use, as well as permitting our network to be interconnected with other major carriers to provide global coverage.

No single customer accounted for greater than 10% of net revenue for the year ended December 31, 2011 or for the year ended December 31, 2010.

Sales and Marketing

We market our services through a variety of sales channels, as summarized below:

Direct Sales Force. Our direct sales force is focused on business customers, including multinational businesses and international governmental organizations. They are engaged in generating new accounts and in the retention of current customers and cross selling products to current customers. A variety of products are utilized to maximize the customer s lifecycle, based on the customer s current product mix. Direct sales personnel are generally compensated with a base salary plus commissions. We have sales offices in Edmonton, Calgary, Toronto, Vancouver, Ottawa, London, Brisbane, Melbourne, Perth, Sydney, Chicago, Austin and Tampa. In addition, we maintain a direct sales team which exclusively sells services to International Carrier Services customers including other telecommunications carriers and resellers.

Independent Sales Agents. We also sell our services through independent sales agents and representatives, who typically focus on SMEs and residential consumers. An agent receives commissions based on revenue generated by customers obtained for us by the agent. The agents are nonexclusive to us and we require our agents and representatives to maintain minimum revenues.

Telemarketing. We employ full-time and part-time inbound and outbound telemarketing sales personnel, and we selectively outsource certain telemarketing functions to supplement sales efforts targeted at residential and small business customers.

Direct Marketing. We use a variety of print, television and radio advertising to increase name recognition and generate new customers. We reach potential customers by advertising in newspapers and on select radio and television programs.

Web-based Marketing. We use a variety of Web-based tools, including search marketing, banner ads and pop-up windows to target Internet users who prefer to purchase and research their purchase decisions on-line.

Third Party Distribution Agreements and Affinity Channels. We attempt to achieve brand recognition through use of the Primus® and TELEGROUP® registered trademarks and service marks and the Primus, Primus TELECOMMUNICATIONS and iPrimus trademarks and service marks. Through use of the Primus brand, we have been able to establish relationships to market our services through external retailers, manufacturers, affinity and preferred partnerships and programs. These relationships allow us to increase awareness of our services among customers and reduce the cost of customer acquisition.

Management Information and Billing Systems

We operate various management information, network and customer billing systems in our different operating subsidiaries to support the functions of network and traffic management, customer service and customer billing. For financial reporting, we consolidate information from each of our markets into a single database. For our billing requirements, we use several systems developed in-house as well as a few third party systems.

We believe that our financial reporting and billing systems are generally adequate to meet our business needs. We continually consider and evaluate whether our financial reporting and billing systems are generally adequate to meet our business needs, and in the future, we may determine that we need to invest additional capital to purchase hardware and software, license more specialized software and increase our capacity.

Competition

Voice

The telecommunications industry is highly competitive and significantly affected by regulatory changes, marketing and pricing decisions of the larger industry participants and the introduction of new services made possible by technological advances. We believe that long-distance service providers compete on the basis of price, customer service, product quality and breadth and bundling of services offered. In each country of operation, we have numerous competitors including wireline, wireless, VoIP and cable competitors. We believe that as the international telecommunications markets continue to deregulate, competition in these markets will increase. Prices for long-distance voice calls in the markets in which we compete have declined historically and are likely to continue to decrease. In addition, many of our competitors are significantly larger, have substantially greater financial, technical and marketing resources, larger networks and more products for bundling.

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Privatization and deregulation have had, and are expected to continue to have, significant effects on competition in the industry. For example, pursuant to U.S federal telecommunications statutes, regional bell operating companies (RBOCs) entered the long-distance market; long-distance carriers have entered the local telephone services market; and cable television companies and utilities are allowed to enter both the local and long-distance telecommunications markets. Consolidation among these large companies has occurred and continues to occur, which could change the dynamics of pricing and marketing. In addition, alternatives to wireline services, such as wireless and VoIP services, are significant competitive threats. This increase in competition adversely affects net revenue per minute and usage of traditional wireline services, and these trends are expected to continue.

The following is a brief summary of the competitive environment in our principal service regions:

Australia. Australia is one of the most deregulated and competitive communications markets in the Asia-Pacific region. Our principal competitors in Australia are Telstra Corporation Limited (Telstra), the dominant carrier, SingTel Optus Pty Limited, iiNet Limited, SP Telemedia Limited (known as TPG) and, until recently, AAPT, an affiliate of Telecom New Zealand, which recently withdrew from the residential services market, selling its residential customer base to iiNet. AAPT remains a significant competitor, along with Macquarie Telecom, in relation to the corporate and SME markets. Repeated pricing threats and actions by Telstra present serious competitive challenges (see Government Regulation Australia). In December 2010 the Australian government passed legislation to reform the regulatory pricing arrangements and provide for the separation of Telstra s wholesale and retail arms, which in association with the construction of a government owned national broadband network is designed to promote better competition.

Canada. The Canadian communications market is highly competitive and is dominated by a few established carriers whose marketing and pricing decisions have a significant impact on the other industry participants, including us. In residential markets, we compete with each of the incumbent telecommunications companies in their respective territories, of which the largest are those owned by BCE, Inc. (Bell Canada) in eastern Canada, and TELUS Corporation (TELUS) and MTS Allstream, Inc. in western Canada, and the large cable companies, including Rogers Communications, Inc. (Rogers) Shaw Communications Inc. and Videotron, who have launched their telecom service portfolios. We also compete against smaller resellers. In the highly competitive business market, we compete with Bell Canada and TELUS, who are both expanding beyond their traditional territories and competing with each other across the country, and with the national division of MTS Allstream, Inc., Rogers, Shaw Communications, Inc. and other smaller carriers, including Bragg Communications Inc., COGECO Inc. and Videotron. Major wireless carriers are also a significant source of competition.

Internet and Data

The market for Internet services and data services is extremely competitive. We anticipate that competition will continue to intensify. Our current and prospective competitors offering these services include national, international, regional and local ISPs, Web hosting companies, other long-distance and international long-distance telecommunications companies, local exchange carriers (LECs), cable television, direct broadcast satellite, wireless communications providers and on-line service providers. Many of these competitors have significantly greater resources, product portfolios, market presence and brand recognition than we do.

United States. In the U.S., which is among the most competitive and deregulated local and long-distance markets in the world, competition is based on pricing, customer service, network quality and the ability to provide value-added services and the bundling of services. AT&T, Inc. and Verizon Communications, Inc. are the largest suppliers of local voice and long-distance services. Wireless carriers, of which AT&T and Verizon are now the largest, have gained significant ground, particularly in the domestic voice market, and VoIP cable-based service providers present a growing source of competition.

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Government Regulation

We are subject to varying degrees of regulation in each of the jurisdictions in which we operate. Local laws and regulations, and the interpretation of such laws and regulations, differ among those jurisdictions. There can be no assurance that (1) future regulatory, judicial and legislative changes will not have a material adverse effect on us; (2) domestic or international regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations; or (3) regulatory activities will not have a material adverse effect on us.

Regulation of the telecommunications industry continues to change rapidly both domestically and globally. Privatization, deregulation, changes in regulation, consolidation, and technological change have had, and will continue to have, significant effects on competition in the industry. Over time we have become subject to increasing competition in all of the markets in which we operate, and we expect such increases in competitive pressure to continue. Although we believe that continuing deregulation with respect to portions of the telecommunications industry will create opportunities for firms such as us, there can be no assurance that deregulation and changes in regulation will be implemented in a manner that would benefit us.

The regulatory frameworks in certain jurisdictions in which we provide services are described below:

United States

In the U.S., our services are subject to the provisions of the Communications Act of 1934, as amended (the Communications Act), and other federal laws, the Federal Communications Commission (FCC) regulations, and the applicable laws and regulations of the various states.

Certain of our services (our telecommunications services) constitute common carrier offerings subject to Title II of the Communications Act and associated FCC regulations and similar state laws. Among other things, these requirements impose an obligation to offer service on a nondiscriminatory basis at just and reasonable rates, and to obtain regulatory approval prior to withdrawing from the provision of regulated services, to any assignment of authorizations, or to any transfer of legal or actual control of the company.

Our interstate telecommunications services are subject to various specific common carrier telecommunications requirements set forth in the Communications Act and the FCC s rules, including operating, reporting and fee requirements. Both federal and state regulatory agencies have broad authority to impose monetary and other penalties on us for violations of regulatory requirements.

International Service Regulation. The FCC has jurisdiction over common carrier services linking points in the U.S. to points in other countries. We provide such services. Providers of such international common carrier services must obtain authority from the FCC under Section 214 of the Communications Act. We have obtained the authorizations required to use, on a facilities and resale basis, various transmission media for the provision of international switched services and international private line services on a non-dominant carrier basis. The FCC is considering a number of possible changes to its rules governing international common carriers. We cannot predict how the FCC will resolve those issues or how its decisions will affect our international business. FCC rules permit non-dominant carriers such as us to offer some services on a detariffed basis, where competition can provide consumers with lower rates and choices among carriers and services. With some exceptions, current FCC rules require facilities-based U.S. carriers, like us, with operating agreements with dominant foreign carriers, to abide by the FCC s International Settlements Policy by following uniform accounting rates, an even split in settlement rates, and proportionate return of traffic, for agreements with carriers on certain routes. U.S. carrier arrangements with non-dominant foreign carriers on a substantial number of international routes where competition exists are not subject to these requirements, and over the past several years the FCC has exempted many U.S.-international routes from the International Settlements Policy, thereby allowing carriers to negotiate market-based arrangements on those routes. In May 2011, the FCC proposed to remove the International

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Settlement Policy requirements from all of the remaining routes with the exception of Cuba. The FCC also proposed to require U.S. carriers to file agreements and rates for the provision of services when the agreed-upon rates are above a pre-determined benchmark established by the FCC. We may be subject to enforcement actions including, but not limited to, fines, cease and desist orders, or other penalties if we fail to comply with the obligation to file agreements and other documentation with the FCC concerning our international services. To the extent that the FCC continues to exempt U.S.-international routes from the International Settlements Policy, we may take advantage of these more flexible arrangements with non-dominant foreign carriers, and the greater pricing flexibility that may result, but we may also face greater price competition from other international service carriers. We cannot predict the actions the FCC will take in the future or their potential effect on our international termination rates, costs, or revenues.

Domestic Service Regulation. With respect to our domestic U.S. telecommunications services, we are considered a non-dominant interstate carrier subject to regulation by the FCC. FCC rules provide us significant authority to initiate or expand our domestic interstate operations, but we are required to obtain FCC approval to assume control of another telecommunications carrier or its assets, to transfer control of our operations to another entity, or to discontinue service. We are also required to file various reports and pay various fees and assessments to the FCC and various state commissions. Among other things, interstate common carriers must offer service on a nondiscriminatory basis at just and reasonable rates. The FCC has jurisdiction to hear complaints regarding our compliance or non-compliance with these and other requirements of the Communications Act and the FCC s rules, including, for example, alleged unauthorized changes in a customer s preferred carrier. Among other regulations, we are also subject to the Communications Assistance for Law Enforcement Act (CALEA) and associated FCC regulations which require telecommunications carriers and VoIP providers to configure their networks to facilitate law enforcement authorities to perform electronic surveillance; to the FCC and Federal Trade Commission (FTC) telemarketing requirements which set out the specific parameters for application of the Do-Not-Call Registry, requirements for telemarketing solicitation, and prohibition on outbound telemarketing in some circumstances; and to the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, which places certain restrictions on commercial electronic mail messages. We may be subject to enforcement actions including, but not limited to, fines, cease and desist orders, or other penalties if we fail to comply with FCC or FTC regulations applicable to intrastate domestic telecommunications services and information services, telemarketing regulations, and related requirements.

Normally our long-distance customers, and the recipients of calls from our customers, do not connect directly to our network but, instead, are connected to our network by means of the local facilities of LECs, which impose regulated charges on us, called switched access charges, to originate and terminate calls over their local facilities. The FCC has recently adopted major changes to its rules regarding LEC access charges, which have created uncertainty concerning our termination and origination costs as well as possible competitive pressures affecting our retail pricing.

Interstate telecommunications carriers and VoIP providers are required to contribute to the federal Universal Service Fund (USF). If the FCC or the Universal Service Fund Administrator were to determine that the USF reporting for the companies, including our subsidiaries Primus Telecommunications, Inc. (PTI) and Lingo, Inc. (Lingo), is not accurate or in compliance with FCC rules, the companies could be subject to additional contribution, as well as to monetary fines and penalties. In addition, the FCC is considering revising its USF mechanisms and the services considered when calculating the USF contribution. We cannot predict the outcome of these proceedings or their potential effect on our USF contributions. Some changes to the USF under consideration by the FCC may affect different entities more than others, and we may be disadvantaged as compared to our competitors as a result of FCC decisions regarding USF. In addition, the FCC may extend the obligation to contribute to the USF to certain services that we offer but that are not currently assessed USF contributions.

Voice-over-Internet Protocol (VoIP). VoIP services that permit subscribers to send calls to and receive calls from the traditional telephone network, known as interconnected VoIP services, are generally subject to the regulatory authority of the FCC. We offer such services. For many years the FCC has been considering whether to classify such services as telecommunications services or information services under the Communications Act. Information services are generally subject to less regulation than telecommunications services. However, the FCC has extended a number of regulatory obligations normally applicable to telecommunications services to VoIP services, irrespective of the lack of clarity regarding the classification of such services. These include the obligation to (1) contribute to the USF; (2) comply with CALEA; (3) comply with the FCC s rules regarding protecting customer proprietary network information (CPNI); (4) provide enhanced 911 emergency (E911) services, and to disclose limitations on such services to end users; (5) permit customers to keep their telephone number when changing from one carrier to another; (6) deploy equipment and provide services that make reasonable accommodations for the needs of disabled persons; and (7) pay a variety of regulatory fees; (8) notify customers of service disconnection under certain circumstances; and (9) pay intercarrier compensation charges to other carriers for termination of VoIP calls. We cannot predict what other regulatory obligations, if any, will be imposed on our VoIP operations, nor can we predict whether the FCC will eventually classify VoIP as a telecommunications service and, if it does, what additional regulatory obligations, if any, the FCC would choose to impose on such services. The uncertainty regarding the regulatory obligations applicable to interconnected VoIP services presents a number of situations which could have a material negative impact on our operating costs and profitability. These potential regulatory developments include:

In 2005, the FCC ruled that nomadic interconnected VoIP services are interstate in nature, and, therefore, that nomadic VoIP providers are not subject to most state-level public utility/common carrier regulations. We believe that our own VoIP service is subject to this ruling. While several states have asserted jurisdiction over fixed interconnected VoIP services, none has yet attempted to regulate nomadic VoIP. That said, we cannot predict whether any individual states would make such an effort, nor can we predict the outcome of any such effort.

We believe that our VoIP network is in compliance with the requirements of CALEA. However, we cannot predict whether law enforcement or the FCC will agree in all cases, nor can we predict whether we may be subject to fines or penalties if we are found not in compliance with CALEA.

With respect to our VoIP-related 911 obligations, we have contracted with a third party provider that is a market leader in emergency 911 service solutions to provide these services. Our ability to expand our VoIP services in the future may depend on the ability of that provider to provide E911 access or on any additional 911-related obligations the FCC may impose. At present, and similar to many other VoIP providers, for some of our customers we cannot offer VoIP E911 services that route emergency calls in a manner fully consistent with the FCC rules. We are addressing this issue with our VoIP E911 solutions provider. The FCC may determine that our VoIP E911 solution for some of our customers does not satisfy the FCC s requirements, in which case the FCC could require us to disconnect a significant number of our VoIP subscribers, which could have a material adverse effect on the Company s financial position, results of operations and cash flows. In addition, the FCC is considering whether it should impose additional VoIP E911 obligations on interconnected VoIP providers, including consideration of a requirement that interconnected VoIP providers automatically determine the physical location of their customer rather than allowing customers to manually register their location. We cannot predict the outcome of this proceeding, nor its impact on us, at this time.

The FCC s CPNI rules, to which our VoIP operations are subject, are intended to protect customer information from unauthorized use or disclosure. We may be subject to enforcement actions including, but not limited to, fines, cease and desist orders, or other penalties if we fail to comply with the CPNI obligations.

Section 255 of the Communications Act and associated FCC rulings require traditional phone providers and manufacturers of associated equipment to ensure that their equipment and services meet certain obligations regarding access by persons with disabilities. The FCC has extended those requirements to providers of interconnected VoIP services and to manufacturers of specially designed equipment used to provide those services. While we believe that we are in compliance with these requirements, the FCC might find us not to be in compliance, which could subject us to sanctions, including fines.

The FCC has also extended to VoIP providers the obligations of Section 225 of the Communications Act, which (among other things) requires contributing to the Telecommunications Relay Services fund, and the offering of 711 abbreviated dialing for access to relay services. We may be subject to enforcement actions including, but not limited to, fines, cease and desist orders, or other penalties if we are not able to comply with them. For example, the FCC mandates that interconnected VoIP providers like us must transmit 711 calls to a relay center that facilitates the ability of speech- and hearing-impaired individuals to communicate. The FCC issued a temporary waiver of that requirement insofar as it requires such providers to transmit the 711 call to an appropriate relay center, meaning the relay center(s) serving the state in which the caller is geographically located or the relay center(s) corresponding to the caller s last registered address. We may be subject to enforcement actions including, but not limited to, fines, cease and desist orders, or other penalties if we are not able to comply with these new disability provisions.

The FCC now requires interconnected VoIP service providers like us to pay regulatory fees to the FCC. The assessment of these fees has increased our costs, reduced our profitability and caused us to increase the price of our retail service offerings.

On December 23, 2010, the FCC adopted an order that imposes network neutrality obligations on providers of fixed and wireless broadband Internet access services, with wireless providers subject to a more limited set of rules. Among other things, the rules: (1) require providers of consumer broadband Internet access to publicly disclose their network management practices and the performance and commercial terms of their broadband Internet access services; (2) prevent broadband Internet access providers from blocking lawful content, applications, services, or non-harmful devices, subject to reasonable network management; and (3) prevent broadband Internet access providers from unreasonably discriminating in the transmission of lawful network traffic over a consumer s broadband Internet access service. The FCC s rules became effective on November 20, 2011. Several parties have appealed these rules to the U.S. Court of Appeals for the District of Columbia. We cannot predict to what extent these or any other appeals may succeed, nor can we predict what impact these rules may have on our business at this time. If a broadband Internet access provider were to interfere with our products and services, such actions could result in loss of existing users and increased costs, and could impair our ability to attract new users, thereby harming our revenue and growth.

The FCC recently adopted substantial reforms to the system under which service providers compensate each other for interstate, intrastate, and local traffic origination and termination services, including VoIP traffic that originates or terminates on the public switched telephone network (PSTN) (i.e., intercarrier compensation), and applied new call signaling requirements on VoIP and other service providers. The FCC s rules concerning charges for transmission of VoIP traffic could result in an increased cost to terminate the Company s traffic absent specific agreements that provide the appropriate rate to be charged for such traffic when passed between us and other carriers. Specifically, for VoIP traffic that originates or terminates on the PSTN, the order establishes a transitional framework that: (1) establishes default intercarrier compensation rates for toll VoIP-PSTN traffic that are equal to interstate access rates applicable to non-VoIP traffic; (2) establishes default intercarrier compensation rates for other VoIP-PSTN traffic that will be the otherwise-applicable reciprocal compensation rates (i.e., local traffic); and (3) allows carriers to tariff these default charges in the relevant federal and state tariffs to be applied in the absence of an agreement for different intercarrier compensation. The rules then provide for a multiyear transition to a national bill-and-keep framework as the ultimate end state for all telecommunications traffic exchanged with a LEC. (Under bill-and-keep, providers do not charge an originating carrier for terminating traffic and instead recover the costs of termination from their own customers). To the extent that the Company transmits traffic not subject to a specific intercarrier compensation arrangement and another provider were to assert that the traffic we exchange with them is subject to higher levels of compensation than we, or the third parties terminating our traffic to the PSTN, pay today (if any), our termination costs could initially increase, but ultimately would be reduced as the intercarrier compensation system transitions to a bill-and-keep framework.

The recent FCC order also adopted rules to address phantom traffic, *i.e*., calls for which identifying information is missing or masked in ways that frustrate intercarrier billing. Specifically, the FCC s rules require service providers that originate interstate or intrastate traffic on the PSTN, or that originate interstate or intrastate interconnected VoIP traffic destined for the PSTN, to transmit the telephone number associated with the calling party to the next provider in the call path. Intermediate providers must pass calling party number (CPN) or charge number (CN) signaling information they receive from other providers unaltered, to subsequent providers in the call path. While the Company believes that it is in compliance with this rule, to the extent that Primus passes traffic that does not have appropriate CPN or CN information, it could be subject to fines, cease and desist orders, or other penalties

State Regulation. Traditional long-distance calls for which the caller and recipient are both located in the same state are subject to regulation by that state. Our intrastate long-distance operations are therefore subject to various state laws and regulations, including, in most jurisdictions, certification and tariff filing requirements. PTI, our principal operating subsidiary in the U.S., maintains the necessary certificate and tariff approvals, to provide intrastate long-distance service in 49 states and Puerto Rico. PTI also maintains the necessary certificate to provide local services in Puerto Rico. Some states also require carriers to file periodic reports, pay various fees and surcharges, including universal service and 911 surcharges, and comply with service standards and consumer protection rules. States often require prior approval or notification for certain stock or asset transfers or, in several states, for the issuance of securities or debt or for name changes. As a certificated carrier, consumers may file complaints against us at the public service commissions. Certificates of authority can generally be conditioned, modified, cancelled, terminated, or revoked by state regulatory authorities for failure to comply with state law and/or rules, regulations and policies of the state regulatory authorities. Fines and other penalties also may be imposed for such violations. Public service commissions also regulate access charges and other pricing for telecommunications services within each state. The RBOCs and other LECs have been seeking reduction of state regulatory requirements, including greater pricing flexibility which, if granted, could subject us to increased price competition. We may also be required to contribute to USFs in some states.

State Transaction Taxes and Fees Applicable to VoIP Services in the United States. Prior to 2010 the Company determined that with limited exceptions there was no requirement to bill, collect and remit transaction-based state or local taxes (such as sales and use, excise, and utility user taxes), fees or surcharges on charges to our VoIP service customers. During 2010, we made a modification to the language in our customer agreements, and we determined that the Company may be required to bill, collect and remit certain transaction-based taxes. The Company began to bill and collect such taxes in 2010. In certain jurisdictions, there exists an immaterial amount of billed and collected taxes that have not been remitted, which the Company is in the process of remitting. In 2010, the FCC ruled that states may require interconnected VoIP service providers to contribute to state Universal Service Funds, and expressly deferred ruling on whether such providers must do so retroactively. We are continuing to assess the applicability of this ruling to our business and developing compliance plans. In limited jurisdictions, we determined we are required to collect such taxes and are currently billing and collecting these taxes from our customers. To the extent that we have collected taxes and fees and have not yet remitted such taxes and fees, we may be subject to fines and penalties and other claims. To the extent that we have not been collecting taxes and fees, we may be subject to retroactive liability for VoIP-specific taxes, fees and surcharges and, potentially, penalties and interest in a number of states, which may have a material adverse effect on the financial position, results of operations and cash flows of our VoIP business.

Australia

The provision of our telecommunications services is subject to federal regulation in Australia. The two primary instruments of regulation are the Telecommunications Act 1997 and federal regulation of network access pricing and anti-competitive practices pursuant to the Competition and Consumer Act of 2010 formerly the Trade Practices Act 1974 (the CCA). The current regulatory framework had its inception in July 1997.

We are licensed as a carrier under the Telecommunications Act 1997, which permits us to own or operate transmission infrastructure that is used to supply carriage services to the public. With respect to providing carriage services to the public, we must comply with legislated service provider rules contained in the Telecommunications Act 1997 covering matters such as operator services, regulation of land access, directory assistance, provision of information to allow maintenance of an integrated public number database and itemized billing.

In December 2010 the Australian government introduced significant reform to the regulatory framework through the introduction of the Telecommunications Legislation Amendment (Competition and Consumer Safeguards) Act 2010. That legislation provided for the structural separation of Telstra (to create distinct retail and wholesale carrier services operations), revised the legislative provisions that deal with interconnection pricing, and introduced additional consumer protection measures. The interconnection revisions establish a mechanism by which the terms and conditions of access to a declared service can be determined in advance by the Australian Competition and Consumer Commission (ACCC) (whereas previously these were determined through an arbitration process and were largely retrospective in application). The ACCC has largely completed its review of regulatory interconnection pricing under the revised regulatory framework with a view to establishing access pricing certainty for the coming 3 years. The telecommunications specific provisions in the CCA are intended to ensure fair and competitive access to essential facilities and monopoly services, and address anti-competitive conduct of carriers, particularly those with substantial market power such as Telstra. Under the legislation, and in association with the construction of the national broadband network (NBN), Telstra has also been required set out commitments to equivalence of supply in a separation undertaking which is currently under consideration by the ACCC. The right of access provisions also apply to any carrier that owns or controls essential infrastructure or services that have been declared as such by the ACCC on grounds that access should be provided for the purposes of competition. The recent reforms generally represent improvement in the conditions and prospects for competitors such as us, and should ultimately lead to better price certainty and less regulatory risk.

In April 2009 the Australian government announced its intention to construct the NBN. The government subsequently established NBN Co to construct and operate a fiber to the home NBN and after a successful trial in Tasmania a number of initial deployment sites are now underway on mainland Australia. In addition, the regulatory environment for the NBN is now also largely settled, with the ACCC now considering the access undertaking lodged by NBN Co that sets out the access framework. The NBN represents the prospect of long-term improvement in the conditions for industry competitors such as Primus Telecom, given the Australian government s intention that NBN Co operate as a stand-alone wholesale carrier services company, therefore removing some of the friction that currently exists between competitors and the current (vertically integrated) monopoly wholesale service provider, Telstra. Telstra has agreed to progressively migrate services from its network to the NBN as the NBN is deployed.

Two federal regulatory authorities principally exercise control over the broad range of issues affecting the operation of the Australian telecommunications industry. The Australian Communications & Media Authority (the ACMA) is the authority regulating the operation of the industry, licensing of carriers and technical matters, and the ACCC has the role of promotion of competition and consumer protection, particularly with respect to dealing with carrier to carrier interconnection and network access. Telstra, the dominant carrier and former government owned monopoly, has historically challenged many of the key principles applied by the ACCC to access pricing, and is likely to continue to contest ACCC regulatory and pricing decisions. Telstra has also successfully lodged a number of regulatory exemption applications with the ACCC, submitting that it should be exempted from an obligation to provide regulated access services on various routes and within various locations in Australia. Some of these applications have been successful in relation to voice, line rental services, transmission services, local carriage services and public switched telephone network originating access services

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supplied within certain CBD and metropolitan exchanges, where the ACCC considered sufficient alternative supply was available. The ACCC is unwinding some of these exemptions as they apply to the supply of voice services in metropolitan exchanges, however, a risk remains that Telstra could increase its prices of continuing exempt services and/or deny us access to essential services we need to compete.

In December 2009 the Australian government announced a policy to require ISPs to impose mandatory filtering of certain objectionable and illegal material through blocking access to specified URLs. This initiative has presently been delayed while the Australian government has directed a review of content classification rules and at this stage it is not clear what direction the policy will take and, consequently, what cost and operational implications this policy could have on us.

In addition to the CCA and the Telecommunications Act 1997, the Australian telecommunications industry is also subject to other federal legislation, state legislation, various regulations pursuant to delegated authority and legislation, ministerial declarations, codes, directions, licenses, and statements of Australian government policy. Some of the industry consumer protection codes are under review; however, we do not anticipate these revisions to lead to any material detrimental outcomes for us.

Licensed carriers are subject to charges that are intended to cover the costs of regulating the telecommunications industry and are obligated to comply with license conditions (including obligations to comply with the Telecommunications Act 1997 and with the telecommunications access regime and related facilities access obligations). Carriers also must meet the cost of the Universal Service Obligations (USOs), which assist in providing all Australians, particularly in remote areas, with reasonable access to standard telephone services. Telstra is currently the sole universal service provider. Since 2000, the responsible Minister of the Australian government may make a determination of the amount of USO subsidies, with advice from the ACMA. No methodology is provided in legislation and the Minister could make a determination of a Universal Service Levy (USL) that would be material to us. Historically, the USL has been set at levels that do not have a material impact. However, the Australian government has since moved to indicate a preference that the industry be locked into subsidizing rural and regional services for a further 20 year period while the NBN is being rolled out. The Australian government is currently consulting on this proposal, which is not expected to impose an increased burden over the short term, but could impose an increased burden over the longer term.

The Australian government has initiated an independent review to examine the policy and regulatory frameworks that apply to the converged media and communications landscape in Australia. This review commenced in recognition of convergence across communications and media industries. At this time the committee has published an interim report and will be finalizing its report in March 2012. The interim report largely calls for better harmonization of regulation across the various content delivery platforms.

Fair Trading Practices. The ACCC enforces legislation (the CCA) for the promotion of competition and consumer protection, and is responsible for regulating rights of access to services (including pricing for access) and interconnection. The ACCC can issue a competition notice to a carrier which has engaged in anti-competitive conduct. Where a competition notice has been issued, the ACCC can seek pecuniary penalties, and other carriers can seek damages. Under the CCA, other carriers can also initiate their own proceedings in the event of violation of competition laws.

Consumer Protection. The ACCC s consumer protection role, as set out in the CCA, is also shared with other state-based regulators. Each state has its own fair trading legislation administered by consumer affairs authorities. In addition, ACMA undertakes some activities in relation to consumer protection, predominantly in connection with industry codes of conduct. As a service provider we must also be a member of the Telecommunications Industry Ombudsman (TIO) Scheme. The TIO is responsible for handling complaints from consumers about carriers and ISPs. The TIO may impose financial penalties upon carriers that do not satisfactorily deal with consumer complaints.

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Canada

We are a reseller of telecommunications services in Canada. Because we do not own or operate transmission facilities in Canada, we are not subject to direct regulation by the Canadian Radio-television and Telecommunications Commission (CRTC) pursuant to the Telecommunications Act (as amended, the Canadian Telecommunications Act). We may resell long-distance service, local telephone service, wireless service and Internet access without the regulation of our rates, prices or the requirement to file tariffs. In addition, as described below, as a reseller we are not subject to restrictions on foreign ownership or control.

Regulation. The CRTC has issued various decisions and constructed certain frameworks that directly affect our obligations and operations as a reseller.

In 2000, the CRTC implemented a revenue-based contribution regime to replace the per minute contribution charge formerly in place to support universal access. The revenue-based contribution mechanism collects from a wider base of telecommunications service providers, including resellers, and has lowered our contribution expenses since 2001.

We are required to hold a license to provide Basic International Telecommunications Services (a BITS license) pursuant to which we are subject to the requirements not to engage in anti-competitive conduct in relation to the provision of international telecommunications services and to observe the contribution regime described immediately above.

We operate as a local services reseller, both in reselling LEC local services and in the provision of local VoIP services interconnected with the public switched telephone network. As such, we are subject to a number of obligations that are passed on through our contractual arrangements with LECs from which we purchase services. These include:

Registration. We are required to be registered with the CRTC to provide these services.

The provision of 911 services. For fixed services such as our circuit-switched local services, we are required to provide the same standard of 911 service as the underlying LEC. For our VoIP services, however, which are considered to be nomadic by the CRTC, we are required to implement a solution under which the CRTC requires us to employ the zero-dialed emergency routing services provided by the ILEC in its serving territory in order to route 911 calls to an operator, who determines the caller s location in the first instance. To date, the CRTC has declined to mandate nomadic VoIP 911 providers to implement 911 functionality equivalent to that required on circuit-switched local services. The CRTC has established additional safeguards intended to improve nomadic VoIP 911 service. It is also expected that the CRTC will continue to review and seek to mandate the implementation of nomadic VoIP 911 service that is equivalent to the 911 service provided on circuit-switched local services if feasible.

Customer notifications. Local VoIP providers are subject to stringent and detailed customer notification requirements regarding the limitations associated with their 911 services. These include warnings to be included in all of the providers print, online and broadcasting marketing materials.

Number portability. Although local voice resellers and VoIP providers must obtain their numbers from a LEC, they are subject to the requirement to permit porting out of local numbers.

Privacy safeguards. Local resellers are required to provide certain privacy safeguards, including the provision of the privacy indicator, automated universal per-call blocking of calling line identification and others. To the extent that VoIP providers are unable to provide these privacy safeguards, they are required to inform their customers of this fact.

Message Relay Service. All local resellers, including VoIP providers, are required to provide access to message relay service (MRS). This is to include both Teletypewriter Relay Service (TTY Relay) and, as of July 21, 2010, Internet Protocol Relay Service (IP

Relay).

We also operate as a non-facilities based Internet service provider, both as a reseller of high speed Internet service and a digital subscriber line provider. As such, we are subject to certain obligations passed on through our contractual arrangements with LECs from which we purchase services. These include:

Registration. We are required to be registered with the CRTC to provide these services.

Disclosure. All Internet service providers are required to disclose the technological and economic traffic management practices that are applied to their Internet services.

We are also subject to other obligations related to our operations. These include:

Compliance Filings. We are required to satisfy various compliance and reporting obligations to the CRTC.

Digital Network Service Restrictions. We are obligated to not partake in the simple resale of digital network services, which we use to access certain customers and interconnect the sites where we have located equipment.

As a reseller, we rely on certain leased facilities and services to provide telecommunication services. Some of these services and facilities are required to be made available on a wholesale basis by incumbent providers as the result of CRTC regulation. These services and facilities are also subject to other regulation and policies, such as direct rate regulation, that impacts the respective service and facility rates and availability. In addition, we are subject to certain indirect regulation that applies to all competitors that utilize these services and facilities.

Price Cap Framework. In a Price Cap decision issued in May 2002, the CRTC lowered the prices incumbent providers can charge competitors for a range of competitor services, i.e., certain facilities and services required by competitors to provide telecommunications services to their end-customers and mandated by the CRTC (see discussion of the new framework for international carrier services, below). The Price Cap formula set out in this decision required the ILECs to revise the rates of selected services (primarily local telecommunications services) yearly by the rate of inflation minus a productivity offset of 3.5%. The rates of other service groupings were capped and others were uncapped with upward pricing constraints. In a decision dated April 2007, the CRTC issued the parameters of the new Price Cap framework. The new Price Cap framework is similar to the previous framework in that rates for service groupings are capped, uncapped and subject to upward or downward pricing constraints. The productivity offset still applies to selected services. CRTC decided not to impose an expiry date for the current Price Cap framework. Accordingly, the current Price Cap framework continues to allow for certain savings on competitor services for resellers.

The Policy Direction. In 2005 the federal government appointed a Telecom Policy Review Panel to review Canada s telecommunications policy framework. The Panel s report was released in March of 2006. Following the release of the report, the federal government issued a Policy Direction to the CRTC on December 18, 2006 that required, among other things, that in exercising its powers and duties, it rely on market forces to the maximum extent feasible. The Policy Direction has had an impact on CRTC decisions, including those described immediately below. The Policy Direction directs the CRTC to take into account the principles of technological and competitive neutrality, the potential for incumbents to exercise market power in the international carrier services and retail markets for the service in the absence of mandated access to international carrier services, and the impediments faced by new and existing carriers seeking to develop competing network facilities.

Wholesale and Essential Services. On March 3, 2008, the CRTC issued a decision revising the definition of an essential service and the classifications and pricing principles under which facilities-based carriers are to offer specified facilities and services on a wholesale basis to competitors at regulated rates. Under this revised regulatory framework for wholesale services and facilities, the CRTC has classified existing wholesale services and facilities into six categories: essential, conditional essential, conditional mandated non-essential, public good, interconnection, and non- essential subject to phase-out. More than a third of wholesale services will be deregulated by 2012, including intra-exchange transport services which are used to interconnect our sites where we have located DSLAM equipment. The area likely to have the next-largest impact involves high-speed access to business services, which is to be deregulated in 2013. A further review of the framework is scheduled for 2014.

Negotiated Agreements for Wholesale Services. In a regulatory policy related to the new wholesale framework, dated January 2009, the CRTC determined that it would be appropriate to allow for negotiated agreements for certain services that were mandated pursuant to the wholesale framework (i.e., those services classified as conditional essential and conditional mandated non-essential). Accordingly, we now have the ability to purchase these services on a tariff basis or through a negotiated agreement.

Wholesale High-Speed Internet Access Services. In a decision dated August 2010, the CRTC upheld its decision to require the ILECs and cable companies to provide wholesale Internet access services at speeds equivalent to their retail offerings. This decision extended the requirement to the ILEC and cable companies Internet access services provided over next-generation facilities, such as fibre-to-the-node, where deployed.

Technological and Economic Traffic Management Practices. In a decision dated October 2009, the CRTC set out a framework to regulate the use of Internet traffic management practices by ISPs on both retail and wholesale Internet access services and facilitate reviews of such practices against that framework. For economic traffic management practices applied on retail services, such as usage-based billing, the CRTC required only continual disclosure of such practices. A more robust framework was set out for technological traffic management practices applied to retail services. This framework requires disclosure of implementation, implementation in a manner that addresses a defined purpose and a requirement to seek ex ante approval if the practice will control the content or influence the meaning or purpose of telecommunications. The CRTC also permitted incumbent providers to apply to implement economic traffic management practices on their wholesale Internet access services and implement technological traffic management practices on these services that are equivalent to those applied to their retail services. As a result of this decision, we may continue to utilize the traffic management practices that we have implemented on our retail Internet service that is provided via ILEC unbundled facilities obtained through arrangements with CLECs. However, our services provided via incumbent wholesale Internet access remain subject to potential technological and economic traffic management practices applied by the incumbent provider.

Economic Traffic Management Practices on Wholesale Internet Access Services. In November 2011, the CRTC approved a new capacity-based billing framework for incumbents seeking to apply economic traffic management practices on their residential wholesale Internet access services. The CRTC also permitted incumbents seeking to maintain flat-rate models to do so. In addition, the CRTC determined that business wholesale Internet access services will remain flat-rated and not subject to the new capacity-based billing framework. While this new framework will require potential changes to the retail residential services that we provide using these services, it provides us with the ability to offer differentiated and innovative services. In addition, the retail Internet service that we provide through ILEC facilities obtained via strategic arrangements with CLECs will not be impacted by this new framework.

Competition. Long-distance competition has been in place in Canada since 1990 for long-distance resellers and since 1992 for facilities-based carriers. In June 1992, the CRTC issued Telecom Decision CRTC 92-12 requiring the ILECs to interconnect their networks with their facilities-based, as well as reseller, competitors. Since 1994, the ILECs have been required to provide equal access, which eliminated the need for customers of competitive long-distance providers to dial additional digits when placing long-distance calls. Bell Canada and TELUS are the two largest ILECs in Canada, with the former operating mainly in the Canadian provinces of Ontario and Quebec and the latter operating mainly in the Canadian provinces of British Columbia and Alberta. MTS Allstream Inc., the ILEC serving the Canadian province of Manitoba, has acquired Allstream Inc. (formerly AT&T Canada Corp.) in 2004 and is now competing nationally as well. The other nationwide competitor, Call-Net Enterprises Inc., which operated as Sprint Canada, was acquired by Rogers in 2005. Cable TV companies, such as Rogers, Shaw Communications Inc. and Vidéotron Limited, launched their local telephone services in July 2005 and have had a great deal of success thus far. Their local service is provided either via their cable network or acquired CLEC (i.e., Call-Net) or on a resold basis from an underlying LEC.

As markets become competitive, the Canadian Telecommunications Act permits the CRTC to forbear from regulating the rates and terms of service of Canadian carriers. The long-distance rates of Canadian ILECs have largely been forborne from regulation since 1997. The ILECs rates for retail Internet services were forborne from regulation in 1999. On April 6, 2006, the CRTC established a framework for forbearance in respect of local services by defining the geographic markets in which the CRTC will forbear from regulating as the criteria for deregulation are met, and by establishing these criteria. On April 4, 2007 the Governor-in-Council varied this framework by reducing the size of the geographic market in which the criteria are to be met and by relaxing the criteria to be met. As of 2010, approximately 80% of all residential local lines and 72% of commercial local lines in Canada have been deregulated.

The Competition Bureau issued an Information Bulletin on the Abuse of Dominance Provisions as applied to the Telecommunications Industry on June 6, 2008, in which the Bureau describes its approach in reviewing abuse of dominance complaints in telecommunications markets where the CRTC has forborne from regulating conduct.

On March 12, 2009, the Canadian Competition Act was amended to provide the Competition Tribunal with the power to order the payment of an administrative monetary penalty of up to 15 million Canadian dollars in cases of abuse of dominant position. Subject to any relevant defenses, these amendments apply to telecommunications service providers.

Foreign Ownership Restrictions. Under the Canadian Telecommunications Act and the Radiocommunication Act, and certain regulations promulgated thereunder (i.e., the Radiocommunication Regulations and the Canadian Telecommunications Common Carrier Ownership and Control Regulations), foreign ownership restrictions apply to telecommunications common carriers and radiocommunication carriers (Canadian carriers), a concept which includes, for example, CLECs and microwave license holders, but not to companies, such as resellers, that do not own or operate transmission facilities. Accordingly, resellers may be wholly foreign-owned and controlled.

The restrictions applicable to Canadian carriers limit the amount of foreign investment in Canadian carriers to no more than 20% of the voting equity of a Canadian carrier operating company and no more than 33 $^{1}/3$% of the voting equity of a Canadian carrier holding company. The restrictions also limit the number of seats which may be occupied by non-Canadians on the board of directors of a Canadian carrier operating company to 20%. In addition, under Canadian law, a majority of Canadians must occupy the seats on the board of directors of a Canadian carrier holding company. Although there is no restriction on foreign investors holding non-voting equity in a Canadian carrier, the law requires that the Canadian carrier not be controlled in fact by non-Canadians. The concept of control in fact is very broad, and takes into account all commercial arrangements between the Canadian carrier and third parties.

Primus Telecommunications Canada Inc., a Canadian corporation and wholly owned subsidiary of Group (Primus Canada), along with several other telecommunications service providers, has sought to have the Canadian government review foreign ownership restrictions with a view to lowering these restrictions or eliminating them. In April 2003, the Industry Committee of the House of Commons recommended removing these restrictions in their entirety, for both telecommunications common carriers and for broadcasting distribution undertakings (BDUs) such as cable companies. In June 2003, however, another committee of the House of Commons (the Heritage Committee) expressed concerns that changes in ownership restrictions for either telecommunications common carriers or BDUs could have an adverse impact on the broadcasting system. In its September 2003 response to the Industry Committee s recommendation, the government acknowledged the appropriateness of the committee s conclusion that removing foreign investment restrictions would benefit the telecommunications industry. However, the government also noted the concerns expressed by the Heritage

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Committee. The government recognized that it has a responsibility to determine how best to reconcile the conflicting recommendations of the two committees and undertook to analyze this question and be in a position to examine possible solutions by the spring of 2004. However, no solutions were brought forward in 2005 although the issue was raised once again by the Telecom Policy Review Panel (TPRP), who recommended in its Final Report that the foreign ownership restrictions be relaxed. In July 2007, Industry Canada announced the creation of the Competition Policy Review Panel (the Panel), which was asked to provide recommendations to the government on how to enhance Canadian competitiveness. The Panel s duties included a sector specific review of the current telecommunications foreign ownership restrictions. We filed a submission in favor of eliminating the restrictions and also presented options to accommodate concerns such as national security. In its report dated June 2008, the Panel supported the TPRP s recommendations regarding the easing of foreign ownership restrictions. Specifically, the Panel recommended a two phase approach to liberalize the Canadian foreign ownership restrictions. The initial phase would permit foreign companies to establish new telecommunication companies or acquire existing telecommunication companies with less than a 10% share of the Canadian telecommunication market. The second phase would consist of further liberalization upon a review of existing cultural policies and an assessment of the impact of the foreign investment resulting from the initial phase. In its March 2010 budget, the Government indicated support for the removal of foreign ownership rules and moved immediately to remove the foreign ownership restrictions on Canadian satellites. Industry Canada subsequently announced another consultation to again consider the removal of the foreign ownership restrictions in the telecommunications industry. We filed a submission in favor of the model proposed by the TPRP and the Panel or, alternatively, the complete removal of the restrictions. However, despite the support of the TPRP and the Panel it is premature to predict whether any recommendation to remove the restrictions for telecommunications common carriers will be implemented. In July 2009, the CRTC issued a new Canadian ownership and control review policy which subjects foreign investment arrangements in Canadian carriers to more formal procedures. These new procedures include greater public scrutiny of the investment arrangements, in some cases extending to detailed disclosure requirements, and may involve significant delays and limit investors opportunity to consult informally with the regulator.

Other Canadian Interests

Separate from our operations as a reseller of telecommunications in Canada through Primus Canada, we also maintain a minority interest in a Globility Communications Corporation (Globility), a Canadian carrier that operates in most major urban areas across Canada. As permitted under the Canadian Telecommunications Act and the Radiocommunication Act, and certain regulations promulgated thereunder (i.e., the Radiocommunication Regulations and the Canadian Telecommunications Common Carrier Ownership and Control Regulations), PTGi has a total (both direct and indirect) interest of 45.6% in Globility.

In 2011, Globility merged with its former wholly owned subsidiary MIPPs Inc. As a result of this merger, Globility became the holder of certain fixed wireless spectrum licenses and related assets across Canada.

Employees

The following table summarizes the number of our employees as of December 31, 2011 by region:

	Total
Canada	743
Australia	539
United States	164
Europe (International Carrier Services)	33
Total	1,479

As of December 31, 2011, 1,421 of these employees were full-time employees. We have never experienced a work stoppage. Approximately 299 of our employees in Australia are represented by a labor union and covered by a collective bargaining agreement. We believe that our employee relations are positive.

Corporate Information

The Company s executive offices are located at 7901 Jones Branch Drive, McLean, VA 22102. The Company s telephone number is (703) 902-2800. Our Internet address is *www.ptgi.com*. We make available free of charge through our Internet website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the United States Securities and Exchange Commission (SEC). The information on our website is not a part of this Form 10-K.

The Company s Common Stock

Our common stock currently trades on the New York Stock Exchange under the symbol PTGI.

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ITEM 1A. RISK FACTORS

A wide range of factors could materially affect our overall performance, the performance of our individual business segments and our results of operations, and therefore, an investment in us is subject to risks and uncertainties. In addition to factors affecting specific business operations and the financial results of those operations identified elsewhere in this Annual Report on Form 10-K, the following factors, among others, could adversely affect our operations. While each risk is described separately below, some of these risks are interrelated and it is possible that certain risks could trigger the applicability of other risks described below. Also, the risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties not presently known to us, or that are currently deemed immaterial, could also potentially impair our overall performance, the performance of our individual business segments and our results of operations.

RISKS RELATED TO OUR INDUSTRY AND OVERALL BUSINESS

Continuing global economic conditions could adversely affect our business.

The global economy and capital and credit markets have been experiencing exceptional turmoil and upheaval over the past several years. Many major economies worldwide entered significant economic recessions beginning in 2007 and continue to experience economic weakness, with the potential for another economic downturn to occur. Ongoing concerns about the systemic impact of potential long-term and widespread recession and potentially prolonged economic recovery, volatile energy costs, geopolitical issues, the availability, cost and terms of credit, consumer and business confidence and demand, a looming euro zone crisis and substantially increased unemployment rates have all contributed to increased market volatility and diminished expectations for many established and emerging economies, including those in which we operate. These general economic conditions could have a material adverse effect on our cash flow from operations, results of operations and overall financial condition.

The availability, cost and terms of credit also have been and may continue to be adversely affected by illiquid markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce credit to businesses and consumers. These factors have led to a substantial and continuing decrease in spending by businesses and consumers over the past several years, and a corresponding slowdown in global infrastructure spending. Continued uncertainty in the U.S. and international markets and economies and prolonged stagnation in business and consumer spending may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers, including our ability to access the capital markets and obtain capital lease financing to meet liquidity needs.

There are uncertainties introduced by our announcement of our exploration and evaluation of strategic alternatives to enhance shareholder value.

On October 4, 2011, we announced that a special committee of our Board of Directors has retained the services of Jefferies & Company, Inc. to explore and evaluate 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.

There can be no assurance that any such transaction will be pursued or consummated. We may also incur substantial costs in connection with the pursuit of strategic alternatives which are not ultimately consummated. Also, there are risks inherent with the consummation of any such transaction, such as the risks that the expected enhancement of shareholder value may not be realized, that unexpected liabilities may result from such transaction and that the process of consummating or the effects of consummating such a transaction may cause interruption or slow down the operations of our existing or continuing businesses.

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We may not realize the anticipated benefits of the Arbinet Merger.

We expect that the Merger with Arbinet will result in various benefits including, among other things, synergies, cost savings, maintaining business and customer levels of activity and operating efficiencies. The success of the Merger will depend, in part, on our ability to realize these anticipated benefits from combining our business with that of Arbinet.

The process of integrating Arbinet s business into our ICS business is subject to a number of uncertainties. Although our plans for integration are focused on minimizing those uncertainties to help achieve the anticipated benefits, no assurance can be given that these benefits will be realized or, if realized, the timing of their realization. Integration efforts associated with the Merger could divert management attention and resources away from operating and strategic objectives and could have an adverse effect on our business during the transition period. Failure to achieve anticipated benefits could result in increased costs or decreases in the amount of expected revenues and could adversely affect our future business, financial condition, operating results and prospects. In addition, we may not be able to eliminate duplicative costs or realize other efficiencies from integrating Arbinet into our business in sufficient amounts to offset part or all of the transaction and merger-related costs incurred by us in connection with the Merger.

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

A significant portion of our net revenue (about 82% for the year ended December 31, 2011) is derived from sales and operations outside the U.S. The reporting currency for our consolidated financial statements is the USD. Our foreign operating subsidiaries, including our largest operating subsidiaries in Canada and Australia, generate cash in their respective local currencies and fluctuations in exchange rates can have a material adverse impact on amounts of USDs transferred to U.S. parent entities. In the future, we expect to continue to derive a significant portion of our net operating cash flow from our operating subsidiaries outside the U.S., which is a substantial source for servicing our significant debt obligations at the parent entity level, as well as a source for making principal payments and paying corporate expenses. Changes in exchange rates have had and may have a significant, and potentially adverse, effect on our results of operations.

From June 30, 2008 through December 31, 2008, the Canadian and Australian dollars (CAD and AUD, respectively) declined by 17% and 28%, respectively, relative to the USD, which had a material adverse impact on amounts of USDs transferred to U.S. parent entities. Conversely, from December 31, 2008 to December 31, 2009, the CAD and AUD increased by 11% and 35%, respectively, relative to the USD. From December 31, 2009 to December 31, 2010, the CAD and AUD increased by 5% and 10%, respectively, relative to the USD. From December 31, 2010 to December 31, 2011 the CAD and AUD decreased by 1% and increased by 2%, respectively, relative to the USD. Due to the large percentage of our operations conducted outside of the U.S., and the cash transfers from these foreign operating subsidiaries to the U.S. parent, a strengthening of the USD relative to one or more of the foregoing foreign currencies could have an adverse impact on future results of operations and could adversely affect our ability to service our significant debt obligations and make principal payments at the parent entity level, and pay corporate expenses.

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. In addition, the operations of affiliates and subsidiaries in foreign countries have been funded with investments and other advances denominated in foreign currencies. Historically, such investments and advances have been long-term in nature, and we accounted for any adjustments resulting from currency translation as a charge or credit to accumulate other comprehensive loss within the stockholders deficit section of our consolidated balance sheets.

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

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

United States: AT&T Inc., Verizon Communications Inc., CenturyLink Inc., and other incumbent carriers, cable companies, including Comcast Corporation, Time Warner Cable Inc., Cablevision Systems Corporation and Charter Communications, Inc., other competitive LECs, including PaeTec Communications, Inc., Time Warner Telecom Inc., XO Communications Services, Inc. and Frontier Communications Corp., independent VoIP providers, including Vonage Holdings Corp and Cbeyond, Inc., wireless carriers in the U.S., including Verizon Communications Inc., AT&T Inc., Sprint Corp., T-Mobile USA Inc., MetroPCS Communications, Inc. and Leap Wireless International, Inc., and Web-based companies, including Skype Technologies S.A. and Google Inc.;

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

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

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

The ICS business faces competition for its voice trading services from communication services providers legacy processes and new companies that may be able to create centralized trading solutions that replicate ICS s voice trading platforms. The ICS business PrivateExchange and AssuredAxcess solutions may compete with communication services providers legacy processes, communication services providers themselves and potentially other companies that provide software and services to communication services providers. The ICS business faces competition for its data trading services from ISPs and Internet capacity resellers, and to a lesser extent, software-based, Internet infrastructure companies and Internet network service providers. These companies may be more effective in attracting voice traffic than the Exchange, and Carrier Services offerings (Carrier Services).

Once communications services providers have established business relationships with competitors to the ICS business, it could be extremely difficult to convince them to utilize the Exchange or Carrier Services. These competitors may be able to develop services or processes that are superior to ICS s services or processes, or that achieve greater industry acceptance. Where the ICS business competes with legacy processes, it may be particularly difficult to convince customers to utilize the Exchange or Carrier Services.

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Since the Exchange provides full disclosure of prices offered by participating sellers on an anonymous basis, buyers may choose to purchase network capacity through the Exchange instead of sending traffic to their existing suppliers at pre-determined, and often higher, contract prices. If suppliers of communications capacity fear or determine that the price disclosure and spot market limit order mechanisms provided by the Exchange will cannibalize the greater profit-generating potential of their existing businesses, they may choose to withdraw from the Exchange. If participants withdraw from the Exchange in significant numbers, it could cause the Exchange to fail and materially harm the ICS business.

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

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

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

We have accelerated initiatives to become an integrated wireline, wireless and broadband service provider in order to counter competitive pricing pressures initiated by large incumbent providers in certain of the principal markets where we operate and to stem the loss of certain of our wireline voice and dial-up ISP customers to our competitors bundled wireline, wireless and broadband service offerings. Our primary competitors include incumbent telecommunications providers, cable companies and other ISPs that have a significant presence in the relevant market or internationally. Many of these operators have substantially greater resources, capital and operational experience than we do. We are experiencing increased competition from traditional telecommunications carriers, cable companies and other new entrants that have expanded into the market for broadband, VoIP, Internet services, data and hosting and traditional voice services. In addition, regulatory developments may impair our ability to compete. Therefore, future operations involving these individual or bundled services may not succeed in the competitive environment, and we (1) may not be able to expand successfully; (2) may experience margin pressure; (3) may face quarterly revenue and operating results variability; (4) may have limited resources to develop and to market our new services; and (5) may have heightened difficulty in establishing future revenues or results. As a result, there can be no assurance that we will reverse revenue declines in our traditional long-distance voice and dial-up ISP services or maintain or increase revenues or be able to generate sufficient income from operations or net income in the future or on any predictable or timely basis.

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

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

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

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

As of June 30, 2009, the Predecessor Company had an accumulated deficit of $1.06 billion. The Predecessor Company incurred net losses of $149.2 million in 2005, $238.0 million in 2006 and $25.0 million in 2008. During the year ended December 31, 2007, the Predecessor Company recognized net income of $15.7 million, of which $32.7 million of revenue was related to the positive impact of foreign currency transaction gains. Even with the elimination of our significant accumulated deficit and the reduction in indebtedness through our reorganization under Chapter 11 in 2009, future losses may continue. In this regard, the Successor Company incurred a net loss of $19.1 million in 2010 and a net loss of $38.7 million in 2011. In addition, at December 31, 2010, Arbinet s accumulated deficit was $137.6 million. Arbinet incurred net losses of $17.0 million, $8.7 million, $14.9 million, $6.9 million, and $0.4 million for the years ended 2010, 2009, 2008, 2007 and 2006, respectively.

In light of the foregoing, we cannot assure you that we will recognize net income in future periods. If we cannot generate net income or sufficient operating profitability, we may not be able to meet our debt service or working capital requirements.

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

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

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

We have significant international operations and, for the year ended December 31, 2011, derived about 82% of our net revenues by providing services outside of the U.S. We are smaller than the principal or incumbent telecommunications carriers that operate in each of the jurisdictions where we operate, including in international markets. In these markets, incumbent carriers: (1) are likely to modify and/or control access to, and pricing of, the local networks; (2) enjoy better brand recognition and brand and customer loyalty; (3) generally offer a wider range of products and services; and (4) have significant operational economies of scale, including a larger backbone network and longer term customer and supplier agreements on generally better prevailing terms. Moreover, the incumbent carriers may take many months to allow competitors, including us, to interconnect to their switches within our territory, and we are dependent upon their cooperation in migrating customers onto our network. There can be no assurance that we will be able to: (A) obtain the permits and operating licenses required for us to operate in the new service areas; (B) obtain access to local transmission facilities on economically acceptable terms; or (C) market services in international markets.

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

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

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

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offer, on a timely and cost-effective basis, services, including the bundling of multiple services that meet evolving industry standards. If we do not anticipate, assess or adapt to such technological changes at a competitive price, maintain competitive services or obtain new technologies on a timely basis or on satisfactory terms, our financial results may be materially and adversely affected.

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

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

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

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

Our ability to compete depends, in part, on our ability to use intellectual property in the U.S. and internationally. We rely on a combination of patents, trademarks, copyrights, domain names, trade secrets, licenses and other contractual arrangements to protect our intellectual property. We are subject to the risks of claims and litigation alleging infringement of the intellectual property rights of others and may need to litigate against others to protect our intellectual property rights. The telecommunications industry is subject to frequent litigation regarding patent and other intellectual property rights. Any such litigation could result in substantial costs and diversion of resources that could have a material effect on our business, financial condition and/or operations. Furthermore, there can be no assurance that we would be successful in any such litigation.

We rely upon certain technology, including hardware and software, licensed from third parties. There can be no assurance that the technology licensed by us will continue to provide competitive features and functionality or that licenses for technology currently used by us or other technology that we may seek to license in the future will be available to us on commercially reasonable terms or at all. The loss of, or our inability to maintain existing licenses, could result in shipment delays or reductions until equivalent technology or suitable alternative products could be developed, identified, licensed and integrated and could cause service disruption to our customers. Such delays or reductions in the aggregate could harm our business, and there can be no assurance that suitable alternative products would be available.

We also rely on indemnification provisions from third parties to protect against claims of infringement regarding the licensed technology, which indemnification could be affected by, among other things, the financial

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strength of the licensor. Furthermore, effective intellectual property protection may not be available in every country where we do business. Any significant impairment of our intellectual property or other licensed rights could harm our business and/or our ability to compete effectively.

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

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

RISKS ASSOCIATED WITH OUR FINANCIAL STATEMENTS

Our disclosure controls and procedures and internal control over financial reporting were determined not to be effective as of December 31, 2006, 2007, 2008 and 2010 due to a control deficiency that existed in our internal control over accounting for income taxes and as of December 31, 2009 due to a control deficiency that existed in our internal control over accounting for foreign currency transaction gain (loss). In addition, we excluded Arbinet, which was acquired in 2011, from our assessment of effectiveness of internal control over financial reporting for the year ended December 31, 2011. If we fail to maintain effective internal control over financial reporting at a reasonable assurance level, we may not be able to accurately report our financial results, which could have a material adverse effect on our operations, investor confidence in our business and the trading prices of our securities.

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

Management s evaluation did not include assessing the effectiveness of internal controls over financial reporting at Arbinet, which was acquired during 2011 (see Note 5 to the consolidated financial statements), and the acquired business reflects total assets and net revenues of 8% and 21% respectively, of the consolidated financial statements for the year ended December 31, 2011. Pursuant to SEC guidance regarding the treatment of business combinations, we are not required to include an assessment of the disclosure controls and procedures of an entity acquired during the reporting period in our evaluation of disclosure controls and procedures for Primus. In accordance with our integration efforts, we are in the process of incorporating Arbinet s operations into our disclosure controls and procedures .

Management s assessment of internal control over financial reporting for income taxes as of December 31, 2010 identified a material weakness due to insufficient historical tax analysis, ineffective reconciliation procedures and undocumented key processes and controls around the tax accounting function. Management concluded that as of December 31, 2009, the controls over financial accounting for income taxes were effective. The lack of documentation supporting historical tax positions and controls procedures in place for the 2010 financial close prevented an effective knowledge transfer to the new Corporate Tax Director, who started in the position on January 3, 2011. During 2011 we undertook remediation of the income tax material weakness in several ways. The former Corporate Tax Director was consulted by our new Corporate Tax Director to complete knowledge transfer of the legacy procedures. We hired a third party tax consultants to evaluate, document and make recommendations to improve the tax reporting process and documentation of tax positions. Based on the

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third party consultant recommendations and Management s review, controls have been fully documented, knowledge transfer has been completed, and our Corporate Tax Director has implemented revised income tax controls. These controls were tested by Management in the fourth quarter of 2011 as part of the overall assessment of internal control over financial reporting, and it was determined that the prior year material weakness had been mitigated and that the controls were operating effectively.

In March 2010, the Company determined that an error existed related to accounting for foreign currency transaction gain (loss) on certain inter-company balances. Specifically, this error related to activity in the third quarter 2009 resulting in the Company amending its Form 10-Q for the quarter ended September 30, 2009. This amendment restated our financial statements in order to correct a non-cash error relating to accounting for unrealized foreign currency transaction losses associated with certain inter-company balances that were permanent in nature and, therefore, should have been recorded as currency translation adjustment to accumulated other comprehensive income (loss) in the equity section of the balance sheet. Since identifying this, we have undertaken initiatives to remediate this material weakness by (a) performing additional recalculations and analysis of the foreign currency transaction gain (loss) recorded on these intercompany balances; (b) implementing an improved process for assessing the reasonableness of foreign currency transaction gain (loss) recorded on these intercompany balances; and (c) confirming intercompany settlements related to these balances at a transactional level. As a result of such efforts, the material weakness concerning currency transaction was downgraded to a control deficiency and will not be considered completely remediated until the new controls continue to operate for a sufficient period of time and are sufficiently tested to enable management to conclude that the controls are operating effectively. As of December 31, 2010, management concluded that there was a control deficiency concerning foreign currency transactions. Please see Item 9A, Controls and Procedures .

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

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

Upon the Holding Companies emergence from Chapter 11 on July 1, 2009, we adopted fresh-start accounting in accordance with Accounting Standards Codification (ASC) 852, Reorganizations, pursuant to which our reorganization value, which represents the fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the Reorganization, has been allocated to the fair value of assets in conformity with ASC 805, Business Combinations, using the purchase method of accounting for business combinations. We stated liabilities, other than deferred taxes, at a present value of amounts expected to be paid. The amount remaining after allocation of the reorganization value to the fair value of identified tangible and intangible assets is reflected as goodwill, which is subject to periodic evaluation for impairment. In addition, under fresh-start accounting, our accumulated deficit ($1.06 billion at June 30, 2009) has been eliminated. In addition to fresh-start accounting, our consolidated financial statements reflect all effects of the transactions contemplated by the Plan of Reorganization. Thus, our future consolidated balance sheets and consolidated condensed statements of operations data will not be comparable in many respects to our consolidated balance sheets and consolidated condensed statements of operations data for periods prior to our adoption of fresh-start accounting and prior to accounting for the effects of the Reorganization.

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RISKS ASSOCIATED WITH THE INTERNATIONAL CARRIER SERVICES BUSINESS

The members of the Exchange may not trade on the Exchange or utilize ICS s other services due to, among other things, the lack of a liquid market, which may materially harm the ICS business. Volatility in trading volumes may have a significant adverse effect on the ICS business financial condition and operating results.

Traditionally, communication services providers buy and sell network capacity in a direct, one-to-one process. The members may not trade on the Exchange unless it provides them with an active and liquid market. Liquidity depends on, among other things, the number of buyers and sellers and the number of competitively priced routes that actively trade on a particular communications route. ICS s ability to increase the number of buyers that actively trade on the Exchange will depend on, among other things, the willingness and ability of prospective sellers to satisfy the quality criteria and price parameters imposed by prospective buyers and on the increased participation of competing sellers from which a buyer can choose in order to obtain favorable pricing, achieve cost savings and consistently gain access to the required quality services. ICS s ability to increase the number of sellers that actively trade on the Exchange will depend upon the extent to which there are sufficient numbers of prospective buyers available to increase the likelihood that sellers will generate meaningful sales revenues. Alternatively, the members may not trade on the Exchange if they are not able to realize significant cost savings. This may also result in a decline in trading volume and liquidity of the Exchange. Trading volume is additionally impacted by the mix of hundreds of geographic markets traded on the Exchange. Each market has distinct characteristics, such as price and average call duration. Declines in the trading volume on the Exchange would result in lower revenues to ICS and would adversely affect ICS s profitability because of ICS s fixed cost structure.

The members may not trade on the Exchange because such members may conclude that the Exchange will replace their existing business at lower margins.

If the Exchange continues to be an active, liquid market in which lower-priced alternatives are available to buyers, sellers may conclude that further development of the Exchange will erode their profits and they may stop offering communications capacity on the Exchange. Since the Exchange provides full disclosure of prices offered by participating sellers, buyers may choose to purchase network capacity through the Exchange instead of sending traffic to their existing suppliers at pre-determined, and often higher, contract prices. If suppliers of communications capacity fear or determine that the price disclosure and spot market limit order mechanisms provided by the Exchange will cannibalize the greater profit-generating potential of their existing business, they may choose to withdraw from the Exchange, which ultimately could cause the Exchange to fail and materially harm ICS s business.

The combined company s carrier services strategy may adversely affect the activity of members on the Exchange.

Arbinet traditionally operated as an anonymous Exchange. However, some of the members may view its integration into the Primus ICS business as competitive to their businesses and may limit or eliminate their activity on the Exchange. Any such reduction could have a material adverse effect on the ICS business operating results.

The ICS business may incur losses on customer calls that do not match the expected distribution of calls to the offered destination in carrier services.

The Exchange operates using the ICS business defined codes so that the buyer is committed to pay the price for those codes and the seller is committing to offer termination using those codes. In the carrier services offering, ICS may compile a destination using multiple suppliers, each with their own prices for regions in that destination. However, portability of numbers between carriers at that destination may alter the price for termination. ICS is then offering to provide termination to the broader destination to its customers on the

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assumption that a certain blend of calling will be achieved. If the customer sends a blend of calls that is substantially different from what is expected and all of those calls are to the more expensive parts of a destination, ICS may receive invoices that are significantly greater than expected and may limit its ability to complete a sale to the buyer that is profitable for ICS.

The ICS business standard member enrollment cycle can be long and uncertain and may not result in revenues.

The member enrollment cycle for full membership on the Exchange can be long, and may take up to 12 months or even longer from ICS s initial contact with a communication services provider until that provider signs the membership agreement. Because ICS offers a novel method of purchasing and selling international long distance voice calls and Internet capacity, ICS must invest a substantial amount of time and resources to educate prospective members and services providers regarding the benefits of the Exchange. Factors that contribute to the length and uncertainty of the member enrollment cycle and which may reduce the likelihood that a member will purchase or sell communications traffic through the Exchange include:

- the strength of pre-existing one-to-one relationships that prospective members may already have with their communication services providers;
- existing incentive structures within the members organizations that do not reward decision-makers for savings achieved through cost-cutting;
- the experience of the trial trading process by prospective members;
- an aversion to new methods for buying and selling communications capacity; and
- the effect of the limited credit available to prospective members and the associated impact on their spending and cash flow.

ICS is exposed to the credit risk of the members not covered by its credit management programs with third parties, which could result in material losses.

There have been adverse changes in the public and private equity and debt markets for communication services providers that have affected their ability to obtain financing or to fund capital expenditures. In some cases, the significant debt burden carried by certain communication services providers has adversely affected their ability to pay their outstanding balances with ICS and some of the members have filed for bankruptcy as a result of their debt burdens. Although these members may emerge from bankruptcy proceedings in the future, unsecured creditors, such as ICS, often receive partial or no payment toward outstanding obligations. Furthermore, because ICS is an international business, ICS may be subject to the bankruptcy laws of other nations, which may provide ICS limited or no relief. Although these losses have not been significant to date, future losses, if incurred, could be significant, particularly as a result of the impact of adverse economic conditions and the potential further tightening of credit availability on customers, and could harm the ICS business and have a material adverse effect on our overall operating results and financial condition.

ICS may be unable to effectively manage the pricing risk, which could result in significant losses.

In certain instances, ICS offers its customers a fixed rate for specific markets for a set duration. ICS may assume the risk on the price of the minutes and ICS may not be able to secure the prices from sellers to ensure ICS does not lose money on the minutes purchased by the buyers. ICS could incur significant losses related to having a higher cost of minutes sold in relation to the price offered to the buyer of this service.

Expanding and maintaining international operations will subject ICS to additional risks and uncertainties.

ICS expects to continue the expansion of its international operations, which will subject ICS to additional risks and uncertainties. ICS has established delivery points in New York City, London, Frankfurt, Miami and

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Hong Kong, and ICS intends to expand its presence. Foreign operations are subject to a variety of additional risks that could have an adverse effect on ICS s business, including:

- difficulties in collecting accounts receivable and longer collection periods;
- changing and conflicting regulatory requirements;
- potentially adverse tax consequences;
- tariffs and general export restrictions;
- difficulties in integrating, staffing and managing foreign operations;
- political instability;
- seasonal reductions in business activity during the summer months in Europe and certain other parts of the world;
- the impact of local economic conditions and practices;
- potential non-enforceability of ICS s intellectual property and proprietary rights in foreign countries; and
- fluctuations in currency exchange rates.

ICS s inability to manage these risks effectively could result in increased costs and distractions and may adversely affect ICS s business, financial condition and operating results.

ICS s pricing and new products and services may not be sustainable and may decline over time.

As prices for international long-distance minutes continue to decline, ICS needs to charge the members less for utilization of its services. ICS may also need to reduce its prices to drive incremental minutes on the Exchange and for traditional Carrier Services offerings. As ICS has substantial fixed-price operating costs, ICS is evaluating pricing programs that maximize the volume, margin on Carrier Services and aggregate fee revenues on the Exchange. ICS continues to explore additional volume discounting programs and alternative pricing programs to drive overall Carrier Services margin and Exchange fee revenues. ICS s Carrier Services margin and Exchange fee revenue per minute may decline in the coming quarters as ICS explores these pricing initiatives. ICS cannot be certain that its pricing programs will drive significant enough increases in volume to offset the price reduction and, therefore, ICS s aggregate Carrier Services margin and Exchange fee revenues may decline due to these pricing programs.

System failures, human error and security breaches could cause ICS to lose members and expose ICS to liability.

The communications services providers that use ICS s services depend on ICS s ability to accurately track, rate, store and report the traffic and trades that are conducted on its platform. Software defects, system failures, natural disasters, human error and other factors could lead to inaccurate or lost information or the inability to access the services. From time to time, ICS has experienced temporary service interruptions. ICS s systems could be vulnerable to computer viruses, physical and electronic break-ins and third party security breaches. In a few instances, ICS manually inputs trading data, such as bid and ask prices, at the request of the members, which could give rise to human error and miscommunication of trading information and may result in disputes with the members. Any loss of information or the delivery of inaccurate information due to human error, miscommunication or otherwise or a breach or failure of ICS s security mechanisms that leads to unauthorized disclosure of sensitive information could lead to member dissatisfaction and possible claims against ICS for damages.

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Undetected defects in ICS s technology could adversely affect its operations.

ICS s technology is complex and is susceptible to errors, defects or performance problems, commonly called bugs. Although ICS regularly tests its software and systems extensively, ICS cannot ensure that its testing will detect every potential error, defect or performance problem. Any such error, defect or performance problem could have an adverse effect on ICS s operations. Users of ICS s services may be particularly sensitive to any defects, errors or performance problems in ICS s systems because a failure of ICS s systems to monitor transactions accurately could adversely affect their own operations.

If ICS does not adequately maintain the members and customers confidential information, Arbinet could be subject to legal liability and its reputation could be harmed.

Any breach of security relating to confidential information of the members or customers could result in legal liability to ICS and a reduction in use of the Carrier Services or Exchange or cancellation of Arbinet s services, any of which could materially harm ICS s business. ICS s personnel often receive highly confidential information from buyers and sellers that is stored in ICS s files and on its systems. Similarly, ICS receives sensitive pricing information that has historically been maintained as a matter of confidence within buyer and seller organizations.

ICS currently has practices, policies and procedures in place to ensure the confidentiality of the members and customers information. However, ICS s practices, policies and procedures to protect against the risk of inadvertent disclosure or unintentional breaches of security might fail to adequately protect information that ICS is obligated to keep confidential. ICS may not be successful in adopting more effective systems for maintaining confidential information, so its exposure to the risk of disclosure of the confidential information of the members or customers may grow as ICS expands its business and increases the amount of information that it possesses. If ICS fails to adequately maintain the members or customers confidential information, some of them could end their business relationships with ICS and ICS could be subject to legal liability.

ICS may not be able to keep pace with rapid technological changes in the communications services industry.

The communications services industry is subject to constant and rapid technological changes. ICS cannot predict the effect of technological changes on its business. New services and technologies may be superior to ICS s services and technologies, or may render ICS s services and technologies obsolete.

To be successful, ICS must adapt to and keep pace with rapidly changing technologies by continually improving, expanding and developing new services and technologies to meet customer needs. ICS s success will depend, in part, on its ability to respond to technological advances, meet the evolving needs of members and customers and conform to emerging industry standards on a cost-effective and timely basis, if implemented. ICS will need to spend significant amounts of capital to enhance and expand its services to keep pace with changing technologies. Failure to do so may materially harm ICS s business.

Any failure of ICS s physical infrastructure could lead to significant costs and disruptions that could reduce its revenue and harm its business reputation and financial results.

ICS s business depends on providing customers with highly reliable service. ICS must protect its infrastructure and any colocated equipment of the members located in ICS s exchange delivery points, or EDPs. ICS s EDPs and the services ICS provides are subject to failure resulting from numerous factors, including:

- human error;
- physical or electronic security breaches;
- fire, earthquake, flood and other natural disasters;

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water damage;

power loss; and

terrorism, sabotage and vandalism.

Problems at one or more of ICS s EDPs, whether or not within ICS s control, could result in service interruptions or significant equipment damage. Any loss of services, equipment damage or inability to terminate voice calls or supply Internet capacity could reduce the confidence of the members and customers and could consequently impair ICS s ability to obtain and retain members and customers, which would adversely affect both ICS s ability to generate revenues and its operating results.

RISKS ASSOCIATED WITH OUR LIQUIDITY NEEDS, INDEBTEDNESS AND SECURITIES

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

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

We may not be able to repurchase the 10% Notes upon a change of control.

Upon the occurrence of certain change of control events specified in the indenture governing our 10% Senior Secured Notes due 2017 (10% Notes), our subsidiary that issued the 10% Notes will be required to offer to repurchase all outstanding 10% Notes at 101% of the principal amount thereof plus, without duplication, accrued and unpaid interest and additional interest, if any, to the date of repurchase. However, it is possible that the issuer will not have sufficient funds at the time of the change of control to make the required repurchase of all 10% Notes delivered by holders seeking to exercise their repurchase rights, particularly as that change of control may trigger a similar repurchase requirement for, or result in an event of a default under or the acceleration of, other indebtedness (or the instruments governing such indebtedness). Moreover, restrictions in the instruments governing our future indebtedness may not allow such repurchases. Any failure by the issuer to repurchase the 10% Notes upon a change of control would result in an event of default under the indenture and may also constitute a cross-default on other indebtedness (or the instruments governing such indebtedness) existing at that time.

The indenture governing our 10% Notes contains significant operating and financial restrictions which may limit our ability and our restricted subsidiaries ability to operate their businesses.

The indenture governing our 10% Notes contains significant operating and financial restrictions on Group and its restricted subsidiaries. These restrictions limit the ability of Group and its restricted subsidiaries to, among other things:

incur additional indebtedness or issue certain preferred shares;

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

These restrictions could limit the ability of Group and its restricted subsidiaries to finance their future operations or capital needs, make acquisitions or pursue available business opportunities. Group and its restricted subsidiaries may be required to take action to reduce their debt or act in a manner contrary to their business objectives to satisfy these covenants. Events beyond the control of Group and its restricted subsidiaries, including changes in economic and business conditions in the markets in which they operate, may affect their ability to do so. Group and its restricted subsidiaries may not be able to satisfy these covenants. A breach of any of the covenants in the indenture could result in a default under such indenture, which could lead to the debt under the 10% Notes becoming immediately due and payable and foreclosure on our assets that secure our obligations with respect to the 10% Notes. A default under the indenture could, in turn, result in a default under other debt instruments and result in other creditors accelerating the payment of other obligations and foreclosing on assets securing such obligations, if any. Any such defaults could materially impair our financial conditions and liquidity.

We have a substantial amount of indebtedness.

As of December 31, 2011, we had $245.8 million of long-term obligations. Our substantial indebtedness has important consequences. For example, it:

- limits our ability to borrow additional funds;
- limits our flexibility in planning for, or reacting to, changes in our business and our industry;
- increases our vulnerability to general adverse economic and industry conditions;
- limits our ability to make strategic acquisitions;

requires us to dedicate a substantial portion of our cash flow from operations to payments on indebtedness, reducing the availability of cash flow to fund working capital, capital expenditures and other general corporate activities; and

places us at a competitive disadvantage compared to competitors that have less debt.

Interest costs related to our debt are substantial and, as a result, the demands on our cash resources are significant. Our ability to make payments on our debt and to fund operations and planned capital expenditures will depend on our future results of operations and ability to generate cash. Our future results of operations are, to a certain extent, subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

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

We may incur additional debt in the future, including debt secured by the collateral that secures our 10% Notes, as well as other assets that do not secure such notes. Although the indenture governing our 10% Notes contains, and future indebtedness documents may contain, restrictions on our ability to incur additional indebtedness, those restrictions are, or may be, subject to a number of exceptions, and the indebtedness incurred in compliance with those restrictions could be substantial. In addition, if we are able to designate some of the restricted subsidiaries under the indenture governing the 10% Notes as unrestricted subsidiaries, those unrestricted subsidiaries would be permitted to borrow beyond the limitations specified in the indenture and engage in other activities in which restricted subsidiaries may not engage. If we incur any additional secured debt that ranks equally with the 10% Notes, the holders of that debt will be entitled to share ratably with the holders of the 10% Notes in any proceeds distributed in connection with any bankruptcy, liquidation, reorganization or similar proceedings. Adding new debt to current debt levels could intensify the related risks that we now face.

There are no assurances that our common stock will remain listed on the New York Stock Exchange.

On June 23, 2011, Group began to trade its common stock on the New York Stock Exchange (NYSE) under the ticker symbol PTGI. At that time, trading of its common stock on the OTC Bulletin Board under the ticker symbol PMUG ceased. In order to maintain the listing of Group s common stock on NYSE, we must comply with listing requirements with respect to, among other things, corporate governance, communications with shareholders and the trading price of Group s common stock. Although we believe that we are currently in compliance with NYSE listing standards, there can be no assurance that we will continue to be in compliance in the future. If we fail to comply with these listing standards, NYSE could delist Group s common stock. In the event of a delisting of Group s common stock from NYSE, we cannot assure you that our common stock would be listed on an alternate stock exchange. Moreover, a delisting of Group s common stock from NYSE could materially and adversely affect, among other things, the liquidity of Group s common stock, the market price of Group s common stock, and our access to capital markets.

ADDITIONAL RISKS RELATED TO REGULATION

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

Our operations are subject to constantly changing regulation. There can be no assurance that future regulatory changes will not have a material adverse effect on us, or that domestic, foreign or international regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations, any of which could have a material adverse effect upon our competitive position, growth and financial performance. As a multinational telecommunications company, we are subject to varying degrees of regulation in each of the jurisdictions in which we provide our services. Local laws and regulations, and the interpretation of such laws and regulations, differ significantly among the jurisdictions in which we operate. Enforcement and interpretations of these laws and regulations can be unpredictable and are often subject to the informal views of government officials. Potential future regulatory, judicial, legislative, and government policy changes in jurisdictions where we operate could have a material adverse effect on us. Many regulatory actions are underway or are being contemplated by governmental agencies, including the ongoing FCC initiative to promote expanded broadband services in the United States. It is impossible to predict at this time what specific rules or requirements the FCC will propose or adopt, or how any such rules or requirements would affect our business or financial results.

The Federal Communications Commission or Congress may revise how companies like us contribute to certain federal programs that could increase our costs, reduce our profitability, or make our services less competitive in the communications marketplace.

In the U.S., the Communications Act and associated FCC regulations require that every provider of interstate telecommunications contribute, on an equitable and non-discriminatory basis, to federal universal service mechanisms established by the FCC, which affects our cost of providing services. At present, these contributions are calculated based on contributors interstate and international revenue derived from U.S. end users for telecommunications or telecommunications services, as those terms are defined under FCC regulations. The FCC has announced its intention to propose new rules regarding universal service contribution during 2012. These new proposals would likely affect most of our competitors, but not all of our competitors would be affected in the same way or to the same degree as we would be. It is impossible to predict the impact of these new proposals, if adopted, on our operations and financial results. We cannot predict whether the FCC will adopt any particular contribution methodology, nor can we predict the potential impact on our business at this time. A revised contribution methodology could increase our contribution obligation, including increasing our contribution disproportionately compared to some of our competitors. In such event, we may need to either raise the total amount of our consumer s bills, potentially making us less competitive with other providers of communications services, or reduce our profit margins.

In the United States and Canada, there is increasing regulation of VoIP service offerings. Increased regulation may increase our costs, reduce our profit margins, or make our services less competitive in the communications marketplace.

Increasingly, laws, regulations or rulings that apply to traditional telephone services are being extended to commerce and communications services that utilize Internet Protocol, including VoIP. The increasing growth of the VoIP market and popularity of VoIP products and services heighten the risk that governmental agencies will continue to increase the level of regulation applied to VoIP and the Internet.

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

- Rules with respect to the use of CPNI requiring VoIP providers to adhere to particular customer approval processes when using CPNI outside of pre-defined limits and when using CPNI for marketing purposes, and requiring VoIP providers to take certain steps to verify a customer s identity before releasing any CPNI over the telephone or the Internet, and to report unauthorized disclosures of CPNI.

- In April 2010, the FCC adopted a Notice of Inquiry regarding the possible establishment of a voluntary cyber security certification program. At present it is not possible to predict whether any new formal or informal requirements will arise from this proceeding or how any such requirements might affect our business.

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

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

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

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Rules requiring VoIP providers to provide access to E911 services on terms generally similar to those provided by traditional landline carriers.

In April 2010, the FCC adopted a Notice of Inquiry regarding the survivability of broadband infrastructure, including in the case of damage due to natural or human-caused disasters or public emergencies.

In December 2010, the FCC released a Notice of Inquiry regarding Next Generation 911 service. It is uncertain whether the FCC will adopt specific requirements arising from these proceedings or, if it does, how and whether any such requirements will affect us.

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

Rules requiring VoIP providers to provide notice to customers of discontinuance of service in some circumstances.

In a May 2011 rulemaking, the FCC proposed to extend outage reporting requirements to interconnected VoIP and broadband service providers. At this time we cannot predict the outcome of this proceeding, nor can we predict its potential impact on our business.

In July 2011, the FCC released a Notice of Proposed Rulemaking, seeking comment on proposed rules designed to assist consumers in detecting and preventing the placement of unauthorized charges on their telephone bills, an unlawful practice commonly referred to as cramming. The FCC sought comment on whether these proposed rules or similar requirements should apply to providers of interconnected VoIP service. Further, the FCC sought comment on whether any of its Truth-in-Billing rules or similar requirements should apply to interconnected VoIP providers in order to protect consumers from cramming. At this time we cannot predict the outcome of this proceeding, nor can we predict its potential impact on our business.

In November 2011, the FCC released an Order requiring VoIP providers to pay intercarrier compensation for the exchange of PSTN-VoIP traffic, the reduction of default payment rates, and the provision of signaling information with VoIP calls. The Order broadly reforms the system of default rates that apply to payments between regulated service providers going forward, but does not resolve past disputes. To the extent that another provider were to assert that the traffic we exchange with them is subject to higher levels of compensation than we, or the third parties terminating our traffic to the PSTN, pay today (if any), our termination costs could initially increase, but ultimately will be reduced as the intercarrier compensation system transitions to bill-and-keep. We cannot predict the full impact of the FCC s Order at this time.

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

We may become subject to increased obligations with regard to accessibility obligations for people with disabilities and more of our service offerings may become subject to disabilities access obligations.

In October 2011, the FCC ruled that VoIP services are subject to Sections 255 and 716 of the Act regarding requirements to ensure that people with disabilities have access to certain services. As such, VoIP providers and other providers of advanced communications services (and manufacturers of equipment used for such services) must ensure that their services and products are accessible to people with disabilities, unless it is not achievable to do so. The FCC also established recordkeeping, certification, and enforcement provisions related to the disability access provisions it adopted. If and to the extent that we are determined to be out of compliance with the FCC s disability access requirements, we may be subject to fines, penalties, cease and desist orders

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prohibiting us from providing service on the federal and state levels or any combination of the foregoing. The FCC s review of disability access related requirements remains ongoing, and at this time, we cannot predict whether we will be subject to additional accessibility requirements.

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

Future tax legislation could substantially modify the rules governing the U.S. taxation of certain non-U.S. subsidiaries. Potential changes include, but are not limited to: (1) limitations on the deferral of U.S. taxation of foreign earnings; (2) limitations on the ability to claim and utilize foreign tax credits; and (3) deferral of various tax deductions until non-U.S. earnings are repatriated to the U.S. If legislation on any of these items are enacted into law they could materially impact our effective tax rate.

We may be subject to liabilities for past taxes, surcharges, fees, penalties and interest.

Prior to 2010, the Company determined that with limited exceptions there was no requirement to bill, collect and remit transaction based state or local taxes (such as sales and use, excise, and utility user taxes), fees or surcharges on charges to our VoIP service customers. During 2010, we made a modification to the language in our customer agreements, and we determined that the Company may be required to bill, collect and remit certain transaction based taxes. The Company began to bill such taxes in 2010. In certain jurisdictions, there exists an immaterial amount of billed and collected taxes that have not been remitted, which the Company is in the process of remitting. In 2010, the FCC ruled that states may require interconnected VoIP service providers to contribute to state Universal Service Funds, and expressly deferred ruling on whether such providers must do so retroactively. We are continuing to assess the applicability of this ruling to our business and developing compliance plans. In limited jurisdictions, we determined we are required to collect such taxes and are currently billing and collecting these taxes from our customers. To the extent that we have collected taxes and fees and have not yet remitted such taxes and fees, we may be subject to fines and penalties and other claims. To the extent that we have not been collecting taxes and fees, we may be subject to retroactive liability for VoIP-specific taxes, fees and surcharges and, potentially, penalties and interest in a number of states, which may have a material adverse effect on the financial position, results of operations and cash flows of our VoIP business.

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

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

- ongoing regulatory proceedings in Australia contested by Telstra which has an incentive to increase prices and charges and to deny or impede access to essential facilities and services needed by us to compete;

- the ultimate outcome with the NBN, which could be subject to further review by the current or next incoming government, which could have impact on (a) we will have access to the NBN; and (b) the duration for which the copper wire based last mile infrastructure we use to furnish broadband services using our DSLAM network infrastructure will be continued;

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

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

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

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

As of November 2005, FCC rules require VoIP providers interconnected to the public switched telephone network to provide E911 service in a manner similar to traditional wireline carriers. Like many interconnected VoIP providers, Lingo, Inc. (Lingo), a subsidiary of ours which sells such services, was able to meet this deadline for some but not all of its customers. We sought a waiver from the FCC asking for additional time to complete deploying our E911 service. The FCC has not yet addressed our waiver petition. As of December 31, 2011, approximately 99% of our Lingo customers were equipped with E911 service as required by the FCC s rules. If and to the extent that we are determined to be out of compliance with the FCC order regarding E911 services we may be subject to fines, penalties and cease and desist orders prohibiting Lingo from providing service on the federal and state levels or any combination of the foregoing.

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

We may be exposed to significant liability based on the differences between our E911 services and those delivered by traditional providers of telephony services.

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

Since 2008, interconnected VoIP providers and others involved in handling 911 calls have been afforded the same liability protections as mobile or wired telephone service providers when handling 911 calls. However, the applicability of the liability protection to 911 calling services that do not conform to the FCC s VoIP E911 rules is unclear. As such, to the extent our services do not comply with the FCC s VoIP E911 requirements we may still face significant and material liability due to failures of our E911 service to function properly. We may be similarly exposed to liability in Canada in connection with emergency services associated with our VoIP services. A description of our regulatory obligations associated with our VoIP services in Canada is set forth under Government Regulation Canada.

The FCC may impose additional E911 obligations on VoIP providers, like us, that may increase our cost, decrease our profits, or make our services less competitive with other providers of calling services.

The FCC is considering a number of changes regarding the applicability of E911 requirements to VoIP providers like us and has sought comment on whether nomadic interconnected VoIP providers should be required to offer automatic location information of their users without customers providing location information. The FCC also sought comment on (i) how far it can extend E911 obligations to other types of companies including device manufacturers, software developers and others, (ii) whether to apply the FCC s 911 rules to outbound-only interconnected VoIP services (i.e., services that support outbound calls to the PSTN but not inbound voice calling from the PSTN); (iii) whether to develop a framework for ensuring that all covered VoIP providers can provide automatic location information for VoIP 911 calls; (iv) whether to revise the FCC s definition of interconnected VoIP service; and (v) whether any amendment of the definition of interconnected VoIP service should be limited to 911 purposes, or should apply more broadly to other contexts.

The FCC is also considering whether E911 obligations should apply to other IP-enabled services.

At this time we cannot predict the outcome of these proceedings nor can we predict their potential impact on our business. Our VoIP E911 services are more limited than the 911 services offered by traditional wireline telephone companies. These limitations may cause significant delays, or even failures, in callers receipt of emergency assistance.

Uncertainty regarding the rates we pay to interconnected telecommunications carriers in the U.S. may affect our profitability and increase the retail price of our service.

In November 2011,the FCC adopted a major reform of the methodology that regulated telecommunications carriers use to determine the appropriate payments for the exchange of traffic that is necessary to complete long-distance telephone calls to the traditional telephone network. Under the new rules, LECs generally are prohibited from increasing their rates for termination and origination of long-distance calls (except for the origination charges of smaller telephone companies serving less than 2% of all telephone lines in the U.S.). Starting July 1, 2012, all LECs will be required to reduce their charges for originating and terminating in-state toll calls to the extent they are higher than the comparable charges for interstate calls, and after July 1, 2013, the charges for in-state toll calls must be no higher than those for interstate calls. Starting July 1, 2014, LECs will be required to further reduce the rates for terminating long-distance calls (only) in a series of steps until (in most cases) the rates are reduced to zero effective July 1, 2018. Charges for outgoing calls originated by U.S. customers are not required to be reduced in this latter stage, although the FCC is conducting a further rulemaking proceeding in which it will consider possible reductions to originating charges. The FCC s decision is subject to petitions for reconsideration as well as multiple petitions for judicial review, which could result in changes in either the transition schedule or the ultimate elimination of terminating charges. Because of the continuing proceedings both at the FCC and in the courts, we face ongoing uncertainty as to our future costs for both originating and terminating telephone calls in the U.S. Further, we face uncertainty as to whether and how our competitors will adjust their retail prices in response to changes in the cost of call termination, which may affect our own pricing and profit margins.

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

In 2008, the FCC clarified that interconnected VoIP providers, such as us, are subject to its rules regarding transferring the telephone numbers of customers that choose to obtain service from other providers, including both interconnected VoIP providers and traditional carriers. In 2009, the FCC released an order that reduces the amount of time within which voice service providers must transfer a telephone number to a new provider. We, along with other VoIP providers, are now required to transfer telephone numbers on the shortened timeframe. We rely on our underlying, third party carriers to comply with these rules. Our underlying, third party carriers are currently in compliance with the FCC s rules and we expect that they will remain in compliance. But should our underlying carriers fail to comply with the FCC rules, we may be subject to fines, penalties, or cease and desist orders.

States in the U.S. may subject our service to state USF obligations.

Several states have attempted to require nomadic interconnected VoIP providers to contribute to state USFs. One state, Nebraska, engaged in litigation with a provider of interconnected VoIP services similar to us. On July 16, 2009, Kansas and Nebraska filed a petition with the FCC requesting a declaratory ruling that states are not preempted from requiring nomadic interconnected VoIP providers to contribute to state USFs. The petition also sought a retroactive rule finding that states have been able to collect such contributions for an uncertain time period. On November 5, 2010, the FCC released an order granting the petition in part, clarifying that on a prospective basis states may extend USF contribution requirements to cover intrastate revenues of nomadic VoIP providers, so long as the state s particular requirements do not conflict with federal law or policies. We cannot predict which states may seek to impose such contributions on us. Decisions by states to collect state USF contributions may result in increased state regulation of our service and increased costs associated with our services, which may lead to either lower profits or a less competitively priced service. Typically, state USF fees would be passed on to consumers. At this time, we cannot predict the outcome of individual state decisions or the impact such decisions might have on our business.

We may become subject to state regulation for certain service offerings.

A number of states have adopted the position that offerings by VoIP companies like us are subject to state regulation. These states generally base their jurisdiction to regulate such offerings based on whether a VoIP company is able to determine the beginning and end points of communications and whether such communications occur entirely within the boundaries of the respective state. We believe that the FCC has preempted states from regulating VoIP offerings. We cannot predict how this issue will be resolved nor its impact on our business at this time but we could be subject to increased costs, reduced profitability, and fines or penalties.

Access to the Internet is required by us and our users in order to offer our services. If Internet access providers or other companies involved in handling Internet traffic are able to block, degrade or charge us so that we cannot offer quality services, we could incur additional costs or lose customers.

Our service offerings require that customers have access to broadband Internet access at a sufficient bandwidth in order to support call quality and other related services. We and our customers rely on service providers that have significant market power in the broadband Internet access marketplace including incumbent providers of wireline telephone services, cable companies and wireless companies. It is possible that some of these providers could take measures to degrade or disrupt our services, or increase the cost to us or our users to obtain access to certain levels of bandwidth necessary to make our service offerings.

On December 23, 2010, the FCC adopted an order that imposes network neutrality rules on providers of fixed and wireless broadband Internet access services, with wireless providers subject to a more limited set of rules. Among other things, the rules: (1) require providers of consumer broadband Internet access to publicly disclose their network management practices and the performance and commercial terms of their broadband Internet access services; (2) prevent broadband Internet access providers from blocking lawful content, applications, services, or non-harmful devices, subject to reasonable network management; and (3) prevent broadband Internet access providers from unreasonably discriminating in the transmission of lawful network traffic over a consumer s broadband Internet access service. While the substance of the rules and the process used by the FCC in adopting the rules differs from the FCC s previous Internet policy principles that were called into question by the D.C. Circuit, questions remain concerning the FCC s ability to adopt rules governing the conduct of fixed and wireless broadband Internet access providers. The FCC s rules became effective on November 20, 2011. Several parties have appealed these rules to the U.S. Court of Appeals for the District of Columbia. We cannot predict to what extent these or any other appeals may succeed, nor can we predict what impact these rules may have on our business at this time. If an Internet access provider were to interfere with access to our products and services, such actions could result in a loss of existing users and increased costs, and could impair our ability to attract new users, thereby harming our revenue and growth.

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

We must comply with Section 114 of the Fair and Accurate Credit Transactions Act of 2003 (FACTA) and rules of the Federal Trade Commission (FTC) that require creditors to develop and effectuate written internal programs to detect, prevent, and mitigate identity theft in connection with their accounts. The rules became effective on January 1, 2011, and we may be deemed to be a creditor as defined in the FACTA to the extent that we use consumer reports in connection with providing service to customers, or provide information to debt collectors or consumer reporting agencies. We are taking steps to ensure compliance with the FTC s rules, but if and to the extent that we are determined to be out of compliance with the rules we may be subject to fines, penalties, compliance orders or any combination of the foregoing.

Uncertainty regarding the rates we pay to interconnected telecommunications carriers in the U.S. may affect our profitability and the retail price of our service.

In November 2011, after a proceeding spanning a number of years, the FCC adopted a major reform of the methodology that regulated telecommunications carriers use to determine payments for the exchange of traffic to complete long-distance telephone calls over the traditional local telephone network. Under the new rules, LECs generally are prohibited from increasing their rates for termination and origination of long-distance calls (except for the origination charges of smaller telephone companies serving less than 2% of all telephone lines in the U.S.). Starting July 1, 2012, all LECs will be required to reduce their charges for originating and terminating in-state toll calls to the extent they are higher than the comparable charges for interstate calls, and after July 1, 2013, the charges for in-state toll calls must be no higher than those for interstate calls. Starting July 1, 2014, LECs will be required to further reduce the rates for terminating long-distance calls (only) in a series of steps until (in most cases) the rates are reduced to zero effective July 1, 2018. Charges for outgoing calls originated by U.S. customers are not required to be reduced in this latter stage, although the FCC is conducting a further rulemaking proceeding in which it will consider possible reductions to originating charges. The FCC s decision is subject to petitions for reconsideration as well as multiple petitions for judicial review, which could result in changes in either the transition schedule or the ultimate elimination of terminating charges. Because of the continuing proceedings both at the FCC and in the courts, we face ongoing uncertainty as to our future costs for both originating and terminating telephone calls in the U.S. Further, we face uncertainty as to whether and how our competitors will adjust their retail prices in response to changes in the cost of call termination, which may affect our own pricing and profit margins.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We currently lease our corporate headquarters facility, which is located in McLean, Virginia. Additionally, we lease administrative, technical and sales office space, as well as space for our switches and data centers, in various locations in the countries in which we operate. As of December 31, 2011, total leased space in the United States, Australia, Canada, and the United Kingdom, as well as other countries in which we operate, approximates 638,000 square feet and the total annual lease costs are approximately $22.7 million. The operating leases expire at various times, with the longest commitment expiring in 2023. We believe that our present administrative and sales office facilities are adequate for our anticipated operations and that similar space can be obtained readily as needed, and we further believe that the current leased facilities are adequate to house existing communications equipment.

Certain communications equipment which includes network switches and transmission lines are leased through operating leases, capital leases and vendor financing agreements.

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ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock

Group common stock issued and outstanding on and after July 1, 2009 (the New Common Stock) traded on the OTC Bulletin Board under the ticker symbol PMUG between July 1, 2009 and June 23, 2011, and began trading on the New York Stock Exchange (NYSE) under the ticker symbol PTGI on June 23, 2011. Shares of our common stock issued and outstanding immediately prior to July 1, 2009 (the Old Common Stock) traded on the over-the-counter market, both through listings on the OTC Bulletin Board and in the National Quotation Bureau Pink Sheets. The ticker symbol PRTL was assigned to our Old Common Stock for over-the-counter quotations. On June 30, 2009, all shares of our outstanding Old Common Stock were cancelled pursuant to the terms of our Plan of Reorganization, and 9,600,000 shares of New Common Stock were issued. We have no continuing obligations with respect to the Old Common Stock.

The following table provides the high and low sale prices for Group s New Common Stock as reported by the NYSE or the OTC Bulletin Board, as applicable, for each quarterly period for the last two fiscal years.

Period	New Common Stock High	Low
2011		
1st Quarter	$ 15.75	$ 12.50
2nd Quarter	$ 15.65	$ 13.50
3rd Quarter	$ 15.17	$ 9.55
4th Quarter	$ 13.21	$ 10.09
2010		
1st Quarter	$ 7.25	$ 5.65
2nd Quarter	$ 7.54	$ 6.15
3rd Quarter	$ 7.70	$ 6.75
4th Quarter	$ 14.00	$ 7.00

Holders of Common Stock

As of February 29, 2012, the Company had ten holders of record of our common stock. This number does not include stockholders for whom shares were held in nominee or street name.

Dividend Policy

We have not paid any cash dividends on our common stock to date. The payment of dividends, if any, in the future is within the discretion of the Board of Directors and will depend on our earnings, our capital requirements and financial condition. Dividends are currently restricted by the indenture governing our 10% Notes, and may be restricted by other arrangements entered into in the future by us. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Recent Developments Recent Developments Involving Existing Notes that May Impact Future Results and Liquidity and Note 8 Long-Term Obligations to our consolidated financial statements for more detail concerning our 10% Notes. It is the present intention of the Board of Directors to retain all earnings, if any, for use in our business operations, and accordingly, the Board of Directors does not expect to declare or pay any dividends in the foreseeable future.

Warrant Agreements

As of July 1, 2009 (the Effective Date), the outstanding 5% Exchangeable Senior Notes and 8% Senior Notes issued by Holding (the Holding Senior Notes) were cancelled, and Group issued holders thereof Class A warrants to purchase up to an aggregate of 3,000,000 shares of New Common Stock. The Class A warrants consist of 1,000,000 each of Class A-1 warrants, Class A-2 warrants and Class A-3 warrants. In connection with the issuance of the Class A warrants, Group entered into a warrant agreement, dated as of the Effective Date (the Class A Warrant Agreement), with Broadridge Corporate Issuer Solutions, Inc., as warrant agent. Subject to the terms of the Class A Warrant Agreement, Class A-1 warrant holders are entitled to purchase up to 1,000,000 shares of New Common Stock at an initial exercise price of $12.22 per share, Class A-2 warrant holders are entitled to purchase up to 1,000,000 shares of New Common Stock at an initial exercise price of $16.53 per share, and Class A-3 warrant holders are entitled to purchase up to 1,000,000 shares of New Common Stock at an initial exercise price of $20.50 per share. The Class A warrants have a five-year term and will expire on July 1, 2014. A holder may exercise Class A warrants by paying the applicable exercise price in cash. In addition, a holder may exercise Class A warrants on a cashless basis in connection with a change of control (as defined in the Class A Warrant Agreement), in connection with a transaction pursuant to an effective registration statement covering the sale of New Common Stock underlying such Class A warrants, or if the exercise occurs on a date when the daily volume-weighted average price of the New Common Stock for the immediately preceding 10 trading days exceeds 150% of the exercise price applicable to such Class A warrants. The Class A warrants are freely transferrable by the holder thereof.

As of the Effective Date, the 3 $^{3}/4$% Senior Notes due September 2010, 12 $^{3}/4$% Senior Notes due October 2009 and Step Up Convertible Subordinated Debentures due August 2009 issued by Group (collectively, the Group Notes) were cancelled, and Group issued holders thereof Class B warrants to purchase up to an aggregate of 1,500,000 shares of New Common Stock. In connection with the issuance of the Class B warrants, Group entered into a warrant agreement, dated as of the Effective Date (the Class B Warrant Agreement), with Broadridge Corporate Issuer Solutions, Inc., as warrant agent. Subject to the terms of the Class B Warrant Agreement, Class B warrant holders are entitled to purchase 1,500,000 shares of New Common Stock at an initial exercise price of $26.01 per share. The Class B warrants have a five-year term and will expire on July 1, 2014. A holder may exercise Class B warrants by paying the applicable exercise price in cash. In addition, a holder may exercise Class B warrants on a cashless basis in connection with a change of control (as defined in the Class B Warrant Agreement), in connection with a transaction pursuant to an effective registration statement covering the sale of New Common Stock underlying such Class B warrants, or if the exercise occurs on a date when the daily volume-weighted average price of the New Common Stock for the immediately preceding 10 trading days exceeds 150% of the exercise price applicable to the Class B warrants. The Class B warrants are freely transferrable by the holder thereof.

The number of shares of New Common Stock issuable upon exercise of the Class A warrants and Class B warrants (together, the Warrants) and the exercise prices of the Warrants will be adjusted in connection with any dividend or distribution of New 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 Group), or any subdivision or combination of the New Common Stock. In addition, the number of shares of New Common Stock issuable upon exercise of the Warrants and the exercise 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 New Common Stock at a price per share less than the fair market value of the New Common Stock on the trading day immediately prior to such issuance, sale or grant, subject to certain exceptions, or (B) shares of New Common Stock at a price per share less than the fair market value of the New 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 New Common Stock is converted into, exchanged for, or the holders thereof are otherwise entitled to receive on

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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.

Contingent Value Rights Distribution Agreement

Pursuant to the terms of the Plan, Group issued to holders of Old Common Stock contingent value rights (Contingent Value Rights or CVRs) to receive up to an aggregate of 2,665,000 shares (the CVR Shares) of New Common Stock. In connection with the issuance of the Contingent Value Rights, Group entered into a Contingent Value Rights Distribution Agreement (the CVR Agreement), in favor of holders of CVRs thereunder, dated as of the Effective Date.

The CVRs may not be transferred by the holder thereof except in certain limited circumstances. Subject to the terms of the CVR Agreement, holders of CVRs may receive their pro rata share of up to 2,665,000 CVR Shares if certain conditions are satisfied. A distribution of CVR Shares is required to be made by Group if, as of any determination date (as described in the paragraph below), Group s equity value (assuming cash exercise in full on such date of in-the-money warrants and options of Group) divided by the sum of the number of shares of New Common Stock then issued and outstanding plus the number of shares of New Common Stock underlying warrants, options and similar securities of Group (other than CVRs) that are then in-the-money exceeds $35.95. The aggregate number of such shares of New Common Stock is referred to as the Applicable Shares; the price per share of $35.95, subject to adjustment as described below, is referred to as the CVR Strike Price; 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 Group 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.

Group 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 is available to confirm that Group 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 Group. Distributions of CVR Shares (if any) will be made within 45 calendar days of a determination by Group that a distribution is required. Notwithstanding the foregoing, no distribution of CVR Shares is required to be made by Group unless Excess Equity Value exceeds $1 million as of any determination date.

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 New Common Stock. In addition, if Group distributes to holders of New Common Stock any of its assets (including but not limited to cash), securities or rights to purchase securities of Group (other than any regular cash dividend not to exceed in any fiscal year 45% of the consolidated net income of Group 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 Group (other than in connection with certain change of control transactions involving Group) in which all or substantially all of the outstanding shares of New Common Stock are converted into or exchanged for stock, other securities or other property, Group shall make appropriate provision so that the holders of Contingent Value Rights 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 New Common Stock that the holders of Contingent Value Rights 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 Group at a CVR

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Strike Price that, in each case, is reasonably determined by the board of directors of Group 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 Contingent Value Rights 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 foregoing description of the CVR Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of such agreement, a copy of which is attached as an exhibit to Group s Form 8-A filed with the SEC on July 1, 2009 and such exhibit is incorporated herein by reference.

Recent Sales of Unregistered Securities

There were no unregistered sales of our equity securities in the year ended December 31, 2011.

Issuer Purchases of Equity Securities

Upon vesting of restricted stock awarded by the Company to employees, the Company withholds shares to cover employees tax withholding obligations, other than for employees who have chosen to satisfy their tax withholding requirements in the form of a cash payment. The table below reflects shares of common stock withheld to satisfy tax withholding obligations during the year ended December 31, 2011.

On August 8, 2011, the Company s board of directors authorized a stock repurchase program of up to $15 million of its common stock through August 8, 2013. Under the stock repurchase program, the Company may repurchase common stock from time to time in the open-market, privately negotiated transactions or block trades. During the year ended December 31, 2011, the Company repurchased shares of common stock in connection with our stock repurchase program, which is also reflected in the table below.

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				
January 1, 2011 to March 31, 2011	2,669	$ 14.92	$	$
April 1, 2011 to June 30, 2011	699	$ 14.56	$	$
July 1, 2011 to September 30, 2011	4,087	$ 15.02	$	$
October 1, 2011 to December 31, 2011	10,907	$ 12.66	$	$
Total	18,362	$ 13.58	$	$
Shares purchased under a stock repurchase program				
January 1, 2011 to March 31, 2011		$	$	$
April 1, 2011 to June 30, 2011		$	$	$
July 1, 2011 to September 30, 2011	31,626	$ 11.92	$	$ 14.6
October 1, 2011 to December 31, 2011		$	$	$ 14.6
Total	31,626	$ 11.92	$	$ 14.6

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Stock Performance Graph

The following graph, furnished voluntarily pursuant to Instruction 6 to Item 201(e) of Regulations S-K, compares the cumulative total returns during the period from July 1, 2009 to December 31, 2011 of our common stock to the Standard & Poor s Telecommunications Index. The comparison assumes $100 was invested on July 1, 2009 in the common stock of the Company and the indices and assumes that all dividends were reinvested. The reorganized company s New Common Stock began trading on the OTC Bulletin Board on July 1, 2009, and on the NYSE on June 23, 2011. The company s Old Common Stock, which was actively traded prior to July 1, 2009, does not provide meaningful comparison and the performance of the Old Common Stock has not been provided.

	July 1, 2009	December 31, 2009	December 31, 2010	December 31, 2011
Primus Telecommunications Group, Inc. (PTGI)	$ 100.00	$ 143.75	$ 312.50	$ 316.50
Standard & Poor s Telecommunications Index	$ 100.00	$ 115.29	$ 128.67	$ 129.87

The performance graph will not be deemed to be incorporated by reference by means of any general statement incorporating by reference this Form 10-K into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that Primus specifically incorporates such information by reference, and shall not otherwise be deemed filed under such Acts.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below should be read in conjunction with (i) Item 7 entitled Management s Discussion and Analysis of Financial Condition and Results of Operations, (ii) our consolidated audited annual financial statements and the notes thereto, each of which are contained in Item 8 entitled Financial Statements and Supplementary Data and (iii) the information described below under Discontinued Operations.

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As of July 1, 2009, the Company adopted fresh-start accounting in accordance with Accounting Standards Codification (ASC) No. 852. The adoption of fresh-start accounting resulted in the Company becoming a new entity for financial reporting purposes. Accordingly, the financial statements on or prior to July 1, 2009 are not comparable with the financial statements for periods after July 1, 2009. The consolidated condensed statements of operations and any references to Successor or Successor Company for the six months ended December 31, 2009, show the operations of the reorganized Company from and including July 1, 2009, the Effective Date, through December 31, 2009. References to Predecessor or Predecessor Company refer to the operations of the Company prior to July 1, 2009, except for Predecessor s July 1, 2009 statements of operations which reflect only the effect of the plan adjustments and fresh-start accounting as of such date and do not reflect any operating results.

In accordance with ASC No. 805, the preliminary allocation of the reorganization value is subject to additional adjustment until the Company has completed its analysis, but not to exceed one year after emergence from bankruptcy, to provide the Company with the time to complete the valuation of its assets and liabilities. The final determination of the fair value of individual assets and liabilities and the final allocation of the reorganization value was finalized during the first six months of 2010.

Discontinued Operations

Brazil. During the fourth quarter of 2011, the Company sold its Brazilian segment. As a result, the Company has applied retrospective adjustments for 2010, 2009, 2008 and 2007 to reflect the effects of the discontinued operations that occurred subsequent to December 31, 2010. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as income, or loss, as applicable, from discontinued operations. The following selected financial information has been recast to reflect such retrospective classification of the Company s Brazilian segment.

Europe. During the third quarter of 2010, the Company discontinued its Europe segment, which was also known as European retail operations and has presented the results of the Europe segment as discontinued operations and held for sale as of September 30, 2010. As a result, the Company has applied retrospective adjustments for 2009, 2008 and 2007 to reflect the effects of the discontinued operations that occurred subsequent to December 31, 2009. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as income, or loss, as applicable, from discontinued operations. The Company did not retrospectively adjust its 2009 or 2008 consolidated balance sheet, as held for sale criteria was not met until the third quarter of 2010. As such, financial information for the Europe segment will appear, as applicable, where balance sheet information is presented for fiscal years 2009 and 2008. The following selected financial information has been recast to reflect such retrospective classification of the Company s European retail operations.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Successor			Predecessor		
	Year Ended December 31, 2011	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
NET REVENUE	$ 989,259	$ 737,262	$ 389,072	$ 358,999	$ 822,708	$ 821,424
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)	695,738	466,045	253,299	232,436	520,076	502,834
Selling, general and administrative	214,585	194,887	93,541	87,134	235,091	246,347
Depreciation and amortization	64,450	64,427	36,284	11,470	30,181	26,783
(Gain) loss on sale or disposal of assets	(12,944)	196	102	(43)	(5,966)	241
Goodwill impairment	14,679					
Total operating expenses	976,508	725,555	383,226	330,997	779,382	776,205
INCOME (LOSS) FROM OPERATIONS	12,751	11,707	5,846	28,002	43,326	45,219
INTEREST EXPENSE	(32,506)	(35,441)	(17,255)	(14,072)	(53,861)	(60,706)
ACCRETION (AMORTIZATION) ON DEBT PREMIUM/DISCOUNT, net	(213)	(183)	(3)	189	583	(449)
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	(7,346)	164	(4,146)		36,872	(8,161)
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	2,902	(13,737)	(2,804)			
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	(127)	674	476	363	3,272	6,007
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	(2,661)	16,413	19,566	20,332	(46,378)	32,734
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	(27,200)	(20,403)	1,680	34,814	(16,186)	14,644
REORGANIZATION ITEMS, net		1	(421)	422,947		
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(27,200)	(20,402)	1,259	457,761	(16,186)	14,644
INCOME TAX BENEFIT (EXPENSE)	(869)	9,085	10,180	(4,074)	739	9,264
INCOME (LOSS) FROM CONTINUING OPERATIONS	(28,069)	(11,317)	11,439	453,687	(15,447)	23,908
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(419)	(10,801)	(4,264)	17,184	(6,425)	(14,304)
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	(4,781)	2,926	(110)	251		6,132
NET INCOME (LOSS)	(33,269)	(19,192)	7,065	471,122	(21,872)	15,736
Less: Net (income) loss attributable to the noncontrolling interest	(5,461)	105	(333)	32	(3,159)	
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (38,730)	$ (19,087)	$ 6,732	$ 471,154	$ (25,031)	$ 15,736
BASIC INCOME (LOSS) PER COMMON SHARE:						
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (2.58)	$ (1.15)	$ 1.15	$ 3.18	$ (0.13)	$ 0.18

Income (loss) from discontinued operations		(0.03)		(1.11)		(0.44)		0.12		(0.05)		(0.11)
Gain (loss) from sale of discontinued operations		(0.37)		0.30		(0.01)						0.05
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$	(2.98)	$	(1.96)	$	0.70	$	3.30	$	(0.18)	$	0.12
DILUTED INCOME (LOSS) PER COMMON SHARE:												
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$	(2.58)	$	(1.15)	$	1.14	$	2.62	$	(0.13)	$	0.13
Income (loss) from discontinued operations		(0.03)		(1.11)		(0.44)		0.10		(0.05)		(0.07)
Gain (loss) from sale of discontinued operations		(0.37)		0.30		(0.01)						0.03
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$	(2.98)	$	(1.96)	$	0.69	$	2.72	$	(0.18)	$	0.09

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	Successor			Predecessor		
	Year Ended December 31, 2011	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING						
Basic	$ 12,994	$ 9,721	$ 9,600	$ 142,695	$ 142,643	$ 128,771
Diluted	12,994	9,721	9,800	173,117	142,643	196,470
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income (loss) from continuing operations, net of tax	$ (33,530)	$ (11,212)	$ 11,106	$ 453,719	$ (18,606)	$ 23,908
Income (loss) from discontinued operations	(419)	(10,801)	(4,264)	17,184	(6,425)	(14,304)
Gain (loss) from sale of discontinued operations	(4,781)	2,926	(110)	251		6,132
Net income (loss)	$ (38,730)	$ (19,087)	$ 6,732	$ 471,154	$ (25,031)	$ 15,736

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Balance Sheet Data:

	Successor			Predecessor	
	As of December 31,			As of December 31,	
(in thousands)	2011	2010	2009	2008	2007
Total assets	$ 543,824	$ 514,459	$ 558,914	$ 330,444	$ 460,403
Total long-term obligations (including current portion)	$ 247,762	$ 243,891	$ 257,516	$ 604,837	$ 673,903
Total liabilities	$ 442,118	$ 431,425	$ 459,005	$ 789,169	$ 907,943
Total Primus Telecommunications Group, Inc. stockholders equity (deficit)	$ 101,706	$ 83,034	$ 99,909	$ (461,539)	$ (447,540)

Discontinued Operations Data:

	Successor			Predecessor		
	Year Ended December 31, 2011	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Net revenue	$ 25,370	$ 65,192	$ 35,261	$ 32,518	$ 77,005	$ 84,565
Operating expenses	25,856	77,340	37,976	33,423	82,284	98,316
Income (loss) from operations	(486)	(12,148)	(2,715)	(905)	(5,279)	(13,751)
Interest expense	(77)	(59)	(68)	(63)	(28)	(667)
Gain (loss) on early extinguishment or restructuring of debt						510
Interest income and other income (expense)	485	(328)	(144)	53	64	(321)
Foreign currency transaction gain (loss)	(101)	(135)	(1,185)	787	(808)	(41)
Reorganization items			(14)	17,146		
Income (loss) before income tax	(179)	(12,670)	(4,126)	17,018	(6,051)	(14,270)
Income tax (expense) benefit	(240)	1,869	(138)	166	(375)	(34)
Income (loss) from discontinued operations	$ (419)	$ (10,801)	$ (4,264)	$ 17,184	$ (6,426)	$ (14,304)

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ITEM 7. 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 consolidated annual audited financial statements and the notes thereto, each of which are contained in Item 8 entitled Financial Statements and Supplementary Data, and other financial information incorporated by reference herein. 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 for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Introduction and Overview of Operations

We are an integrated facilities-based communications services provider offering a portfolio of international and domestic voice, wireless, Internet, VoIP, data and data center services to customers located primarily in Australia, Canada and the United States. Our primary markets are Australia and Canada where we have deployed significant network infrastructure. We classify our services into three categories: Growth Services, Traditional Services and International Carrier Services. Our focus is on expanding our Growth Services, which includes our broadband, SME VoIP, Australian on-net local services, data, and data center services, to fulfill the demand for high quality, competitively priced communications services. This demand is being driven, in part, by the globalization of the world s economies, the global trend toward telecommunications deregulation and the migration of communication traffic to the Internet. We manage our Traditional Services, which includes our domestic and international long-distance voice, prepaid cards, dial-up Internet services and Australian off-network local services for cash flow generation that we reinvest to develop and market our Growth Services, particularly in our primary markets of Australia and Canada. We provide our International Carrier Services voice termination services to other telecommunications carriers and resellers requiring IP or time-division multiplexing access.

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

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

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

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

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.

Emergence from Voluntary Reorganization Under Chapter 11 Proceedings

On March 16, 2009, the Holding Companies filed Chapter 11 Cases in the Bankruptcy Court for reorganization relief under Chapter 11 of the Bankruptcy Code. Subsequently, the Holding Companies sought and received an order directing the joint administration of the Chapter 11 Cases under the caption In re: Primus Telecommunications Group, Incorporated, et al., Debtors, Case No. 09-10867. On April 24, 2009, an unsecured creditors committee was appointed by the United States Trustee.

On April 27, 2009, the Bankruptcy Court approved the Holding Companies use of a disclosure statement dated April 27, 2009 (the Disclosure Statement) to solicit votes on the Plan of Reorganization. The Disclosure Statement was distributed to holders of record (as of April 27, 2009) of claims against, and interests in, the Holding Companies who were entitled to vote on the Plan of Reorganization (the Record Date).

The Plan was confirmed by the Bankruptcy Court on June 12, 2009 (the Confirmation Date). On July 1, 2009 (the Effective Date), the Holding Companies consummated their reorganization under the Bankruptcy Code and the Plan of Reorganization became effective. See Note 2 Emergence from Voluntary Reorganization under Chapter 11 of the Bankruptcy Code to our consolidated financial statements for further details.

As of the Effective Date, we adopted fresh-start accounting in accordance with Financial Accounting Standards Board ASC No. 852, Reorganizations. The adoption of fresh-start accounting resulted in the Company becoming a new entity for financial reporting purposes. Accordingly, the financial statements on or prior to the Effective Date are not comparable with the financial statements for periods after the Effective Date. See Note 4 Fresh-Start Accounting to our consolidated financial statements for further detail.

Impact of Reorganization on Our Capital Structure, Long-Term Debt and Financial Statements.

Upon our emergence under the Plan of Reorganization on the Effective Date, the Holding Companies principal debt was reduced by $316 million, or over 50%, interest payments were reduced by over 50% and certain debt maturities were extended. The significant features of the Plan included the developments summarized below:

- Holding s $96 million Term Loan facility due February 2011 was reinstated and amended;

- IHC s $173 million of outstanding 14 $^{1}/4$% Senior Secured Notes due 2011 were cancelled and the holders thereof received their pro rata portion of $123.5 million of aggregate principal amount of 14 $^{1}/4$% Senior Subordinated Secured Notes due May 20, 2013 and 4,800,000 shares of the new Common Stock of Group (the New Common Stock);

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the $209 million in aggregate outstanding 5% Exchangeable Senior Notes and 8% Senior Notes issued by Holding (collectively, the Holding Senior Notes) were cancelled, and the holders thereof received 4,800,000 shares of the New Common Stock and Class A warrants to purchase up to an aggregate of 3,000,000 shares of New Common Stock;

the 3 3/4% Senior Notes due September 2010, 12 3/4% Senior Notes due October 2009 and Step Up Convertible Subordinated Debentures due August 2009 issued by Group (collectively, the Group Notes) were cancelled, and the holders thereof received Class B warrants to purchase up to an aggregate of 1,500,000 shares of the New Common Stock;

all existing shares of common stock outstanding prior to the Effective Date (the Old Common Stock) were cancelled on the Effective Date, and holders thereof received their pro rata share of contingent value rights (Contingent Value Rights or CVRs) to acquire up to 2,665,000 shares of New Common Stock; and

all outstanding equity incentive grants of Group were cancelled on the Effective Date, and the Primus Telecommunications Group, Incorporated Management Compensation Plan (the Management Compensation Plan) became effective. As of the Effective Date, 400,000 restricted stock units, 400,000 service-based stock options and 100,000 performance-based stock options were granted to certain employees and executive officers under the Management Compensation Plan.

In accordance with the Plan, Group s certificate of incorporation and bylaws were amended and restated in their entirety. Group s Second Amended and Restated Certificate of Incorporation (the Amended Certificate Incorporation) and Amended and Restated By-Laws (the Amended By-Laws) both became effective on the Effective Date. The Amended Certificate of Incorporation provides for 80,000,000 shares of authorized New Common Stock and 20,000,000 shares of authorized new preferred stock, of which 9,600,000 shares of New Common Stock were issued on the Effective Date. A further description of the key provisions of the Amended Certificate of Incorporation and the Amended By-Laws is included in Group s registration statement on Form 8-A under Description of Capital Stock filed with the SEC on July 1, 2009, which description is incorporated herein by reference. This description is qualified in its entirety by reference to the full text of these documents, which are attached as exhibits to such Form 8-A and such text is incorporated herein by reference.

Prior to the Effective Date, Group had approximately 142,695,390 shares of Old Common Stock issued and outstanding, and all of these shares were cancelled in connection with the effectiveness of the Plan. On the Effective Date, Group issued 9,600,000 shares of New Common Stock and had an additional 7,165,000 shares of New Common Stock reserved for future issuance in respect of claims and interests filed and allowed under the Plan, consisting of (1) 3,000,000 shares of New Common Stock reserved for issuance upon exercise of Class A warrants, (2) 1,500,000 shares of New Common Stock reserved for issuance upon exercise of Class B warrants, and (3) 2,665,000 shares of New Common Stock reserved for distribution on account of CVRs. The total number of shares of New Common Stock issued and reserved for issuance in respect of claims and interests filed and allowed under the Plan was 16,765,000. Including the shares of New Common Stock reserved for issuance under the Management Compensation Plan, the total number of shares of New Common Stock issued and reserved for issuance under the Plan was 17,765,000.

Recent Developments

Acquisition of Arbinet Corporation

On February 28, 2011, the Company completed the merger of PTG Investments, Inc. (Merger Sub), a Delaware corporation and a wholly-owned subsidiary of the Company with and into Arbinet Corporation (Arbinet), pursuant to the Agreement and Plan of Merger dated November 10, 2010, as amended by Amendment No. 1 dated December 14, 2010 (collectively, the Merger Agreement) by and among the Company, Merger Sub and Arbinet. As a result of the merger, Arbinet became a wholly-owned subsidiary of the Company.

In connection with the merger, each share of Arbinet s common stock, par value $0.001 per share, issued and outstanding immediately prior to the effective time of the merger was canceled and converted into the right to receive 0.5817 of a share of Company common stock.

The value of Primus shares issued as merger consideration was based upon the closing price of Primus common stock as of February 25, 2011 of $15.60 per share. The exchange of 5,557,525 eligible Arbinet shares for 3,232,812 Primus common stock equivalents equated to a purchase value of approximately $50.6 million. This includes the issued and outstanding shares of Arbinet and Arbinet s outstanding warrants, options, stock appreciation rights and other equity awards that were exercised prior to the effective date of the merger or subject to accelerated vesting features due to a change in control.

The Company is in the process of integrating Arbinet s operations into its International Carrier Services segment. The combined company is expected to be well positioned to capitalize on its long established experience in carrier telecom operations and to expand its global voice and data operations to meet the evolving demands of telecom operators worldwide. With its enhanced scale and market position, the combined company is expected to enable international carrier services customers to access additional networks and termination routes at competitive rates. The combined company is expected to have a diversified product portfolio of international voice and data services across all International Carrier Services customer segments. The combined company would become the only major global provider to offer International Carrier Services customers options to either acquire direct international connections through traditional interconnect arrangements or manage their access needs through The Exchange.

The Arbinet acquisition is accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. Under the acquisition method of accounting, assets acquired and liabilities assumed are measured at fair value as of February 28, 2011. The fair value of the consideration transferred and the assets acquired and liabilities assumed were determined by the Company and in doing so management relied in part upon a third-party valuation report to measure the identifiable intangible assets, property and equipment acquired. In accordance with ASC No. 805, the allocation of the consideration value is subject to additional adjustment until the Company has completed its analysis. The Company s analysis and any additional adjustments are required to be made by February 28, 2012, the one year anniversary of the date of the acquisition, to provide the Company with the time to complete the valuation of its assets and liabilities. The consolidated financial statements of the Company issued after the merger will reflect only the operations of the combined business after the merger and will not be restated retroactively to reflect the historical financial position or results of operations of Arbinet.

The Company s acquisition of Arbinet was an all stock transaction and the Merger Agreement was based upon a Primus common stock per share price of $9.57. The exchange formula provided by the Merger Agreement established the number of common shares required to consummate the merger. The number of common shares established by the Merger Agreement remained constant from the execution of the Merger Agreement through the closing date, February 28, 2011, and as a result, increases in the market price of Primus s common stock had the effect of increasing the total fair value of the consideration and therefore increased the amount of the purchase price allocable to goodwill. On February 28, 2011, the final consideration to be allocated to Arbinet s net assets under ASC No. 805 was valued at approximately $50.6 million and was based upon a Primus common stock per share price of $15.60.

The significant increase in the fair value of the consideration to be allocated to Arbinet s net assets as compared to the Company s initial valuation of Arbinet triggered the requirement for the Company to perform a goodwill impairment test upon completion of its acquisition accounting. The Company recorded the preliminary purchase accounting during the first quarter of 2011. See Note 5 Acquisitions and Note 7 Goodwill and Other Intangible Assets to the notes to our consolidated financial statements included elsewhere in this report.

Given the above, the Company had goodwill arising from the acquisition of Arbinet that was considered impaired upon implementing the purchase accounting of Arbinet s net assets. The Company performed Step 1 and Step 2 testing for goodwill impairment during the first quarter 2011 and, as a result, recognized an impairment expense of $14.7 million during the first quarter 2011.

Recent Developments Involving Existing Notes That May Impact Future Results and Liquidity

On July 7, 2011, Holding in connection with the consummation of the Exchange Offers and the Consent Solicitation, issued $240.2 million aggregate principal amount of 10% Notes. The 10% Notes bear interest at a rate of 10.00% per annum, payable semi-annually in arrears in cash on April 15 and October 15 of each year, commencing October 15, 2011. The 10% Notes will mature on April 15, 2017.

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

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

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

Upon the occurrence of certain Changes of Control (as defined in the 10% Notes Indenture) with respect to the Company, Holding must give holders of the 10% Notes an opportunity to sell their 10% Notes to Holding at a purchase price of 101% of the principal amount of such 10% Notes, plus accrued and unpaid interest, if any, to the date of purchase. If Group or any of its restricted subsidiaries sells certain assets and does not use all of the net proceeds of such sale for specified purposes, Holding may be required to use the remaining net proceeds from such sale to offer to repurchase some of the 10% Notes at 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 Group and its restricted subsidiaries to, among other things: (i) incur additional indebtedness; (ii) pay dividends on, repurchase or make distributions in respect of Group s capital stock or make other restricted payments; (iii) make certain investments; (iv) sell, transfer or otherwise convey certain assets; (v) create certain liens; (vi) designate future subsidiaries as unrestricted subsidiaries; (vii) consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; and (viii) enter into certain transactions with affiliates. The 10% Notes Indenture contains other customary terms, including, but not limited to, events of default, which, if any of them occurs, would permit or require the principal, premium, if any, and interest, if any, on all of the then outstanding 10% Notes to be due and payable immediately.

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

Following the completion of the Exchange Offers and Consent Solicitation, Units representing $2.4 million aggregate principal amount of 13% Notes remain outstanding, and the indenture governing the 13% Notes has been amended to eliminate most restrictive covenants and certain events of default and to release the collateral securing the 13% Notes.

Following the completion of the Exchange Offers and related transactions, all obligations with respect to the 14 1/4% Notes were discharged. See Liquidity and Capital Resources below for further detail regarding the Exchange Offers, Consent Solicitation and discharge of our obligations with respect to the 14 1/4% Notes.

New York Stock Exchange Listing

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

Globility s Agreement to Sell Canadian Wireless Spectrum Assets

On October 5, 2011, Globility Communications Corporation (Globility), a Canadian local exchange carrier in which Primus directly and indirectly owns a 45.6% interest in compliance with Canadian telecommunication laws, completed the sale of its fixed wireless spectrum licenses in 29 rural and urban markets across Canada for CAD$15 million (approximately USD$15 million), resulting in a net gain before taxes of USD$13.1 million.

Foreign Currency

Foreign currency can have a major impact on our financial results. During 2011, approximately 82% of our net revenue was derived from sales and operations outside the U.S. The reporting currency for our consolidated financial statements is the United States dollar. The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive the majority of our net revenue and incur a significant portion of our operating costs from outside the U.S., and therefore changes in exchange rates have had and may continue to have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the following exchange rates: USD/Canadian dollar (CAD), USD/Australian dollar (AUD), USD/British pound (GBP), and USD/Euro (EUR). Due to the large percentage of our revenue derived outside of the 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 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.

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In the year ended December 31, 2011, as compared to the year ended December 31, 2010, the USD was weaker on average as compared to the CAD, AUD, GBP and EUR. The following tables demonstrate the impact of currency fluctuations on our net revenue for the years ended December 31, 2011 and 2010:

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

	For the Year Ended December 31,			
	2011	2010	Variance	Variance%
Canada	246,612	231,185	15,427	6.7%
Australia	286,462	276,614	9,848	3.6%
United Kingdom	273,053	93,440	179,613	192.2%
Europe[(1),(2)]	87	60,617	(60,530)	-99.9%
Brazil[(2)]	25,457	27,686	(2,229)	-8.1%

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

	For the Year Ended December 31,			
	2011	2010	Variance	Variance%
Canada (in CAD)	243,656	238,229	5,427	2.3%
Australia (in AUD)	277,461	301,324	(23,863)	-7.9%
United Kingdom (in GBP)	170,124			