SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2010

OR

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

Commission File No. 0-29092

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

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

(703) 902-2800

(Registrant's telephone number, including area code)

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 ☒

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 ☒

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

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

Indicate by check mark 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. ☒

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

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

Non-affiliates of Primus Telecommunications Group, Incorporated held 9,518,431 shares of Common Stock as of June 30, 2010. The fair market value of the stock held by non-affiliates is $67,104,939 based on the sale price of the shares on June 30, 2010.

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

As of March 15, 2011, 13,118,083 shares of Common Stock, par value $.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 the Australia, Canada, the United States and Brazil. 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, IP-based voice, local, wireless, 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.

On February 28, 2011, the Company completed the previously announced merger of PTG Investments, Inc. ("Merger Sub"), a Delaware corporation and a wholly-owned subsidiary of the Company with and into Arbinet Corporation ("Arbinet") (the "Merger"), 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 $0.0001 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 Company intends to integrate Arbinet's operations into the Company's International Carrier Services segment.

Unless we indicate otherwise, references in this filing to "we," "us," "our," "Primus," "the Company," and "Group" mean Primus Telecommunications Group, Incorporated and its subsidiaries for all periods before completion of the Merger with Arbinet Corporation on February 28, 2011. For forward-looking statements and risk factors described herein and for factual references herein beginning on March 1, 2011 through the filing of this Form 10-K, such references also include our wholly-owned subsidiary, Arbinet Corporation, and its subsidiaries.

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 the Australia, Canada, the United States and Brazil. 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, IP-based voice, local, wireless, 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. We were formed as a corporation under the laws of Delaware in 1994.

Through our increased investments in 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 Growth Services will 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:

- 10 data centers in 8 cities in Canada, Australia, and Brazil
- 18 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 business and residential broadband services;
- residential and business VoIP services through SIP and hosted IP-PBX;
- local services;
- wireless Mobile Virtual Network Operator (MVNO) services; and
- data, including frame relay.

Traditional Services:

- domestic and international long-distance voice services;
- prepaid phone card services;
- local landline services in Australia that do not utilize our owned network (or “off-net” or “off-network” services); and
- dial-up Internet services.

International Carrier Services:

Following the Arbinet Merger, we began integrating the Arbinet business within our International Carrier Services Operations (formerly known as our wholesale operations). These operations consist of:

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

We continue to selectively target growth opportunities in areas of growing demand for telecommunications, including broadband, VoIP, local, wireless, 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 meeting 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

We have refocused our strategy and efforts to enhance the revenue growth from our Growth Services while managing the decline in revenue from our Traditional Services. Key elements of our strategy to achieve these objectives are the following:

- *Capitalize on our competitive position in our primary markets to expand Growth Services revenue* . We have refocused efforts to transition away from our traditional businesses of domestic and international long-distance voice, prepaid cards and dial-up Internet services to an integrated provider of broadband, VoIP, local, wireless, data and data center services. We believe there is strong demand for high quality, competitively priced communications services that is being driven by the globalization of the world's economies, the global trend toward telecommunications deregulation and the migration of communication traffic to the Internet. We believe that we can capitalize on this demand given our competitive position by offering bundled communications services at attractive prices, particularly where we have a competitive cost structure as a result of our facilities-based network. We are leveraging our brand recognition, network infrastructure and existing customer base in Australia and Canada where we have competitive operations by virtue of our scale to bundle Growth Services and capture new customers.
- *Focus on our primary markets of Australia and Canada where we have established brand-recognition* . We are focused on our primary markets of Australia and Canada where we believe we have the scalability and service offerings to effectively compete. For the year ended December 31, 2010, net revenues from our Australia and Canada operations, collectively, generated approximately 66.4% of our total net revenues and 86.6% of our total retail net revenue. We are focused on making prudent and effective investments in Australia and Canada where we believe that these markets present us with the highest potential for future growth. Supporting our strategy, during the year ended December 31, 2010 we spent in excess of 90% of our total capital expenditures in our primary markets of Australia and Canada. Our target customer base consists of SMEs, multinational corporations and residential customers.
- *Bundle traditional voice services with growth products to increase margins and create customer loyalty* . By bundling our traditional long-distance voice services with one or more of our local, broadband, wireless, data and data center services, combined with a prudent increase in sales and marketing investment, we seek to increase net revenue per customer and improve our competitive ability to attract and retain additional new business and residential customers.
- *Leverage our global facilities-based network infrastructure* . We have a significant amount of capital already invested in our global, voice and data network and our product capabilities and we are making additional investments in support of our Growth Services. By increasing the volume of voice and data traffic that we carry over our network, we are able to reduce transmission costs and other operating

costs as a percentage of net revenue and enhance our ability to introduce new products and services with more efficient capital expenditures through utilization of available network capacity. In addition, by leveraging multiple customer segments in different geographical regions, including retail and carrier customers, we achieve greater utilization of our network assets, because our network experiences multiple periods of peak usage throughout each day. We are committed to migrating existing customers to our owned facilities (or "on-net") that in most instances generate significantly higher margins than off-network customers.

- *Retail portfolio optimization*. Given our retail focus in our primary markets of Australia and Canada where we have extensive operations, we believe there should be opportunities to optimize our remaining retail portfolio to accomplish our strategic objective of positioning us in Growth Services. We will opportunistically assess our alternatives to optimize the economic return from such on-going portfolio restructuring efforts.
- *Manage Traditional Services for cash flow which we will reinvest into our Growth Services and use to reduce our debt* . The overall market for domestic and international long-distance voice, prepaid cards and dial-up Internet services continues to decline in favor of Internet-based, wireless and broadband communications. To mitigate this revenue decline and preserve cash flow, we focus on customer retention by bundling services, enhancing the customer service experience, and by prudently investing in effective marketing campaigns. For the year ended December 31, 2010, Traditional Services comprised 43% of total net revenue. To further manage cash flow from Traditional Services, we will continue to explore and implement outsourcing or off-shoring options for our non-sales and marketing operations in order to lower costs, improve coordination among our business units to deliver synergy savings and run an aggressive cost management program. We seek to redeploy associated savings and resulting available cash flow into sales and marketing activities for our Growth Services.

2009 Voluntary Reorganization under Chapter 11

On March 16, 2009, Primus Telecommunications Group, Incorporated ("Group" or "PTGI") 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 and 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.

The 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. Upon our emergence under the Plan of Reorganization on July 1, the Holding Companies' principal debt was reduced by $316 million, over 50%, interest payments were reduced by over 50% and certain debt maturities were extended. 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 36.2% of our net revenue for the year ended December 31, 2010. We believe we are the fourth largest full-service provider in Australia, based upon net revenue and the full suite of services provided. Our Australian operations offers 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. 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. DSL service is provided on-net through 281 Primus DSLAMs and via international carrier services 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 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.

A data center in Melbourne offers managed hosting, colocation, and e-commerce applications. Our data centers 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.

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

Canada. Our Canadian operations represented 30.2% of net revenue for year ended December 31, 2010. 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, Calgary and Edmonton. We operate international gateway switching, infrastructure in Toronto, Montreal, Ottawa, London, Edomnton 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 24 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. In September 2009, we signed a new contract with Rogers Wireless Partnership which will significantly expand our coverage area and provide increased wireless data functionality to 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 70 POPs across the country.

We also own and operate a total of seven data centers in five major cities in Canada: two data centers in Ottawa (totaling 30,000 square feet), two data centers in Toronto (totaling 18,000 square feet), a 52,000 square foot data center in London, Ontario, a 17,000 square foot data center in Edmonton, Alberta and a 2,500 square foot data center in Vancouver through which we offer colocation, 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 23.3% of our net revenue for the year ended December 31, 2010. 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").

United States. Our U.S. operations represented 6.6% of our net revenue for the year ended December 31, 2010. 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 operate international gateway telephone switches in the New York City area, Los Angeles, and Miami which are connected with Canada and countries in Europe, Latin America and the Asia-Pacific region through owned and leased international fiber cable systems. We have deployed intelligent softswitch architecture to our gateways in New York, Los Angeles and Miami. We lease and own domestic fiber in the U.S. to interconnect our switches, data centers, and POPs. 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 have telemarketing centers in Florida and Iowa. 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, Virginia and Iowa and also outsource selected customer service functions. We operate a 24-hour global network management 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.

Europe. During the third quarter of 2010 the Company discontinued its Europe segment, which is 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 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, see Note 19, "Discontinued Operations," for further information.

Our European International Carrier Services operations are headquartered in London.

Brazil. Our Brazilian operations, headquartered in São Paulo, represented 3.6% of our net revenue for the year ended December 31, 2010. Our Brazilian business segment primarily consists of data hosting center services and retail and international carrier services VoIP services.

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 co-location 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 13 carrier-grade domestic and international gateway switch systems, Internet routers and media gateways throughout the North America, Europe, and Asia-Pacific regions.

The locations and types of our switching systems are as follows:

Location	Type of Switch
New York City area (two locations)	International Gateway
Los Angeles	International Gateway
Toronto	International Gateway
Vancouver	International Gateway
London	International Gateway
Sydney	International Gateway
Frankfurt	Internet Peering POP
Makati City	Internet Peering POP
Adelaide	Domestic
Brisbane	Domestic
Melbourne	Domestic
Perth	Domestic

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; New Delhi, India; 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. 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 15,000 square feet. Canada offers national data center coverage with locations in Toronto, Vancouver, Edmonton, London, and Ottawa, with a total combined square footage of 73,000 square feet. Additionally, we own a data center facility in Brazil.

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, 2010 or for the year ended December 31, 2009.

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 customers 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, Adelaide, Brisbane, Melbourne, Perth, Sydney, Sao Paulo, Chicago 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*. 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.

Privatization and deregulation have had, and are expected to continue to have, significant effects on competition in the industry. For example, as a result of legislation enacted in the U.S., 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 is also occurring, 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:

United States. In the U.S., which is among the most competitive and deregulated 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 long-distance services. Wireless carriers have gained significant ground particularly in the domestic long-distance markets, and VoIP cable-based service providers present a growing source of competition.

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 international carrier services 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 telecommunication companies (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) in their respective territories and the large cable companies, including Rogers and Shaw Communications Inc., who have launched their telecom service portfolio. 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 Communications, Inc. (“Rogers”), Shaw Communications, Inc. and other smaller carriers, including Bragg Communications Inc., COGECO Inc. and Quebecor Inc. Major wireless carriers are also a significant source of competition. In 2008 the Canadian Radio-television and Telecommunications Commission (“CRTC”) conducted a review of the regulatory framework for international carrier services and the definition of essential services.

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.

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 or on a substantial number of international routes where competition exists are not subject to these requirements. 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.

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. We are not required to obtain FCC authority to initiate or expand our domestic interstate operations, but we may be 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. 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 Do-Not-Call Registry and related restrictions set out the specific parameters for telemarketing solicitation and prohibit 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.

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. In some cases, FCC rules cap these charges, and, in the case of incumbent LECs, impose additional restrictions on their ability to change their charges. The FCC may modify its rules regarding LEC access charges, including both the caps and the restrictions on incumbent LECs, which could result in an increase in our termination and origination costs over time.

Interstate telecommunications carriers and VoIP providers are required to contribute to the federal Universal Service Fund ("USF"). 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 (1) the obligation to contribute to the USF; (2) the obligation to comply with CALEA; (3) the obligation to comply with the FCC's rules regarding protecting customer proprietary network information ("CPNI"); (4) the obligation to provide enhanced 911 emergency services ("E911") services, and to disclose limitations on such services to end users; (5) the obligation to permit customers to keep their telephone number when changing from one carrier to another; (6) the obligation to deploy equipment and provide services that make reasonable accommodations for the needs of disabled persons and; (7) the obligation to pay a variety of regulatory fees; . 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 requirement 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, we can have no assurance that the FCC might not 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 are currently not able to route such calls in this manner, but we are working on implementing a call routing solution which will route 711 calls to the appropriate relay center as defined in the FCC's order. 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 and reduced our profitability and caused us to increase the price of our retail service offerings.

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. Primus Telecommunications, Inc. ("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 the filing of periodic reports, the payment of various fees and surcharges and compliance 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, 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 universal service funds in some states.

State Taxes and Fees Applicable to VoIP Services. We have historically not collected or remitted state or municipal taxes (such as sales and use, excise, utility user, and ad valorem taxes), fees or surcharges on the charges to our customers for our VoIP services. With limited exceptions, we do not believe that we have sufficient nexus in most states/local jurisdictions to be subject to state or municipal taxes, surcharges or other fees. In 2010, however, the FCC ruled that states may require interconnected VoIP service providers to contribute to state USF funds, and expressly deferred ruling on whether we must do so retroactively. We are still assessing the applicability of this ruling to our business and developing compliance plans. This ruling may expose us to other state and local assessments on our VoIP services, and we may be subject to retroactive liability for VoIP-specific taxes, fees and surcharges in a number of states and potentially, penalties and interest. Retroactive liability for such taxes, fees or surcharges, as well as penalties and interest, may adversely impact our financial position and we would not be able to recoup any of these liabilities from our customers. If we must collect such state taxes, fees and surcharges on a going-forward basis, we will likely pass such charges through to our customers. The impact of this price increase on our customers or our inability to recoup our costs or liabilities could 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 Trade Practices Act 1974 (the "Trade Practices Act"). The current regulatory framework came into effect 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 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 international 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 telecommunications specific provisions in the Trade Practices Act 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. The right of access provisions also apply to any carrier that owns or controls essential infrastructure or services that have been declared 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 Primus, and should ultimately lead to better price certainty and less regulatory risk.

In April 2009 the Government announced its intention to construct a national broadband network ("NBN"). The government subsequently established NBN Co to construct and operate a fiber to the home NBN, with final appointments to the executive team made in early 2010. After a successful trial in Tasmania, a number of initial deployment sites have now been selected across mainland Australia for testing purposes. Work has commenced on these sites. NBN Co has announced a 9 1/2 year rollout and it is expected that legislation will be introduced within the next few months setting out the governance and regulatory framework for NBN Co. This development represents the prospect of long-term improvement in the conditions for industry competitors such as Primus Telecom, given the Government's intention that NBN Co operate as a stand-alone international carrier services company, therefore removing some of the friction that currently exists between competitors and the (vertically integrated) monopoly international carrier services service provider, Telstra.

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 matters including the licensing of carriers and technical matters, and the ACCC has the role of promotion of competition and consumer protection and in particular 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 has previously applied to the High Court of Australia to overturn its obligation to provide access to unbundled local loop lines (and also access to those lines pursuant to spectrum sharing). While that petition to the highest court in Australia was unsuccessful, over the course of many years Telstra has continued to lodge, mostly unsuccessful, challenges against ACCC regulatory decisions. Telstra has also lodged a number of exemption applications with the ACCC submitting that it should be exempted from an obligation to provide "regulated" international carrier services telecommunications services on various routes and locations in Australia. Some of these applications have been successful, particularly in respect to international carrier services line rental, the local carriage service and public switched telephone network originating access services supplied from certain CBD and metro exchanges, and also some transmission services where the ACCC considered sufficient alternative supply was available. There is a risk that Telstra will significantly increase its prices in respect of these exempt services and/or deny us access to essential services we need to compete.

It is not clear to what extent Telstra will continue to combat competition regulation and ACCC determinations given the passage of the recent reform legislation, the construction of a government owned "international carrier services-only" NBN, and the publicly announced expectation that Telstra will cooperate with NBN Co and migrate its services to the NBN as part of a (presently non-binding) "heads of Agreement" reached with NBN Co. At this time Telstra is actively engaging in regulatory proceedings conducted by the ACCC to determine interconnection pricing to apply to regulated international carrier services (WLR, LCS, PSTN, SSS, transmission and ULL services, to the extent they remain regulated access services and are not exempted). Telstra is petitioning for higher rates and the ACCC is expected to finalize 3 to 5 year pricing determinations for these services over the course of 2011. There are limited rights of review (restricted to judicial review proceedings) that Telstra (or access seekers) are able to pursue in respect to these determinations. To the extent the access determinations are favorable; Primus will be seeking to adopt those regulatory pricing determinations over the course of 2011(on expiry of current pricing agreements for relevant regulated international carrier services)

In December 2009 the 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 Government has directed a review of content classification rules and at this stage it's not clear what direction the policy will take and consequently what cost and operational implications this policy could have on Primus. More detail on these implications should emerge over coming months.

In addition to the Trade Practices Act and the Telecommunications Act 1997, the 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 codes are being reviewed over the course of 2011; however we do not anticipate these revisions to lead to any material detrimental outcomes for Primus.

Licensed carriers are subject to charges that are intended to cover the costs of regulating the telecommunications industry and are obliged 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 ("USO"), which assists 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. However, the USL has been set previously at levels that we do not consider to have a material impact. The ACMA implemented a determination for 2010 that is consistent with earlier determinations. However, the Government has since moved to indicate a preference that the industry be locked into subsidizing rural and regional services for a further 10 year period while the NBN is being rolled out. The Government is currently consulting on this proposal, which could impose an increased burden on us.

The Government has recently commenced a review of communications and media regulation in recognition of 'convergence'. At this time the Government has published the terms of reference, and the inquiry will proceed over the course of 2011. It's not clear what may result from the review, however we note there have been calls for better harmonization of regulation across the various content platforms.

Fair Trading Practices. The ACCC enforces legislation (the Trade Practices Act) 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 Trade Practices Act 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 Trade Practices Act is also shared with other state based regulators. Each state has its own Fair Trading Act administered by consumer affairs authorities and ACMA undertakes some activities in consumer protection predominantly in connection with industry codes of conduct. The Trade Practices Act has recently been amended to prohibit "unfair terms" contained in standard form agreements. The ACCC is presently working with the telecommunications industry to ensure compliance and we expect satisfactory resolution. 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 Internet service providers. The TIO may impose financial penalties upon carriers that do not satisfactorily deal with consumer complaints.

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 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 the requirement to observe the contribution regime described immediately above.

We operate as a local services reseller, both in reselling CLEC 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 an interim 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. A CRTC Interconnection Steering Committee submitted a report to the CRTC in 2007 establishing some of the parameters for a permanent solution for the provision of emergency services by nomadic VoIP providers. A CRTC proceeding is currently underway to identify remaining parameters for such a solution.
- *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.

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. The CRTC typically relied on a four-year Price Cap period, but in 2005 it decided to extend the period by one year in order to complete a public proceeding to establish the parameters of the next Price Cap period. 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.

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 the CRTC’s latest decision involving essential facilities and international carrier services, 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.

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 international carrier services to competitors at regulated rates. Under this revised regulatory framework for international carrier services, the CRTC has classified existing international carrier services 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 international carrier services will be deregulated by 2012, including intra-exchange transport services which we use 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.

In a regulatory policy update 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. Though there has not been a significant uptake in the purchase of services on a negotiated basis, this continues to provide us with flexibility to capitalize on preferable arrangements that may arise.

In addition to the above, our competitors filed applications to review or appeal other aspects of the CRTC’s new wholesale framework, as well as other wholesale data and Internet service obligations. In a decision dated January 2009, the CRTC withdrew a directive contained in the wholesale framework decision that would have required the ILECs to provide unbundled access to the facilities used to provide Internet service to all end-users that they are able to serve. In parallel, the CRTC initiated a proceeding to consider the appropriateness of mandating certain ILEC and cable company wholesale high-speed access services, including unbundled access to next-generation facilities. In March 2009, several of our competitors applied to the Governor in Council for the variance or rescission of CRTC decisions related to wholesale data or Internet services, in which the CRTC directed the ILECs to provide wholesale ADSL services at speeds equivalent to their retail offerings. In an Order in Council dated December 2009, the Governor in Council referred these decisions back to the CRTC for reconsideration. In a decision dated August 2010, the CRTC upheld its decision to require the ILECs and cable companies’ to provide wholesale Internet services at speeds equivalent to their retail offerings. In the same decision, the CRTC denied competitor requests for unbundled access to the ILEC and cable company facilities used to provide Internet services, including higher-speed services, to all end-users that they are able to serve.

In a decision dated October 2009, the CRTC set out a framework which will guide the implementation of Internet traffic management practices by ISPs and facilitate reviews of such practices against that framework. The Commission expressed clear preference for the use of economic traffic management practices relative to technological traffic management practices, as they provide greater control to the market and the customer. The framework for technological traffic management practices is focused on four rules: Internet traffic management practices must be designed to address the stated need and achieve the stated purpose and effect, and nothing else; they must result in as little discrimination or preference as reasonably possible; they must result in as little harm to end-users and others as reasonably possible; and economic approaches, such as network investment, would not have reasonably addressed the need or effectively achieved the same purpose. 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, we are obliged to disclose any traffic management practices, economical or technological, that we employ and to notify our customers of any changes to such practices, with a 30-day wait period after notification before we can implement them. In addition, our arrangements with ILECs or with CLECs require that the practices we implement respect the above-mentioned framework. Finally, the CRTC also determined that it would not require prior approval of the continued application of traffic management practices by the providers of wholesale Internet access services, provided that these are not more restrictive than those imposed on its retail customers and do not affect its wholesale customers disproportionately. As a result, our customers that are served via wholesale Internet services are, or may be, subject to the traffic management practices of the wholesale provider.

In decisions dated August 2009 and May 2010, the CRTC granted interim and final approval to an application by an ILEC, Bell Canada, to implement usage-based billing on its wholesale Internet access service. In a subsequent October 2010 decision upon an appeal by Bell Canada, the CRTC removed certain conditions it had imposed on Bell Canada in the May 2010 decision and approved the implemention of usage-based billing in the first quarter of 2011. In a decision dated January 2011, the CRTC directed all ILECs and cable carriers who impose usage-based billing on their wholesale Internet services to apply wholesale usage-based billing rates at 85% of the rates applied to their equivalent retail services. Pursuant to political and public pressure prior to implementation, the CRTC has initiated a new proceeding to review the usage-based billing framework for wholesale Internet access services. This proceeding is expected to complete in 2011. If the decisions related to usage-based billing stand, it will require us to pass down the cost of usage-based billing incurred by us through the Internet usage of our end-users that are served via Bell Canada's wholesale Internet access service to those customers. It is possible that other ILECs will also implement usage-based billing on their wholesale Internet services. This would also permit us to implement usage-based billing on our retail Internet service that is provided via ILEC unbundled facilities obtained through CLEC arrangements.

In an application dated June 2009, an ILEC, Bell Canada, requested approval to increase the tariffed rates for its unbundled local loops. Increases in the tariffed rates for these unbundled facilites will increase the cost of the unbundled facilities that we obtain through CLEC arrangements and use to provide retail telephone and Internet services. In a decision dated January 2011, the CRTC approved certain rate increases and rate decreases for Bell Canada's unbundled local loops. In the three unbundled local loop rate bands where Primus operates, the monthly rates decreased by 20 percent and increased by 6 percent and 10 percent, as opposed to the requested increases of 25 percent, 62 percent and 36 percent. In addition, there were certain increases and decreases to non-recurring service charges for unbundled local loop orders. An application has been submitted by another party to appeal the rate increases. If the rate increases stand, it is expected that these cost increases will be passed down to our end-users.

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 Corporation 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 June 2009 approximately 77% of all residential local lines and 68% 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.

The Canadian issuer, along with several other telecommunications service providers, have 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 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.

Employees

The following table summarizes the number of our employees as of December 31, 2010 by region:

	Total
Canada	745
Australia	574
United States	125
India	136
Europe (International Carrier Services)	45
Brazil	47
Total	1,672

We have never experienced a work stoppage. Only some 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.

Other Information

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 Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the United States Securities and Exchange Commission ("SEC").

ITEM 1A. RISK FACTORS

A wide range of factors could materially affect the performance of Primus and the Arbinet business, which we acquired on February 28, 2011. In addition to factors affecting specific business operations and the financial results of those operations identified elsewhere in this report, the following factors, among others could adversely affect our operations:

The following is not intended as, and should not be construed as, an exhaustive list of relevant risk factors. There may be other risks that are relevant to an investor's particular circumstances or generally.

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. Many major economies worldwide entered significant economic recessions beginning in 2007 and continue to experience economic weakness even though economies have begun to show signs of recovery. 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, substantially increased and increasing unemployment rates and the crisis in the global housing and mortgage markets have all contributed to increased market volatility and diminished expectations for both established and emerging economies, including those in which we operate. In the second half of 2008, added concerns fueled by government interventions in financial systems led to increased market uncertainty and instability in both U.S. and international capital and credit markets. These conditions have contributed to significant economic uncertainty, which has not subsequently improved in any significant way globally. 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 decrease in global infrastructure spending. Continued turbulence in the U.S. and international markets and economies and prolonged declines 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 refinance maturing debt instruments and to access the capital markets and obtain capital lease financing to meet liquidity needs. A continuation of this adverse environment may have an impact on our business and financial condition in the following ways as well as in other ways that we currently cannot predict.

- *Potential risk in refinancing outstanding debts*: Although none of our major debt instruments are scheduled to mature before 2013, at the earliest, if the volatility in the global capital markets were to continue, our ability to refinance our existing indebtedness when due could be severely constrained. See "—Risks Associated with Our Liquidity Needs and Debt Securities." Any such refinancing could require significantly more expensive interest rates and covenants that restrict our operations to a significantly greater extent.
- *Negative impacts from increased financial pressures on customers*: Uncertainty about current and future global economic conditions and credit markets may cause consumers, business and governments to defer purchases in response to tighter credit, decreased availability of cash and credit, and declining business and consumer confidence, any of which may affect the usage of our services by the customers and the ability of those customers to pay for our services. Accordingly, future demand for our products and services could differ from our current expectations. Similarly, our customers may experience liquidity issues of their own that adversely affect our ability to collect amounts due from them in a timely fashion or at all. In addition, if the global economy and credit markets continue to deteriorate or cease to recover and our future sales decline, our financial condition and results of operations would be adversely impacted.

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 85% for the year ended December 31, 2010) 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 revenue (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 incur a significant portion of our operating costs outside the U.S., and 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, and this has 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. From December 31, 2009 to December 31, 2010, the CAD and AUD increased by 5% and 10%, respectively. 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 or repay our consolidated indebtedness and obligations.

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. In 2002, agreements with certain subsidiaries were put in place for repayment of a portion of the investments and advances made to those subsidiaries. As we anticipate repayment in the foreseeable future of these amounts, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations, and depending upon changes in future currency rates, such gains or losses could have a significant, and potentially adverse, effect on our results of operations.

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, digital subscriber lines ("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., Qwest Communications International Inc. and other incumbent carriers, cable companies, including Comcast Corporation, Time Warner Cable Inc., Cablevision Systems Corporation and Charter Communications, Inc., other competitive local exchange carriers, 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, 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 Arbinet 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 Arbinet's voice trading platform. The Arbinet 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 Arbinet business faces competition for its data trading services from Internet service providers 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 Arbinet Exchange, ("the Exchange").

Once communications services providers have established business relationships with competitors to the Arbinet business, it could be extremely difficult to convince them to utilize the Exchange. These competitors may be able to develop services or processes that are superior to Arbinet's services or processes, or that achieve greater industry acceptance. Where the Arbinet business competes with legacy processes, it may be particularly difficult to convince customers to utilize the Exchange. 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 Arbinet 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, 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 national or international presence. Many of these operators have substantially greater resources, capital and operational experience than we do. We are experiencing increased competition from traditional telecommunications carriers, 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 the new services; and (5) 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, IP-based voice, local, wireless, data and data center solutions 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, such as our need to off-shore certain functions. In addition, our operating and financial control systems and infrastructure could be inadequate to ensure timely and accurate financial reporting, which could impact debt covenant compliance.

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. Predecessor 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, Predecessor 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.

In addition, at September 30, 2010, Arbinet's accumulated deficit was $134.4 million. Arbinet incurred a net loss of $8.7 million, $14.9 million, $6.9 million, and $0.4 million for the years ended 2009, 2008, 2007 and 2006, respectively. It is expected that the Arbinet business will incur significant future expenses, particularly with respect to the development of new products and services, deployment of additional infrastructure, and expansion in strategic global markets. In order for the Arbinet business to achieve profitability, it must: increase the usage of the Exchange by the members and carrier services customers and attract new customers in order to improve the liquidity of the Exchange; closely manage its expenses; deliver superior service to the members; mitigate the credit risks of its business; and develop and commercialize new products and services. The Arbinet business may not succeed in these activities and may never generate revenues that are significant or large enough to achieve profitability on a quarterly or annual basis.

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, 2010, derived about 85% of our net revenues by providing services outside of the U.S. In international markets, we are smaller than the principal or incumbent telecommunications carrier that operates in each of the foreign jurisdictions where we operate. In these markets, incumbent carriers: (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 product and services; and (4) have significant operational economies of scale, including a larger backbone network and longer term customer and supplier agreements on preferred and better terms. Moreover, the incumbent carrier 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: (1) obtain the permits and operating licenses required for us to operate in the new service areas; (2) obtain access to local transmission facilities on economically acceptable terms; or (3) market services in international markets.

In addition, operating in international markets generally involves additional risks, including unexpected changes or uncertainties in regulatory requirements, taxes, tariffs, customs and duties. Given the nature of our operations and uncertainties in, or the absence of definitive regulations or interpretations concerning, the taxation of (including value added tax of) certain aspects of our business in certain international jurisdictions in which we conduct (or may be construed by such authorities as conducting or deriving taxable) operations or revenue, we may become subject to assessments for taxes (which may include penalties and interest) which are either unexpected, or have not been accrued for in our historical results of operations or both. This circumstance occurred during March 2008, when we concluded it was probable that assessments would be forthcoming concerning past European prepaid calling services operations, and it is possible that tax uncertainties concerning our international operations could arise in the future. 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 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 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. Currently, there are significant capital investment savings and cost savings associated with carrying voice traffic employing VoIP technology, as compared to carrying calls over traditional networks. Thus, there exists the possibility that the price of traditional long-distance voice services will decrease in order to be competitive with VoIP. Additionally, competition is expected to be intense to switch customers to VoIP product offerings, as is evidenced by numerous recent market announcements in the U.S. and internationally from industry leaders and competitive carriers concerning significant VoIP initiatives. Our ability effectively to retain our existing customer base and generate new customers, either through our traditional network or our own VoIP offerings, may be adversely affected by accelerated competition arising as a result of VoIP initiatives, as well as regulatory developments that may impede our ability to compete, such as restrictions on access to broadband networks owned and operated by others and the requirements to provide E911. 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 trade secrets, trademarks and licenses to protect our intellectual property. We are also subject to the risks of claims and litigation alleging infringement of the intellectual property rights of others. The telecommunications industry is subject to frequent litigation regarding patent and other intellectual property rights. We rely upon certain technology, including hardware and software, licensed from third parties. There can be no assurance that the technology licensed by us will continue to provide competitive features and functionality or that licenses for technology currently used by us or other technology that we may seek to license in the future will be available to us on commercially reasonable terms or at all. Although our existing intellectual property licenses are on standard commercial terms made generally available by the companies providing the licenses and, individually, their costs and terms are not material to our business, the loss of, or our inability to maintain existing licenses, could result in shipment delays or reductions until equivalent technology or suitable alternative products could be developed, identified, licensed and integrated and could cause service disruption to our customers. Such delays or reductions in the aggregate could harm our business. We also generally rely on indemnification provisions in licensing contracts to protect against claims of infringement regarding the licensed technology, which indemnification could be affected by, among other things, the financial strength of the licensor.

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

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

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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 material weakness that existed in our internal control over accounting for income taxes and as of December 31, 2009 due to a material weakness that existed in our internal control over accounting for foreign currency transaction gain (loss). 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 due to a material weakness 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 is 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.

Specifically, management's assessment of our internal control over financial reporting as of December 31, 2006, 2007, 2008 and 2010 identified a material weakness in internal control related to a lack of documentation, insufficient historical analysis and ineffective reconciliation procedures, primarily caused by lack of personnel with adequate expertise in income tax accounting matters. Since identifying the material weakness concerning accounting for income taxes at December 31, 2006, we have undertaken the following initiatives to remediate the material weakness: hired a new Corporate Tax Director and a Manager of Taxation in our Canadian operating unit; established procedures for foreign finance personnel to communicate regularly any tax concerns with the Corporate Tax Director; purchased and implemented tax provision preparation software; and developed quarterly tax documentation formats. After remediating the material weakness during 2009, we completed in 2010 several complicated financial transactions that were not properly accounted for due to insufficient documentation of historical positions. In addition, the effective performance of our tax controls was limited due to the fact that we failed to completely document our key tax processes and controls, which prevented an effective knowledge transfer to the new Corporate Tax Director, who started in the position on January 3, 2011. Accordingly, as of December 31, 2010 our management concluded that our internal controls surrounding accounting for income taxes are not effective.

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. 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 can not 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 in our future financial statements 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 our 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.

RISKS ASSOCIATED WITH THE ARBINET BUSINESS

The members of the Arbinet Exchange may not trade on the Exchange or utilize Arbinet's other services due to, among other things, the lack of a liquid market, which may materially harm the Arbinet business. Volatility in trading volumes may have a significant adverse effect on the Arbinet 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. Arbinet'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, upon 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. Arbinet'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 Arbinet and would adversely affect Arbinet's profitability because of Arbinet's predominantly 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 Arbinet’s business.

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

Arbinet has traditionally operated as an anonymous Exchange. However, some of the members may view the merger with Primus 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 Arbinet business’ operating results.

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

The trading Exchange operates using the Arbinet 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, Arbinet 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. Arbinet is then offering to provide termination to the broader destination to its customers on the 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, Arbinet 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 Arbinet.

The Arbinet 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 Arbinet’s initial contact with a communication services provider until that provider signs the membership agreement. Because Arbinet offers a new method of purchasing and selling international long distance voice calls and Internet capacity, Arbinet must invest a substantial amount of time and resources to educate prospective members on 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.

Arbinet 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 Arbinet 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 Arbinet, often receive partial or no payment toward outstanding obligations. Furthermore, because Arbinet is an international business, Arbinet may be subject to the bankruptcy laws of other nations, which may provide Arbinet 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 Arbinet business and have a material adverse effect on our overall operating results and financial condition.

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

In certain instances, Arbinet offers its customers a fixed rate for specific markets for a set duration. Arbinet may assume the risk on the price of the minutes and Arbinet may not be able to secure the prices from sellers to ensure Arbinet does not lose money on the minutes purchased by the buyers. Arbinet 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 Arbinet to additional risks and uncertainties.

Arbinet expects to continue the expansion of its international operations, which will subject Arbinet to additional risks and uncertainties. Arbinet has established exchange delivery points in New York City, London, Frankfurt, Miami and Hong Kong, and Arbinet intends to expand its presence. Foreign operations are subject to a variety of additional risks that could have an adverse effect on Arbinet'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 Arbinet's intellectual property and proprietary rights in foreign countries; and
- fluctuations in currency exchange rates.

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

Arbinet's pricing in the Exchange and new products and services may not be sustainable and may decline over time.

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

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

The communications services providers that use Arbinet's services depend on Arbinet'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 exchange. From time to time, Arbinet has experienced temporary service interruptions. Arbinet's systems could be vulnerable to computer viruses, physical and electronic break-ins and third party security breaches. In a few instances, Arbinet manually input 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 Arbinet's security mechanisms that leads to unauthorized disclosure of sensitive information could lead to member dissatisfaction and possible claims against Arbinet for damages.

Undetected defects in Arbinet's technology could adversely affect its operations.

Arbinet's technology is complex and is susceptible to errors, defects or performance problems, commonly called "bugs." Although Arbinet regularly tests its software and systems extensively, Arbinet 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 Arbinet's operations. Users of Arbinet's services may be particularly sensitive to any defects, errors or performance problems in Arbinet's systems because a failure of Arbinet's systems to monitor transactions accurately could adversely affect their own operations.

If Arbinet 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 Arbinet and a reduction in use of the Exchange or cancellation of Arbinet's services, either of which could materially harm Arbinet's business. Arbinet's personnel often receive highly confidential information from buyers and sellers that is stored in Arbinet's files and on its systems. Similarly, Arbinet receives sensitive pricing information that has historically been maintained as a matter of confidence within buyer and seller organizations.

Arbinet currently has practices, policies and procedures in place to ensure the confidentiality of the members' and customers' information. However, Arbinet'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 Arbinet is obligated to keep confidential. Arbinet 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 Arbinet expands its business and increases the amount of information that it possessed. If Arbinet fails to adequately maintain the members' or customers' confidential information, some of them could end their business relationships with Arbinet and Arbinet could be subject to legal liability.

Arbinet 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. Arbinet cannot predict the effect of technological changes on its business. New services and technologies may be superior to Arbinet's services and technologies, or may render Arbinet's services and technologies obsolete.

To be successful, Arbinet must adapt to and keep pace with rapidly changing technologies by continually improving, expanding and developing new services and technologies to meet customer needs. Arbinet'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. Arbinet 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 Arbinet's business.

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

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

- human error;
- physical or electronic security breaches;
- fire, earthquake, flood and other natural disasters;
- water damage;
- power loss; and
- terrorism, sabotage and vandalism.

Problems at one or more of Arbinet's EDPs, whether or not within Arbinet'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 Arbinet's ability to obtain and retain members and customers, which would adversely affect both Arbinet's ability to generate revenues and its operating results.

RISKS RELATING TO, OR FOLLOWING, THE ARBINET MERGER

Primus may not realize the anticipated benefits of the Arbinet merger.

Primus and Arbinet entered into the Merger Agreement with the expectation that the merger would 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 the businesses of Primus and Arbinet.

The integration process is subject to a number of uncertainties. Although Primus's 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 the businesses of both Primus and Arbinet 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 Primus's 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 the businesses to offset part or all of the transaction and merger-related costs incurred by Primus and Arbinet.

The financial forecasts of Primus that include the Arbinet business that may be included in future announcements and disclosures from time to time involve risks, uncertainties and assumptions, many of which are beyond the control of Primus. As a result, they may not prove to be accurate and are not necessarily indicative of current or future values or future performance.

The financial forecasts of Primus that may be contained in future announcements and disclosures from time to time involve risks, uncertainties and assumptions and are not a guarantee of future performance. The future financial results of Primus may materially differ from those expressed in the financial forecasts due to factors that are beyond Primus's ability to control or predict. Primus cannot provide any assurance that any of its financial forecasts will be realized or that future financial results will not materially vary from the financial forecasts. The financial forecasts may cover multiple years, and the information by its nature becomes subject to greater uncertainty with each successive year. The financial forecasts do not take into account any circumstances or events occurring after the date they were prepared.

The financial forecasts:

- may make numerous assumptions, many of which are beyond the control of Arbinet or Primus and may not prove to be accurate;
- may not necessarily reflect revised prospects for Primus's businesses, changes in general business or economic conditions, or any other transaction or event that has occurred or that may occur and that was not anticipated at the time the forecasts were prepared;
- may not be necessarily indicative of current or future values or future performance, which may be significantly more favorable or less favorable than is reflected in the forecasts; and
- should not be regarded as a representation that the financial forecasts will be achieved.

The financial forecasts may not be prepared with a view toward public disclosure or compliance with published guidelines of the SEC or the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information or United States generally accepted accounting principles, or U.S. GAAP, and may not reflect the effect of any proposed or other changes in U.S. GAAP that may be made in the future.

The market value of Primus common stock could decline if large amounts of its common stock are sold following the Merger.

Following the Merger, stockholders of Primus and former stockholders of Arbinet will own interests in a combined company operating an expanded business with more assets and a different mix of liabilities. Current stockholders of Primus and Arbinet may not wish to continue to invest in the additional operations of the combined company, or may wish to reduce their investment in the combined company, or for other reasons may wish to dispose of some or all of their interests in Primus following the Merger. If, following the Merger, large amounts of Primus common stock are sold, the price of its common stock could decline.

The Merger may not be accretive and may cause dilution to Primus's earnings per share, which may negatively affect the market price of Primus's common stock.

As of the filing date of this Form 10-K, Primus currently anticipates that the Arbinet merger will be accretive to U.S. GAAP earnings per share in 2012 and on an adjusted earnings per share basis in 2011. This expectation is based on preliminary estimates that may materially change. Primus could also encounter additional transaction and integration-related costs or other factors such as the failure to realize all of the benefits anticipated in the merger. All of these factors could cause dilution to Primus's earnings per share or decrease or delay the expected accretive effect of the merger and cause a decrease in the price of Primus's common stock.

Primus's efforts to have Primus common stock listed for trading on the NASDAQ has not yet been successful, which results in limited liquidity for its stockholders.

Primus has not yet succeeded in having its common stock listed on the NASDAQ, Arbinet stockholders would receive shares of Primus common stock that are not listed on a national securities exchange in return for their shares of Arbinet common stock, which were listed on the NASDAQ Global Market.

RISKS ASSOCIATED WITH OUR LIQUIDITY NEEDS AND DEBT 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.

A significant portion of our future cash flow may need to be committed to repurchasing or redeeming certain outstanding debt prior to its stated maturity, rather than for use in our business operations.

If Group and its "restricted subsidiaries" have Excess Cash Flow (as defined below) for any fiscal year commencing with the fiscal year ending December 31, 2010, then the issuers of the 13% Senior Secured Notes due 2016 (the "13% Notes") are obligated to jointly apply an amount equal to 50% of such Excess Cash Flow for such period (the "Excess Cash Flow Offer Amount") and to make a joint offer to the holders of the 13% Notes to repurchase all or a portion of such notes as Units with an aggregate repurchase price in cash equal to the Excess Cash Flow Offer Amount (an "Excess Cash Flow Offer"). Excess Cash Flow means for any such fiscal year (a) the excess of (1) consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") over (2) the sum, subject to certain exceptions, represented by: (i) capital expenditures; (ii) consolidated interest expense paid in cash; (iii) income and franchise taxes paid in cash; and (iv) reductions in certain indebtedness *minus* (b) the absolute value of negative Excess Cash Flow, if any. See Note 7 to our Consolidated Financial Statements.

Within 110 days after the end of any fiscal year with respect to which an Excess Cash Flow Offer is required, an offer must be sent to each holder of 13% Notes stating the repurchase date, which must be no earlier than 30 days nor later than 60 days from the date such notice is mailed. With respect to each Excess Cash Flow Offer, the Issuers are entitled to reduce the applicable Excess Cash Flow Offer Amount by an amount equal to the sum of (x) the aggregate repurchase price paid for any 13% Notes repurchased by the Issuers in the open market or privately negotiated transaction (and, in each case, cancelled by the Issuers) and (y) the aggregate redemption price paid for any 13% Notes redeemed pursuant to one or more optional redemptions, subject to certain limitations.

If our outstanding 14 1/4% Senior Subordinated Secured Notes due May 2013 (the "14 1/4% Notes") have not been refinanced in accordance with the terms of its indenture on or prior to January 21, 2013, then the Issuers will be required to redeem the 13% Notes in advance of the 14 1/4% Notes scheduled maturity at a price equal to the then applicable optional redemption price.

If such early redemption of the 13% Notes are required or an Excess Cash Flow Offer is made, there can be no assurance that the Issuers will have available funds sufficient to pay for such redemption or for the Excess Cash Flow purchase price for all the 13% Notes that might be delivered by holders seeking to accept the Excess Cash Flow Offer. Any such failure could have a material adverse effect on us.

We must repay or refinance the 14 1/4% Notes prior to the maturity of the 13% Notes. Failure to do so could have a material adverse effect upon us.

The maturity of the 14 1/4% Notes is earlier than the maturity of the 13% Notes. While we expect to refinance the 14 1/4% Notes, we may not be able to do so or refinancing may not be available on commercially reasonable terms. Our ability to complete a refinancing of the 14 1/4% Notes prior to their maturity is subject to a number of conditions beyond our control. For example, if disruption in the financial markets were to occur at the time that we intended to refinance the 14 1/4% Notes, we might be restricted in our ability to refinance that indebtedness. If we are unable to refinance the 14 1/4% Notes our alternatives would consist of negotiating an extension of such indebtedness with the holders and seeking or raising new capital. If we were unsuccessful, the holders of the 14 1/4% Notes could demand repayment of the indebtedness owed to them on May 20, 2013. As a result, our ability to pay the principal of and interest on such indebtedness would be adversely affected.

We may not be able to repurchase the 14 1/4% Notes or 13% Notes upon a change of control.

Upon the occurrence of certain specific kinds of change of control events, we (or our subsidiaries) will be required to jointly offer to repurchase all outstanding 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 they will not have sufficient funds at the time of the change of control to make the required repurchase of all 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 a debt indenture and may also constitute a cross-default on other indebtedness existing at that time. In addition, certain important corporate events, such as leveraged recapitalization that would increase the level of our indebtedness, would not constitute a "Change of Control" under the indenture.

Our indentures governing our 14 1/4% Notes and 13% Notes contain significant operating and financial restrictions which may limit our ability and our restricted subsidiaries' ability to operate their business.

The indentures governing our 14 1/4% Notes and 13% Notes contain significant operating and financial restrictions on us and our subsidiaries. These restrictions limit the ability of us and our restricted subsidiaries to, among other things:

- incur additional indebtedness or issue certain preferred shares;
- 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 issuers;

- consolidate, merge, sell or otherwise dispose of all or substantially all of our or an issuer's assets; and
- engage in transactions with affiliates.

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

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 be able to incur additional debt in the future, including debt secured by the collateral that secures our 14 1/4% Notes and 13% Notes, as well as other assets that do not secure such notes. Although the terms of the agreements governing our indebtedness contain restrictions on our ability to incur additional indebtedness, those restrictions are 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 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 13% Notes, the holders of that debt will be entitled to share ratably with the holders of the 13% 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.

The issuance of the 13% Notes may subject us to additional currency exchange risks.

The 13% Notes were issued and paid for, and the interest to be paid on those notes will be paid, in U.S. dollars. However, the Canadian issuer of such notes receives revenues primarily in Canadian dollars ("CAD"). As a result, the financial condition of the Canadian issuer might be materially adversely affected if the U.S. dollar appreciates against the CAD. From time to time, if we determine it is appropriate and advisable to do so, we may seek to lessen the effect of exchange rate fluctuations through the use of derivative financial instruments. However, we cannot assure you that we will be successful in these efforts.

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 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. For example, in connection with the promulgation of the “National Broadband Plan” announced in March 2010, in April 2010 the FCC stated its intention to initiate dozens of new proceedings to impose new requirements, or modify existing requirements, affecting essentially all entities involved in the provision of communications services. 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 carrier 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. On April 21, 2010, the FCC issued certain specific new proposals regarding contributions to the universal service fund that, if adopted, could materially affect our own contributions to the fund. These new proposals would 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. The FCC has also announced its intention to propose new rules regarding the universal service program during the first quarter of 2011. It is impossible to predict the impact of these new proposals, if adopted, on our operations and financial results. In addition, AT&T Inc. filed a “Petition for Immediate Commission Action” on July 10, 2009, requesting that the FCC adopt a new mechanism for calculating federal universal service fund contribution that would be applicable to all contributors, including us. The specific proposal, which has been pending at the FCC for some time, is to determine contributions to the USF based on “assessable telephone numbers” rather than interstate and international revenues. This AT&T proposal remains pending. We cannot predict whether the FCC will adopt this or some other contribution methodology, nor can we predict the potential impact on our business at this time. But 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 Voice over Internet Protocol 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 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.
- Rules requiring VoIP providers to provide access to E911 emergency 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.

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 2010, the "Twenty-First Century Communications and Video Accessibility Act" was signed into law. The new law requires the FCC to initiate a proceeding to determine what services should be required to offer access for people with disabilities and what those accessibility requirements should entail. The FCC has initiated its rulemaking but the process is in its infancy. At this time, we cannot predict whether we will be subject to additional accessibility requirements or whether any of our service offerings that are not currently subject to disabilities access requirements will be subject to such obligations.

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

In May 2009, President Obama's administration announced proposed future tax legislation that could substantially modify the rules governing the U.S. taxation of certain non-U.S. subsidiaries. These 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. Many details of the proposal remain unknown, although if any of these proposals are enacted into law they could materially impact our effective tax rate.

The applicability of changes in tax policy to our services will increase their cost to consumers thereby decreasing our competitive price advantage over the competing alternatives available to the customer. Further, we may be subject to liabilities for past taxes, surcharges, fees, penalties and interest.

Unlike those of our competitors who offer traditional landline or wireless services, with respect to our VoIP services, we currently do not collect or remit state or municipal taxes, fees or surcharges on the retail charges we collect from our customers, except where we have determined we are required to do so based on tax law. In some jurisdictions we also did not collect and remit 911 surcharges. In some instances, we have received inquiries or demands from state and municipalities for taxes, fees or surcharges, including, in some instances, 911 fees. Depending on the state, statute or municipal code, we have maintained that these taxes, fees, or surcharges, including 911 fees, do not apply to us. However, recent changes in the law, at the federal, state and local level, may change our legal obligations. Accordingly, some taxes, fees or surcharges, including 911 fees, could apply to us retroactively and we could be subject to penalties and interest.

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 regarding efforts by Telstra in Australia to increase prices and charges and to deny access to essential facilities and services needed by us to compete;
- the ultimate outcome of the process launched by the Australian government to help fund the construction of a new national broadband network, including whether and the terms upon which (a) we will have access to such network, and (b) the duration for which the copper wire based last mile infrastructure we use to furnish broadband services using our DSLAM network infrastructure will be continued;
- a regulatory reform package recently announced by the Australian government that, if enacted, will (a) separate Telstra's retail arm from its international carrier services business (via either functional or structural separation); and (b) provide the ACCC with greater powers to set access prices;
- 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.

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

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

FCC rules require VoIP providers interconnected to the public switched telephone network to provide E911 service in a manner similar to traditional wireline carriers. This requirement took effect as of November 2005. 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 September 30, 2010, 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, 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.

In July 2008, the "New and Emerging Technologies 911 Improvement Act of 2008" was signed into law. Previously, interconnected VoIP providers, like us, did not have the same protection from potential liability as applied wireline or wireless 911 emergency calling services. This law provides public safety entities, interconnected VoIP providers and others involved in handling 911 calls the same liability protections when handling 911 calls from interconnected VoIP users as from mobile or wired telephone service users. In October 2008, the FCC issued regulations implementing the provisions of the new law that require other entities involved in the provision of E911 services to make the technical capabilities used in such services available to VoIP providers, like us, on reasonable terms. The applicability of the liability protection to 911 calling services that do not conform to the FCC's rules is unclear. Additionally, any liability associated with 911 call placement and handling prior to the enactment of this new law would not be covered. Therefore, while this law provides significant liability protection to interconnected VoIP providers such as us, we may still face significant and material liability with respect to any past, present or future 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."

The Federal Communications Commission 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.

In September 2010, the FCC released a Notice of Proposed Rulemaking considering the imposition of additional E911 obligations on interconnected VoIP providers. Specifically, the FCC is considering requiring interconnected VoIP providers to determine automatically the physical location of their customer rather than allowing customers to manually register their location. Moreover, the Notice includes a tentative conclusion that all interconnected VoIP service providers that allow customers to use their service in more than one location (nomadic VoIP service providers such as us) must utilize automatic location technology that meets the same accuracy standards applicable to providers of mobile phone service providers. At this time, we are unable to predict the outcome of this proceeding or its impact on us.

In September 2010, the FCC released a Further Notice of Inquiry seeking additional comments on a number of issues including, but not limited to, whether nomadic interconnected VoIP providers, like us, should be required to offer automatic location information of their users without customers providing location information. The FCC also seeks comment on how far it can extend E911 obligations to other types of companies including device manufacturers, software developers and others. At this time we cannot predict the outcome of this proceeding nor can we predict its potential impact on our business.

The rates we pay to interconnected telecommunications carriers in the U.S. may increase, which may reduce our profitability or increase the retail price of our service.

The FCC is considering reform of the methodology that regulated telecommunications carriers use to determine the appropriate payments for the exchange of traffic that is necessary to complete telephone calls to the traditional telephone network. In April 2010 the FCC announced its intention to issue a ruling clarifying network operators' interconnection obligations. The FCC also announced its intention to issue proposed new rules governing the payments carriers make and receive in connection with the exchange of telecommunications traffic. This FCC proposal is now likely to be issued during the first quarter of 2011. The result of these actions, as well as any action the FCC may take in currently pending proceedings bearing on these issues, may be an increase in the rates we pay to such carriers to send traffic to or receive traffic from the traditional telephone network, which would increase our costs. Such a cost increase may result in us increasing the retail price of our service, which may make us less competitive in the communications marketplace, or may reduce our profitability. We cannot predict the outcome of this proceeding.

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 third party, underlying 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 Universal Service Fund 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 low 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 Federal Communications Commission 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.

We require access to the Internet 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 can 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. The FCC's jurisdiction to prohibit or regulate these activities is unclear due to a 2009 ruling of the United States Court of Appeals for the D.C. Circuit. The FCC has taken the position that it has sufficient jurisdiction to issue regulations in this area. While interference with access to our products and services seems unlikely such broadband Internet access provider interference has occurred, in very limited circumstances in the U.S., and 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. 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.

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, 2010 total leased space in the United States, Australia, Canada, Brazil and the United Kingdom, as well as other countries in which we operate, approximates 580,000 square feet and the total annual lease costs are approximately $15.2 million. The operating leases expire at various times with the longest commitment expiring in 2019. 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.

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. (REMOVED AND RESERVED)

PART II

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

Common Stock

Primus Telecommunications Group, Incorporated ("we" or "us") common stock has traded on the OTC Bulletin Board under the ticker symbol "PMUG" since July 1, 2009, (the "New Common Stock"). 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 share 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 our common stock authorized in connection with our emergence from bankruptcy as reported on the over-the-counter market for the period beginning July 1, 2009 and for our Old Common Stock for the periods through June 30, 2009. These prices do not include retail markups, markdowns or commissions.

	Successor		Predecessor	
	New Common Stock (1)		Old Common Stock (2)	
Period	High	Low	High	Low
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		
2009				
1st Quarter			$ 0.09	$ 0.003
2nd Quarter			$ 0.04	$ 0.01
3rd Quarter	$ 7.75	$ 3.20		
4th Quarter	$ 7.25	$ 5.60		

(1) 9,600,000 Shares of New Common Stock were issued pursuant to the terms of our Plan of Reorganization and trading commenced on July 1, 2009 on a "when issued" basis. The New Common Stock was listed on the OTC Bulletin Board and trades under the ticker symbol "PMUG".

(2) All outstanding shares of the Old Common Stock were cancelled pursuant to the terms of our Plan of Reorganization and no further trading occurred after June 30, 2009.

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 senior secured notes and the senior subordinated secured notes indentures, and may be restricted by other arrangements entered into in the future by us. 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.

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 will receive their pro rata share of up to 2,665,000 CVR Shares. A distribution of CVR Shares is required to be made by Group if, as of any determination date (described 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 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 upon a change of control of 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 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 a change of control) 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 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 a change of control (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.

Holders of Common Stock

As of February 28, 2011, the Company had three holders of record of our common stock. The Company believes that this represents approximately 700 beneficial owners.

Recent Sales of Unregistered Securities

There are no unregistered sales of securities for 2010, other than the transactions that have been previously reported in our quarterly report on Form 10-Q for the period ended June 30, 2010, which description is incorporated herein by reference.

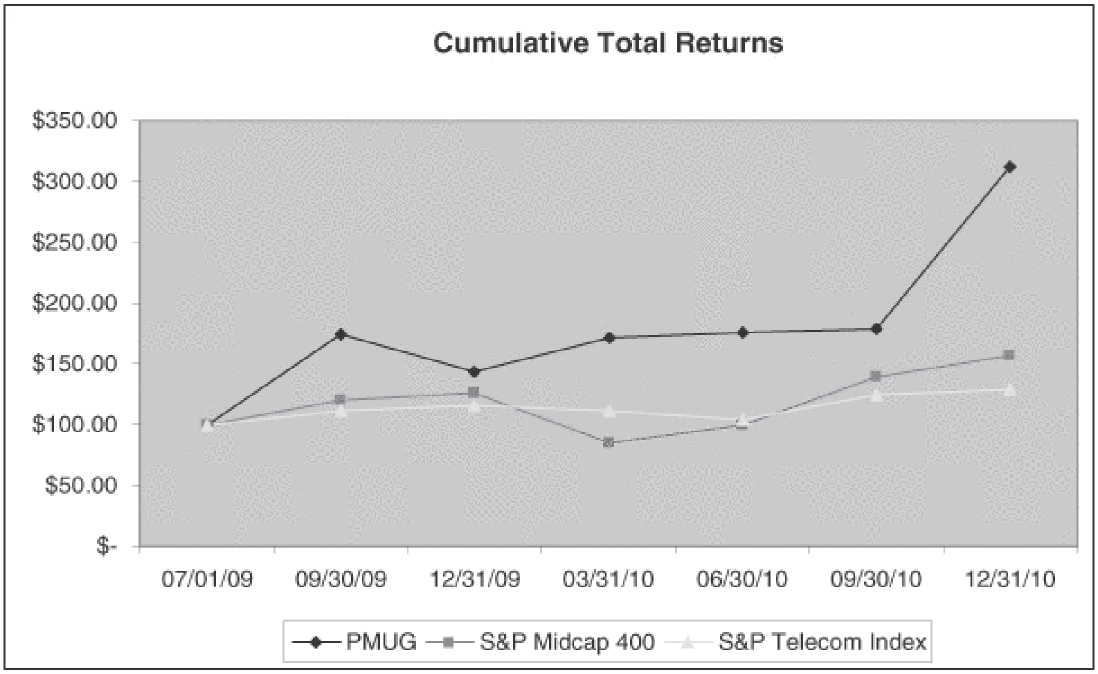
Issuer Purchases of Equity Securities

The following shares of Common Stock were withheld to satisfy tax withholding obligations during the year ended December 2010. 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 the only repurchases of equity securities made by the Company in the year 2010. The Company does not have a stock repurchase program.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares (or approximate dollar value) of shares that may yet be purchased under the plan or programs
2010				
1st Quarter	56,843	$ 5.88	56,843	—
2nd Quarter	—	—	—	—
3rd Quarter	—	—	—	—
4th Quarter	1,691	$ 9.80	1,691	—
	58,534	$ 6.16	58,534	—

Stock Performance Graph

The following graph, furnished voluntarily further 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, 2010 of our common stock to the Standard & Poor's Midcap 400 Index and the Standard & Poor's Telecommunications Index. The comparison assumes $100 was invested on July 1, 2009 in each of the New 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 over the counter bulletin board on July 1, 2009. 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
Primus Telecommunications Group Inc. (PMUG)	$ 100.00	$ 143.75	$ 312.50
Standard & Poor's Midcap 400 Index	100.00	125.69	156.93
Standard & Poor's Telecommunications Index	$ 100.00	$ 115.29	$ 128.67

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 Overview," (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 "European Retail Discontinued Operations."

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.

European Retail Discontinued Operations. Subsequent to its December 31, 2009 year-end, the Company had sold or held for sale its Europe segment, which is also known as European retail operations, and classified the components of these operations as discontinued operations. 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 were not met until the third quarter of 2010; as such, financial information for the Europe segment will appear, as applicable, where certain balance sheet information is presented. 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

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

	Successor		Predecessor			
	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	Year Ended December 31, 2006
NET REVENUE	$ 764,947	$ 397,520	$ 365,245	$ 832,837	$ 829,342	$ 907,180
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)	488,612	259,566	236,925	526,435	506,847	594,486
Selling, general and administrative	198,201	95,223	88,585	239,123	249,346	240,410
Depreciation and amortization	65,279	36,990	11,545	30,356	26,917	41,387
(Gain) loss on sale or disposal of assets	196	102	(43)	(5,966)	241	13,954
Asset impairment write-down	—	—	—	—	—	185,952
Total operating expenses	752,288	391,881	337,012	789,948	783,351	1,076,189
INCOME (LOSS) FROM OPERATIONS	12,659	5,639	28,233	42,889	45,991	(169,009)
INTEREST EXPENSE	(35,490)	(17,278)	(14,093)	(53,971)	(60,709)	(53,920)
(ACCRETION) AMORTIZATION ON DEBT PREMIUM/DISCOUNT, net	(183)	(3)	189	583	(449)	(1,732)
CHANGE IN FAIR VALUE OF DERIVATIVES EMBEDDED WITHIN CONVERTIBLE DEBT	—	—	—	—	—	5,373
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	164	(4,146)	—	36,872	(7,652)	7,409
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(13,737)	(2,804)	—	—	—	—
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	741	492	378	3,284	6,018	2,652
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	16,413	19,566	20,332	(46,378)	32,734	11,873
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	(19,433)	1,466	35,039	(16,721)	15,933	(197,354)
REORGANIZATION ITEMS, net	1	(421)	424,825	—	—	—
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(19,432)	1,045	459,864	(16,721)	15,933	(197,354)
INCOME TAX BENEFIT (EXPENSE)	9,085	10,180	(4,074)	739	9,264	(4,990)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(10,347)	11,225	455,790	(15,982)	25,197	(202,344)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(11,771)	(4,050)	15,081	(5,890)	(15,593)	(44,139)
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	2,926	(110)	251	—	6,132	7,415
NET INCOME (LOSS)	(19,192)	7,065	471,122	(21,872)	15,736	(239,068)
Less: Net (income) loss attributable to the noncontrolling interest	105	(333)	32	(3,159)	—	1,110
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (19,087)	$ 6,732	$ 471,154	$ (25,031)	$ 15,736	$ (237,958)
BASIC INCOME (LOSS) PER COMMON SHARE:						
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (1.05)	$ 1.13	$ 3.19	$ (0.13)	$ 0.19	$ (1.79)
Income (loss) from discontinued operations, net of tax	(1.21)	(0.42)	0.11	(0.05)	(0.12)	(0.40)
Gain (loss) from sale of discontinued operations, net of tax	0.30	(0.01)	—	—	0.05	0.07
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (1.96)	$ 0.70	$ 3.30	$ (0.18)	$ 0.12	$ (2.12)

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	Successor		Predecessor			
	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	Year Ended December 31, 2006
DILUTED LOSS PER COMMON SHARE:						
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (1.05)	$ 1.11	$ 2.63	$ (0.13)	$ 0.14	$ (1.79)
Gain (loss) from discontinued operations, net of tax	(1.21)	(0.41)	0.09	(0.05)	(0.08)	(0.40)
Gain (loss) from sale of discontinued operations, net of tax	0.30	(0.01)	—	—	0.03	0.07
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (1.96)	$ 0.69	$ 2.72	$ (0.18)	$ 0.09	$ (2.12)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING						
Basic	9,721	9,600	142,695	142,643	128,771	112,366
Diluted	9,721	9,800	173,117	142,643	196,470	112,366
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income (loss) from continuing operations, net of tax	$ (10,242)	$ 10,892	$ 455,822	$ (19,141)	$ 25,197	$ (201,234)
Income (loss) from discontinued operations, net of tax	(11,771)	(4,050)	15,081	(5,890)	(15,593)	(44,139)
Gain (loss) from sale of discontinued operations, net of tax	2,926	(110)	251	—	6,132	7,415
Net income (loss)	$ (19,087)	$ 6,732	$ 471,154	$ (25,031)	$ 15,736	$ (237,958)

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Balance Sheet Data:

(in thousands)	Successor As of December 31, 2010	Successor As of December 31, 2009	Predecessor As of December 31, 2008	Predecessor As of December 31, 2007	Predecessor As of December 31, 2006
Total assets	$514,459	$558,914	$ 330,444	$ 460,403	$ 392,250
Total long-term obligations (including current portion)	$ 243,891	$257,516	$ 604,837	$673,903	$ 644,074
Total liabilities	$ 431,425	$ 459,005	$789,169	$907,943	$ 860,506
Total Primus Telecommunications Group, Inc. stockholders' equity (deficit)	$ 83,034	$ 99,909	$(461,539)	$(447,540)	$(468,255)

Discontinued Operations Data:

	Successor Year Ended December 31, 2010	Successor Six Months Ended December 31, 2009	Predecessor Six Months Ended July 1, 2009	Predecessor Year Ended December 31, 2008	Predecessor Year Ended December 31, 2007	Predecessor Year Ended December 31, 2006
Net revenue	$ 37,506	$ 26,813	$ 26,271	$ 66,876	$ 76,647	$ 109,939
Operating expenses	50,605	29,322	27,408	71,718	91,187	152,606
Income (loss) from operations	(13,099)	(2,509)	(1,137)	(4,842)	(14,540)	(42,667)
Interest expense	(8)	(45)	(42)	83	(664)	(255)
Interest income and other income (expense)	(396)	(160)	37	52	(314)	(67)
Foreign currency transaction gain (loss)	(137)	(1,184)	788	(808)	(41)	(1,196)
Reorganization items	—	(14)	15,269	—	—	—
Income (loss) before income tax	(13,640)	(3,912)	14,915	(5,515)	(15,559)	(44,185)
Income tax benefit (expense)	1,869	(138)	166	(375)	(34)	46
Income (loss) from discontinued operations	$ (11,771)	$ (4,050)	$ 15,081	$ (5,890)	$ (15,593)	$ (44,139)

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 the following paragraph and 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. 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

During 2010 we had sold or held for sale our Europe segment, which is also known as European retail operations, and classified the components of these operations as discontinued operations. We applied retrospective adjustments for 2009 and 2008 to reflect the effects of the discontinued operations that occurred during 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. We did not retrospectively adjust our 2009 Consolidated Balance Sheet, as held for sale criteria were not met until the third quarter of 2010; as such, financial information for the Europe segment will appear, as applicable, where certain balance sheet information is presented.

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, the United States and Brazil. 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, IP-based voice, local, wireless, 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 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 phone 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 affect 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 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 July 1, 2009, 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 July 1, 2009 are not comparable with the financial statements for periods after July 1, 2009. 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 July 1, 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");
- 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 approximated 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 contingent value rights. 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 previously announced merger of PTG Investments, Inc. ("Merger Sub"), a Delaware corporation and a wholly-owned subsidiary of the Company with and into Arbinet Corporation (the "Merger"), 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 Company intends to integrate Arbinet's operations into the Company's International Carrier Services segment.

The value of Primus shares issued as merger consideration is 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 $50.4 million. This includes the issued and outstanding shares of Arbinet and includes 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 intends to integrate Arbinet's operations into its International Carrier Services segment. The combined company is expected to be ranked among the top 12 leading international telecommunications carrier service providers in the world based on annual revenues, 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 will be 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 will be determined by the Company and in doing so management will rely in part upon a third-party valuation report to measure the identifiable intangible assets, property and equipment acquired. The third-party valuation reports are not final at the time of filing this annual report. This means that the assets and liabilities of Arbinet will be recorded, as of the completion of the Merger, at their fair values and added to those of the Company, including an amount for goodwill representing the difference between the purchase price and fair value of the identifiable net assets. 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 $9.5464. The initial purchase price valuation of Arbinet was
based in part upon consultation with a third-party and the total aggregate consideration contemplated in the

Merger Agreement was $28 million and was later augmented as per the terms of Merger Agreement by $3.65 million to include the sale of Arbinet's intellectual property. The Merger Agreement, though based on a reasonable agreed upon consideration of $31.65 million, provided that increases in the market price of Primus's common stock would have the effect of increasing the total fair value of the consideration and therefore would increase the amount of the purchase price allocable to goodwill. The base-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 inception of the Merger through the closing date, February 28, 2011, and was not affected by the increase in the value of Primus's stock which occurred after the Merger Agreement date. On February 28, 2011, the final consideration to be allocated to Arbinet's net assets under ASC No. 805 was valued at approximately $50.4 million and was based upon a Primus common stock per share price of $15.60.

The Company believes that 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 may trigger the requirement for the company to perform a goodwill impairment test upon completion of its acquisition accounting. The Company expects to record its acquisition accounting during the first quarter of 2011.

Given the above, the Company believes that goodwill arising from the acquisition of Arbinet may potentially be considered impaired, fully, or in part, upon completion of the allocation of the consideration to Arbinet's net assets. The Company will perform a step one test of goodwill impairment during the first quarter of 2011 for the International Carrier Services reporting unit.

Foreign Currency

Foreign currency can have a major impact on our financial results. During 2010, approximately 85% 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, USD/Australian dollar, 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 and may distort comparisons from year to year. By way of example, when the USD strengthens compared to the EUR, there could be a negative or positive effect on the reported results for Europe, depending upon whether Europe is operating profitably or at a loss. It takes more profits in EUR to generate the same amount of profits in USD and a greater loss in EUR to generate the same amount of loss in USD. The opposite is also true. For instance, when the USD weakens there is a positive effect on reported profits and a negative effect on the reported losses for Europe.

In the year ended December 31, 2010, as compared to the year ended December 31, 2009, the USD was weaker on average as compared to the CAD and AUD; the USD was stronger on average as compared to the EUR and GBP. The following tables demonstrate the impact of currency fluctuations on our net revenue for the years ended December 31, 2010 and 2009:

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

	For the Year Ended December 31,			
	2010 Net Revenue	2009 Net Revenue	Variance	Variance %
Canada	$231,185	$224,397	$ 6,788	3.0%
Australia	$276,722	$243,158	$ 33,564	13.8%
United Kingdom[2]	$ 93,440	$ 93,078	$ 362	0.4%
Europe[1,2]	$ 60,617	$ 89,182	$(28,565)	(32.0%)

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

	For the Year Ended December 31,			
	2010 Net Revenue	2009 Net Revenue	Variance	Variance %
Canada (in CAD)	238,229	255,674	(17,445)	(6.8%)
Australia (in AUD)	301,324	308,068	(6,744)	(2.2%)
United Kingdom (in GBP)[2]	60,619	59,919	700	1.2%
Europe (in EUR)[1,2]	42,829	63,633	(20,804)	(32.7%)

1 Europe includes only subsidiaries whose functional currency is the EUR.
2 Table includes revenues from discontinued operations which are subject to currency risk.

In the year ended December 31, 2009, as compared to the year ended December 31, 2008, the USD was stronger on average as compared to the CAD and AUD; the USD was weaker on average as compared to the GBP and the EUR. The following tables demonstrate the impact of currency fluctuations on our net revenue for the years ended December 31, 2009 and 2008:

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

	For the Year Ended December 31,			
	2009 Net Revenue	2008 Net Revenue	Variance	Variance %
Canada	$224,397	$260,834	$ (36,437)	(14.0%)
Australia	$243,158	$276,414	$(33,256)	(12.0%)
United Kingdom[2]	$ 93,078	$ 87,706	$ 5,372	6.1%
Europe[1,2]	$ 89,182	$ 87,623	$ 1,559	1.8%

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

	For the Year Ended December 31,			
	2009 Net Revenue	2008 Net Revenue	Variance	Variance %
Canada (in CAD)	255,674	276,294	(20,620)	(7.5%)
Australia (in AUD)	308,068	324,724	(16,656)	(5.1%)
United Kingdom (in GBP)[2]	59,919	48,335	11,584	24.0%
Europe (in EUR)[1,2]	63,633	59,640	3,993	6.7%

1 Europe includes only subsidiaries whose functional currency is the EUR.
2 Table includes revenues from discontinued operations which are subject to currency risk.

Critical Accounting Policies

To aid in the understanding of our financial reporting, our most critical accounting policies are described below. These policies have the potential to have a more significant impact on our financial statements, either because of the significance of the financial statement item to which they relate, or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature.

Revenue Recognition and Deferred Revenue—Net revenue is derived from carrying a mix of business, residential and carrier long-distance traffic, data and Internet traffic, and also from the provision of local, data center and wireless services. For voice and international carrier services VoIP, net revenue is earned based on the number of minutes during a call and is recorded upon completion of a call, adjusted for allowance for doubtful accounts receivable, service credits and service adjustments. Revenue for a period is calculated from information received through our network switches. Customized software has been designed to track the information from the switch and analyze the call detail records against stored detailed information about revenue rates. This software provides us the ability to do a timely and accurate analysis of revenue earned in a period. Separate prepaid services software is used to track additional information related to prepaid service usage such as activation date, monthly usage amounts, fees and charges, and expiration date. Revenue on these prepaid services is recognized as service is provided until expiration, when all unused minutes, which are no longer available to the customers, are recognized as revenue.

Net revenue is also earned on a fixed monthly fee basis for unlimited local and long-distance plans and for the provision of data/Internet (including retail VoIP) and hosting services. Data/Internet and hosting services include monthly fees collected for the provision of dedicated and dial-up access at various speeds and bandwidths and colocation services. These fees are recognized as access and colocation is provided on a monthly basis. Additionally, service activation and installation fees are deferred and amortized over the longer of the average customer life or the contract term. We record payments received in advance for prepaid services and services to be provided under contractual agreements, such as Internet broadband and dial-up access, as deferred revenue until such related services are provided.

A portion of revenue, representing less than 1% of total revenue, is earned from the sale of wireless handsets and VoIP routers. We apply the provisions of ASC No. 605-25, "Revenue Recognition—Multiple Element Arrangements," which provides guidance on when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. We have concluded that ASC No. 605-25 requires us to account for the sale of wireless handsets and VoIP routers and the related cost of handset and router revenues as a separate unit of accounting when title to the handset or router passes to the customer. Revenue recognized is the portion of the activation fees allocated to the router or handset unit of accounting in the statement of operations when title to the router or handset passes to the customer. We defer the portion of the activation fees allocated to the service unit of accounting and recognize such deferred fees on a straight-line basis over the contract life in the statement of operations.

Net revenue represents gross revenue, net of allowance for doubtful accounts receivable, service credits and service adjustments.

Allowance for doubtful accounts receivable—Determining our allowance for doubtful accounts receivable requires significant estimates. Due to the large number of customers that we serve, it is impractical to review the creditworthiness of each of our customers, although a credit review is performed for larger carrier and retail business customers. We consider a number of factors in determining the proper level of the allowance, including historical collection experience, current economic trends, the aging of the accounts receivable portfolio and changes in the creditworthiness of our customers. Systems to detect fraudulent call activity are in place within our network, but if these systems fail to identify such activity, we may realize a higher degree of uncollectible accounts.

Cost of revenue—Cost of revenue is comprised primarily of costs incurred from other domestic and foreign telecommunications carriers to originate, transport and terminate calls. The majority of our cost of revenue is variable, based upon the number of minutes of use, with transmission and termination costs being the most significant expense. Call activity is tracked and analyzed with customized software that analyzes the traffic flowing through our network switches and calculates the variable cost of revenue with predetermined contractual rates. If the domestic or foreign telecommunications carriers have tracked and invoiced the volume of minutes at levels different than what our activity shows or have invoiced at different rates, we will dispute the charges invoiced. There is no guarantee that we will prevail in such disputes. We use significant estimates to determine the level of success in dispute resolution and consider past historical experience, basis of disputes, financial status, and current relationships with vendors and aging of prior disputes in quantifying our estimates.

Valuation of long-lived assets—We review long-lived assets whenever events or changes indicate that the carrying amount of an asset may not be recoverable. In making such evaluations, we compare the expected undiscounted future cash flows to the carrying amount of the assets. If the total of the expected undiscounted future cash flows is less than the carrying amount of the assets, we are required to make estimates of the fair value of the long-lived assets in order to calculate the impairment loss equal to the difference between the fair value and carrying value of the assets.

We make significant assumptions and estimates in this process regarding matters that are inherently uncertain, such as determining asset groups and estimating future cash flows, remaining useful lives, discount rates and growth rates. The resulting undiscounted cash flows are projected over an extended period of time, which subjects those assumptions and estimates to an even larger degree of uncertainty. While we believe that our estimates are reasonable, different assumptions could materially affect the valuation of the long-lived assets.

We have concluded that we have one asset group: the network. This is due to the nature of our telecommunications network which utilizes all of the POPs, switches, cables and various other components throughout the network to seamlessly form the telecommunications gateway over which our products and services are carried for any given customer's phone call or data or Internet transmission. Furthermore, outflows to many of the external network providers are not separately assignable to revenue inflows for any phone call or service plan.

We make assumptions about the remaining useful life of our long-lived assets. The assumptions are based on the average life of our historical capital asset additions, our historical asset purchase trend and the fact that our primary assets, our network switches, have an 8-year life. Because of the nature of our industry, we also assume that the technology changes in the industry render all equipment obsolete with no salvage value after their useful lives. In certain circumstances in which the underlying assets could be leased for an additional period of time, we have included such estimated cash flows in our estimate.

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

Goodwill impairment is tested annually using a two-step process that begins with an estimation of the fair value of each reporting unit as of October 1. The first step is a screen for potential impairment by comparing the fair value of a reporting unit with its carrying amount. The second step measures the amount of impairment loss, if any, by comparing the implied fair value of the reporting unit goodwill with its carrying amount. The implied fair value of goodwill shall be determined in the same manner as the amount of goodwill recognized in a business combination is determined, that is through an allocation of the fair value of a reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

Our reporting units are the same as our operating segments as each segment's components have been aggregated and deemed a single reporting unit because they have similar economic characteristics. Each component is similar in that they each provide telecommunications services for which all of the resources and costs are drawn from the same pool, and are evaluated using the same business factors by management.

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

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

As disclosed in Note 4—"Fresh Start Accounting" to the Company's consolidated financial statements, on July 1, 2009, the Company adopted fresh-start accounting in accordance with ASC No. 852, "Reorganizations." Fresh-start accounting reflects the value of the Company as determined in the confirmed Plan. Under fresh-start accounting, the Company's asset and liability values are re-measured and allocated in conformity with ASC No. 805, "Business Combinations." The excess of reorganization value over the fair value of tangible and identifiable intangible assets is recorded as goodwill in the accompanying consolidated balance sheet. Fresh-start accounting also requires that all liabilities, other than deferred taxes, should be stated at fair value.

The carrying values by reporting unit of the goodwill and other indefinite-lived intangible assets are disclosed in Note 6—"Goodwill and Other Intangible Assets," to the Company's Consolidated Financial Statements.

To facilitate the first step of the goodwill impairment analysis the Company first determines the fair value of each reporting unit as of October 1, the goodwill measurement date, and compares those amounts to the carrying value of the respective reporting units as of October 1. To the extent the fair value of the reporting unit exceeds the book value, no additional analysis is required and no impairment is recognized. To facilitate the Company's calculation of the fair value of the reporting units, the valuation methods included (i) a discounted cash flow analysis, considering a range of between 12% and 17% weighted average costs of capital and market-based multiples of projected earnings of between 4.0 and 9.3 times for its terminal value. A key assumption in the fair value calculations is the Company's future operating performance and resulting cash flow which is inherently subject to significant uncertainties and contingencies, and are based on management's best estimates at the date of measurement. Potential events which could have a negative effect on the key assumptions include competitive actions, technological developments, regulatory actions and currency movements. For additional risk factors which could affect the assumptions see "Item 1A—Risk Factors" and "Item 7—Special Note Regarding Forward Looking Statements." Accordingly, the Company cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially. The goodwill impairment test date of October 1, 2010, was fifteen months after the initial recording of the fair value of our assets under fresh start accounting. After performing step one of the goodwill impairment test no impairment was identified, as the fair value was greater than the carrying value of each reporting unit. Reporting units with significant goodwill balances are the United States and Canada and neither of these reporting units is at risk of failing step one of the goodwill impairment test. The increase in fair value for the reporting units with significant goodwill balances is due primarily to foreign currency translation as the United States dollar has weakened considerably and realizations of cost reduction initiatives which were implemented in the second half of 2010. Additionally, no impairment was recognized based on the analysis of the fair value of the intangible assets not subject to amortization as compared to their carrying value.

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

During the three months ended September 30, 2010, the Company and its Board of Directors ratified a plan to proceed with the disposition of its European retail operations; see Note 19, *Discontinued Operations*. This triggering event prompted the Company to perform a goodwill impairment test, a two-step test, for the Europe reporting unit. Based on the results of the step one test, the Company determined that the carrying value of the Europe reporting unit was in excess of its respective fair value and a step two test was required for the reporting unit. Based on the testing performed, the Company determined that the carrying value of goodwill exceeded its implied fair value for the Europe reporting unit and recorded a goodwill impairment charge to fully impair the Europe reporting unit's goodwill; see Note 6, "Goodwill and Other Intangibles," for further detail.

Accounting for income taxes— We recognize deferred tax assets and liabilities for the expected future tax consequences of transactions and events. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement bases and the tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. If necessary, deferred tax assets are reduced by a valuation allowance to an amount that is determined to be more likely than not recoverable. We must make significant estimates and assumptions about future taxable income and future tax consequences when determining the amount of the valuation allowance. The additional guidance provided by ASC No. 740 "Income Taxes", clarifies the accounting for uncertainty in income taxes recognized in the financial statements. Expected outcomes of current or anticipated tax examinations, refund claims and tax-related litigation and estimates regarding additional tax liability (including interest and penalties thereon) or refunds resulting therefrom will be recorded based on the guidance provided by ASC No. 740 to the extent applicable.

At present, our subsidiaries in the major jurisdictions in which we operate have significant deferred tax assets resulting from tax loss carryforwards. With the exception of our Canadian companies, these deferred tax assets are fully offset with valuation allowances. The appropriateness and amount of these valuation allowances are based on our assumptions about the future taxable income of each affiliate or available tax planning strategies. Except in the case of our Canadian companies, if our assumptions have significantly underestimated future taxable income with respect to a particular affiliate, all or part of the valuation allowance for the affiliate would be reversed and additional income could result. With the exception of our Canadian affiliates, if our assumptions have significantly overestimated future taxable income with respect to a particular affiliate, there would be no change in the net value of the deferred tax asset and no additional income or tax expense would result. If our assumptions with respect to our Canadian affiliates have significantly overestimated future taxable income, a full or partial valuation allowance would be applied to the corresponding deferred tax assets and additional tax expense would result.

In accordance with ASC No. 852, for periods including and subsequent to the filing of the Chapter 11 petition, prior to the emergence from bankruptcy, all pre-petition liabilities subject to compromise were segregated in the Consolidated Condensed Balance Sheets and classified as liabilities subject to compromise, at management's estimate of the amount of allowable claims. Liabilities not subject to compromise were separately classified as current and non-current in the Consolidated Condensed Balance Sheet. Revenues, expenses, realized gains and losses, and provisions for losses that result from the reorganization were reported separately as reorganization items, net, in the Consolidated Condensed Statements of Operations. Net cash used for reorganization items was disclosed separately in the Consolidated Condensed Statements of Cash Flows.

After the emergence from bankruptcy on July 1, 2009, the amounts reported on our subsequent financial statements materially changed. We adopted the "fresh start" provisions of ASC No. 852, which requires that all assets and liabilities except deferred taxes be restated to their fair value. Deferred tax balances have been established as a result of the differences in the basis adjustments from fresh-start accounting. Certain of these fair values differ materially from the values recorded on the Predecessor Consolidated Condensed Balance Sheets. Our emergence from reorganization resulted in a new reporting entity that had no retained earnings or accumulated deficit before the Effective Date. Additionally, we must also adopt any changes in GAAP that are otherwise required to be adopted within twelve months of such date. For all of these reasons, our Successor's financial statements are not comparable to our Predecessor's. See "Note 8—Income Taxes," to the Company's consolidated financial statements for further details.

Discontinued Operations

2010 Developments—During 2010 the Company classified its Europe segment, which is also known as European retail operations, as discontinued operations. As a result, the Company has applied retrospective adjustments for 2009 and 2008 to reflect the effects of the discontinued operations during 2010. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. The Company did not retrospectively adjust its 2009 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 certain balance sheet information is presented, see Note 19, "Discontinued Operations," for further information.

2008 and 2009 Developments—In the first quarter 2009, the Company sold certain assets of its Japan retail operations. The sale price was $0.4 million (40 million Japanese yen), which included $0.2 million (20 million Japanese yen) in cash and $0.2 million (20 million Japanese yen) receivable. The Company recorded a $0.3 million gain from sale of assets. The Company reported Japan retail operations as a discontinued operation.

In the second quarter 2008, the Company determined it would sell its German retail operations. However, buyers were not found; therefore the Company decided to cease operations of the German retail business during the first quarter of 2009.

As a result of these events, the Company's consolidated financial statements for all periods presented reflect the Japan retail operations and German retail operations as discontinued operations for the six months ended December 31, 2009, six months ended July 1, 2009, and year ended December 31, 2008. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as loss from discontinued operations.

Summarized operating results of the discontinued operations for the year ended December 31, 2010, 2009, and 2008 are as follows:

	Successor		Predecessor	
	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009	Year Ended December 31, 2008
Net revenue	$ 37,506	$ 26,813	$ 26,271	$ 66,876
Operating expenses	50,605	29,322	27,408	71,718
Income (loss) from operations	(13,099)	(2,509)	(1,137)	(4,842)
Interest expense	(8)	(45)	(42)	83
Interest income and other income (expense)	(396)	(160)	37	52
Foreign currency transaction gain (loss)	(137)	(1,184)	788	(808)
Reorganization items	—	(14)	15,269	—
Income (loss) before income tax	(13,640)	(3,912)	14,915	(5,515)
Income tax benefit (expense)	1,869	(138)	166	(375)
Income (loss) from discontinued operations	$ (11,771)	$ (4,050)	$ 15,081	$ (5,890)

Explanatory Preliminary Note

In the following presentations and narratives within this Management's Discussion and Analysis of Financial Condition and Results of Operations, we combine Successor's results of operations for the period from July 2, 2009 to December 31, 2009 (the "Successor Period") with Predecessor's results of operations for the period from January 1, 2009 to July 1, 2009 and we compare these combined results of operations with Predecessor's results of operations for the year ended December 31, 2008. We also present detailed changes in results, excluding currency impacts, since a large portion of our revenues are derived outside of the U.S., and currency changes can influence or mask underlying changes in foreign operating unit performance. We believe that the comparison of the combined financial results provide management and investors with a meaningful analysis of our performance and trends for comparative purposes. In addition, it should be noted that the application of fresh-start accounting will have a significant non-cash impact on our future results of operations, but will have no impact on the underlying cash flows of the Company.

We have combined the results of operations and the sources and uses of cash for the six months ended July 1, 2009 of the Predecessor and the six months ended December 31, 2009 for the Successor, and compared these combined results with the corresponding periods in 2010 and 2008 to provide a meaningful perspective on our financial and operational performance and trends in order to supplement GAAP data that would not otherwise have been available if we had not combined the results of operations and sources and uses of cash of the Predecessor and the Successor in this manner. The presentation of these combined results for the twelve months ended December 31, 2009 are intended to supplement investors' understanding of our operating performance and liquidity. However, the combined presentation of the twelve months ended December 31, 2009 are not intended to replace net income (loss), cash flows, financial position or comprehensive income (loss), as determined in accordance with U.S. GAAP for the Predecessor and Successor periods. The Consolidated Financial Statements on or after July 1, 2009 are not comparable to the Consolidated Financial Statements prior to that date. For purposes of calculating constant currency rates between periods in connection with presentations that describe changes in values "excluding currency effects" herein, we have taken results from foreign operations for a given year (that were computed in accordance with GAAP using local currency) and converted such amounts utilizing the same U.S. dollar to applicable local currency exchange rates that were used for purposes of calculating corresponding preceding year GAAP presentations.

In reviewing the results and narratives below, it is important to note that there were significant effects resulting from the adoption of fresh-start accounting that affected our historical presentations and that will impact future results compared to pre-Reorganization results, including significant changes in:

- debt balances and associated interest expense;
- taxes and the adverse cash flow effects of our obligation to pay additional taxes compared to prior periods, given the termination of significant net operating loss carry-forward credits in connection with the Reorganization; and
- depreciation and amortization, as triggered by our requirement to institute a new capital structure and fully re-measure our tangible and identifiable intangible assets.

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Results of Operations

The following information for the years ended December 31, 2010, 2009 and 2008 reflects all the items included in consolidated statements of operations as a percentage of net revenue:

	Year Ended December 31,		
	2010	2009	2008
NET REVENUE	100.0%	100.0%	100.0%
OPERATING EXPENSES			
Cost of revenue (exclusive of depreciation included below)	63.9%	65.1%	63.2%
Selling, general and administrative	25.9%	24.1%	28.7%
Depreciation and amortization	8.5%	6.4%	3.6%
(Gain) loss on sale or disposal of assets	0.0%	0.0%	(0.7%)
Total operating expenses	98.3%	95.6%	94.9%
INCOME FROM OPERATIONS	1.7%	4.4%	5.1%
INTEREST EXPENSE	(4.6%)	(4.1%)	(6.5%)
ACCRETION (AMORTIZATION) ON DEBT PREMIUM/DISCOUNT, net	0.0%	0.0%	0.1%
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	0.0%	(0.5%)	4.4%
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(1.8%)	(0.4%)	0.0%
INTEREST AND OTHER INCOME	0.1%	0.1%	0.4%
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	2.1%	5.2%	(5.6%)
LOSS FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	(2.5%)	4.8%	(2.0%)
REORGANIZATION ITEMS, net	0.0%	55.6%	0.0%
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(2.5%)	60.4%	(2.0%)
INCOME TAX BENEFIT (EXPENSE)	1.2%	0.8%	0.1%
INCOME (LOSS) FROM CONTINUING OPERATIONS	(1.4%)	61.2%	(1.9%)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(1.5%)	1.4%	(0.7%)
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	0.4%	0.0%	0.0%
NET INCOME (LOSS)	(2.5%)	62.7%	(2.6%)

The following information reflects net revenue by product line for the years ended December 31, 2010, 2009 and 2008 (in thousands, except percentages) and is provided for informational purposes and should be read in conjunction with the Consolidated Financial Statements and Notes.

	Year Ended December 31,					
	2010		2009		2008	
(in thousands)	Net Revenue	% of total	Net Revenue	% of total	Net Revenue	% of total
Retail Voice	$358,599	46.9%	$ 345,861	45.3%	$ 402,770	48.4%
International Carrier Services	178,631	23.4%	212,961	27.9%	197,278	23.7%
Data/Internet	194,632	25.4%	159,814	21.0%	185,483	22.2%
Retail VOIP	33,085	4.3%	44,129	5.8%	47,306	5.7%
Total	$ 764,947	100.0%	$762,765	100.0%	$ 832,837	100.0%

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Results of operations for the year ended December 31, 2010 as compared to the year ended December 31, 2009

Net revenue: Net revenue, exclusive of the currency effect, decreased $59.8 million, or 7.8%, to $703.0 million for the year ended December 31, 2010 from $762.8 million for the year ended December 31, 2009. Inclusive of the currency effect which accounted for an increase of $61.9 million, net revenue increased $2.1 million to $764.9 million for the year ended December 31, 2010 from $762.8 million for the year ended December 31, 2009.

	Exclusive of Currency Effect							Inclusive of Currency Effect	
	Year Ended							Year Ended	
	December 31, 2010		December 31, 2009		Year-over-Year			December 31, 2010	
(in thousands)	Net Revenue	% of Total	Net Revenue	% of Total	Variance	Variance %	Currency Effect	Net Revenue	% of Total
Canada	$209,369	29.8%	$ 224,397	29.4%	$ (15,028)	(6.7%)	$21,816	$231,185	30.2%
Australia	237,629	33.8%	243,158	31.9%	(5,529)	(2.3%)	39,093	276,722	36.2%
International Carrier Services	180,442	25.7%	212,962	27.9%	(32,520)	(15.3%)	(1,811)	178,631	23.4%
United States	50,724	7.2%	67,555	8.9%	(16,831)	(24.9%)	—	50,724	6.6%
Brazil	24,838	3.5%	14,693	1.9%	10,145	69.0%	2,847	27,685	3.6%
Total Revenue	$ 703,002	100.0%	$762,765	100.0%	$(59,763)	(7.8%)	$61,945	$764,947	100.0%

Canada: Canada net revenue, exclusive of the currency effect, decreased $15.0 million, or 6.7%, to $209.4 million for the year ended December 31, 2010 from $224.4 million for the year ended December 31, 2009. The net revenue decrease is primarily attributable to a decrease of $11.8 million in retail voice services, a decrease of $7.6 million in prepaid voice services and a decrease of $0.9 million in wireless services offset, in part, by an increase of $2.3 million in local and VoIP services, an increase of $2.0 million in Internet, an increase of $1.0 million in data and hosting services. Inclusive of the currency effect which accounted for a $21.8 million increase, net revenue increased $6.8 million to $231.2 million for the year ended December 31, 2010 from $224.4 million for the year ended December 31, 2009.

Australia: Australia net revenue, exclusive of the currency effect, decreased $5.6 million, or 2.3%, to $237.6 million for the year ended December 31, 2010 from $243.2 million for the year ended December 31, 2009. The net revenue decrease is primarily attributable to a decrease of $6.6 million in residential voice and a decrease of $3.9 million in Internet services offset, in part, by increases of $2.6 million in business voice services, an increase of $0.9 million in wireless services, and increase of $1.0 million in DSL, VoIP and other services. Inclusive of the currency effect which accounted for a $39.1 million increase, net revenue increased $33.5 million to $276.7 million for the year ended December 31, 2010 from $243.2 million for the year ended December 31, 2009.

International Carrier Services: International Carrier Services net revenue, exclusive of the currency effect, decreased $32.6 million, or 15.3%, to $180.4 million for the year ended December 31, 2010 from $213.0 million for the year ended December 31, 2009. The net revenue decrease is primarily attributable to a decrease in International minutes. Inclusive of the currency effect which accounted for a $1.8 million decrease, net revenue decreased $34.4 million to $178.6 million for the year ended December 31, 2010, from $213.0 million for the year ended December 31, 2009.

United States: United States net revenue decreased $16.9 million, or 24.9%, to $50.7 million for the year ended December 31, 2010 from $67.6 million for the year ended December 31, 2009. The decrease is primarily attributable to a decrease of $9.5 million in retail voice services (for residential and small businesses), a decrease of $6.4 million in VoIP services and a decrease of $1.0 million in Internet services.

Brazil: Brazil net revenue, exclusive of the currency effect, increased $10.1 million, or 69.0%, to $24.8 million for the year ended December 31, 2010 from $14.7 million for the year ended December 31, 2009. The revenue increase is due primarily to an increase in VoIP services. Inclusive of the currency effect which accounted for a $2.8 million increase, net revenue increased $13.0 million to $27.7 million for the year ended December 31, 2010 from $14.7 million for the year ended December 31, 2009.

Cost of revenue: Cost of revenue, exclusive of the currency effect, decreased $42.1 million to $454.4 million, or 64.6% of net revenue, for the year ended December 31, 2010 from $496.5 million, or 65.1% of net revenue, for the year ended December 31, 2009. Inclusive of the currency effect, which accounted for a $34.2 million increase, cost of revenue decreased $7.9 million to $488.6 million for the year ended December 31, 2010 from $496.5 million for the year ended December 31, 2009.

	Exclusive of Currency Effect							Inclusive of Currency Effect	
	Year Ended							Year Ended	
	December 31, 2010		December 31, 2009		Year-over-Year			December 31, 2010	
(in thousands)	Cost of Revenue	% of Net Revenue	Cost of Revenue	% of Net Revenue	Variance	Variance %	Currency Effect	Cost of Revenue	% of Net Revenue
Canada	$ 96,549	46.1%	$ 98,510	43.9%	$ (1,961)	(2.0%)	$ 9,963	$ 106,512	46.1%
Australia	145,187	61.1%	153,002	62.9%	(7,815)	(5.1%)	23,644	168,831	61.0%
International Carrier Services	170,404	94.4%	203,865	95.7%	(33,461)	(16.4%)	(1,706)	168,698	94.4%
United States	22,004	43.4%	30,357	44.9%	(8,353)	(27.5%)	—	22,004	43.4%
Brazil	20,264	81.6%	10,755	73.2%	9,509	88.4%	2,303	22,567	81.5%
Total Revenue	$ 454,408	64.6%	$496,489	65.1%	$(42,081)	(8.5%)	$ 34,204	$ 488,612	63.9%

Canada: Canada cost of revenue, exclusive of the currency effect, decreased $2.0 million to $96.5 million, or 46.1% of net revenue, for the year ended December 31, 2010 from $98.5 million, or 43.9% of net revenue, for the year ended December 31, 2009. The decrease is primarily attributable to a decrease in net revenue of $15.0 million. Inclusive of the currency effect, which accounted for a $10.0 million increase, cost of revenue increased $8.0 million to $106.5 million for the year ended December 31, 2010 from $98.5 million for the year ended December 31, 2009.

Australia: Australia cost of revenue, exclusive of the currency effect, decreased $7.8 million to $145.2 million, or 61.1% of net revenue, for the year ended December 31, 2010 from $153.0 million, or 62.9% of net revenue, for the year ended December 31, 2009. The decrease is primarily attributable to a $5.6 million decrease in net revenue. Inclusive of the currency effect, which accounted for a $23.6 million increase, cost of revenue increased $15.8 million to $168.8 million for the year ended December 31, 2010 from $153.0 million for the year ended December 31, 2009.

International Carrier Services: International Carrier Services cost of revenue, exclusive of the currency effect, decreased $33.5 million to $170.4 million, or 94.4% of net revenue, for the year ended December 31, 2010 from $203.9 million, or 95.7% of net revenue, for the year ended December 31, 2009. The decrease is primarily attributable to a decrease in net revenue of $32.6 million. Inclusive of the currency effect, which accounted for a $1.7 million decrease, cost of revenues decreased $35.2 million to $168.7 million for the year ended December 31, 2010 from $203.9 million for the year ended December 31, 2009.

United States: United States cost of revenue decreased $8.4 million to $22.0 million, or 43.4% of net revenue, for the year ended December 31, 2010 from $30.4 million, or 44.9% of net revenue, for the year ended December 31, 2009. The decrease is attributable to a decrease in net revenue of $16.8 million.

Brazil: Brazil cost of revenue, exclusive of the currency effect, increased $9.5 million to $20.3 million, or 81.6% of net revenue, for the year ended December 31, 2010 from $10.8 million, or 73.2% of net revenue, for the year ended December 31, 2009. The increase is primarily attributable to an increase in net revenue of $10.1 million and a shift in the revenue product mix to lower margin products. Inclusive of the currency effect, which accounted for a $2.3 million increase, cost of revenue increased $11.8 million to $22.6 million for the year ended December 31, 2010 from $10.8 million for the year ended December 31, 2009.

Selling, general and administrative expenses: Selling, general and administrative expenses ("SG&A"), exclusive of the currency effect, decreased $3.0 million to $180.8 million, or 25.7% of net revenue, for the year ended December 31, 2010 from $183.8 million, or 24.1% of net revenue, for the year ended December 31, 2009. Inclusive of the currency effect, which accounted for a $17.4 million increase, selling, general and administrative expenses increased $14.4 million to $198.2 million for the year ended December 31, 2010 from $183.8 million for the year ended December 31, 2009.

	Exclusive of Currency Effect							Inclusive of Currency Effect	
	Year Ended							Year Ended	
	December 31, 2010		December 31, 2009		Year-over-Year			December 31, 2010	
(in thousands)	SG&A	% of Net Revenue	SG&A	% of Net Revenue	Variance	Variance %	Currency Effect	SG&A	% of Net Revenue
Canada	$ 70,624	33.7%	$ 79,331	35.4%	$(8,707)	(11.0%)	$ 7,384	$ 78,008	33.7%
Australia	60,998	25.7%	58,245	24.0%	2,753	4.7%	9,715	70,713	25.6%
International Carrier Services	6,423	3.6%	6,713	3.2%	(290)	(4.3%)	(39)	6,384	3.6%
United States	22,203	43.8%	25,625	37.9%	(3,422)	(13.4%)	—	22,203	43.8%
Brazil	2,961	11.9%	3,134	21.3%	(173)	(5.5%)	354	3,315	12.0%
Corporate	17,578	—	10,760	—	6,818	63.4%	—	17,578	—
Total SG&A	$180,787	25.7%	$183,808	24.1%	$(3,021)	(1.6%)	$17,414	$198,201	25.9%

Canada: Canada selling, general and administrative expense, exclusive of the currency effect, decreased $8.7 million to $70.6 million, or 33.7% of net revenue, for the year ended December 31, 2010 from $79.3 million, or 35.4% of net revenue, for the year ended December 31, 2009. The decrease is attributable to a decrease of $3.5 million in advertising expenses, a decrease of $2.8 million in sales and marketing expenses, a decrease of $1.9 million in general and administrative expenses and a decrease of $1.2 million in professional fees offset, in part, by an increase of $0.4 million in salaries and benefits and $0.3 million of other expenses. Inclusive of the currency effect, which accounted for a $7.4 million increase, selling, general and administrative expenses decreased $1.3 million to $78.0 million for the year ended December 31, 2010 from $79.3 million for the year ended December 31, 2009.

Australia: Australia selling, general and administrative expense, exclusive of the currency effect, increased $2.8 million to $61.0 million, or 25.7% of net revenue, for the year ended December 31, 2010 from $58.2 million, or 24.0% of net revenue, for the year ended December 31, 2009. The increase is attributable to an increase of $1.0 million in advertising expenses, an increase of $0.6 million in salaries and benefits, an increase of $0.6 million in occupancy expense, and an increase of $0.4 million in professional fees and an increase of $0.2 million in general and administrative and travel and entertainment expense. Inclusive of the currency effect, which accounted for a $9.7 million increase, selling, general and administrative expense increased $12.5 million to $70.7 million for the year ended December 31, 2010 from $58.2 million for the year ended December 31, 2009.

International Carrier Services: International Carrier Services selling, general and administrative expense decreased $0.3 million to $6.4 million, or 3.6% of net revenue, for the year ended December 31, 2010 from $6.7

million, or 3.2% of net revenue, for the year ended December 31, 2009. The decrease is primarily attributable to $0.2 million in salaries and benefits and a decrease of $0.1 million in occupancy. The impact of currency was minimal.

United States: United States selling, general and administrative expense decreased $3.4 million to $22.2 million, or 43.8% of net revenue, for the year ended December 31, 2010 from $25.6 million, or 37.9% of net revenue, for the year ended December 31, 2009. The decrease is attributable to decreases of $1.8 million in salaries and benefits, $0.7 million decrease in professional fees, $0.6 million decrease in sales and marketing expense, $0.3 million decrease in advertising expenses, and a $0.2 million decrease in travel and entertainment offset, in part, by $0.1 million increase in general and administrative expenses.

Brazil: Brazil selling, general and administrative expense, exclusive of the currency effect, decreased $0.2 million to $2.9 million, or 11.9% of net revenue, for the year ended December 31, 2010 from $3.1 million, or 21.3% of net revenue, for the year ended December 31, 2009. The decrease is attributable to a decrease of $0.3 million in occupancy expense and a decrease of $0.1 million in professional fees offset, in part, by a $0.2 million increase in sales and marketing expenses. Inclusive of the currency effect, which accounted for a $0.4 million increase, selling, general and administrative expense increased $0.2 million to $3.3 million for the year ended December 31, 2010 from $3.1 million for the year ended December 31, 2009.

Corporate: Corporate selling, general and administrative expense increased $6.8 million to $17.6 million for the year ended December 31, 2010 from $10.8 million for the year ended December 31, 2009. The increase is primarily due to a $6.2 million increase in salaries and benefits due to the severance expense for the previous executives and a $0.6 million increase in professional fees.

Depreciation and amortization expense: Depreciation and amortization expense increased $16.8 million to $65.3 million for the year ended December 31, 2010 from $48.5 million for the year ended December 31, 2009. This change occurred as a result of the fair valuing of fixed and intangible assets per Fresh-Start accounting which was implemented effective July 1, 2009. See "Note 4—Fresh-Start Accounting" in our consolidated financial statements for further detail.

Interest expense and accretion (amortization) on debt discount/premium: Interest expense and accretion (amortization) on debt discount/premium, net increased $4.5 million to $35.7 million for the year ended December 31, 2010 from $31.2 million for the year ended December 31, 2009. During first half of 2009, the Company did not record interest expense on certain compromised indebtedness as a result of the Company's filing for a plan of reorganization. This resulted in higher interest expense for the year ended December 31, 2010 compared to the year ended December 31, 2009.

Gain (loss) from contingent value rights valuation. The loss from the change in fair value of the contingent value rights increased $10.9 million to $13.7 million loss for the year ended December 31, 2010 from $2.8 million loss for the year ended December 31, 2009. The Company determined these contingent value rights to be derivative instruments to be accounted for as liabilities and were marked to fair value, (and in future periods will be marked to fair value), at each balance sheet date. Upon issuance of the contingent value rights, the Company recorded a liability of $2.6 million in other liabilities as part of fresh-start accounting, and we will adjust this liability quarterly to its then estimated fair value, (which in future periods potentially could be substantially greater than the initial recorded liability balance). The change in fair value of the liability is reflected in our Statements of Operations as other income (expense). Estimates of fair value represent the Company's best estimates based on a Black-Scholes pricing model.

Interest income and other (expense). Interest income and other (expense) decreased $0.2 million to $0.7 million for the year ended December 31, 2010 from $0.9 million expense for the year ended December 31, 2009.

Foreign currency transaction gain (loss): Foreign currency transaction gain decreased $23.5 million to a gain of $16.4 million for the year ended December 31, 2010 from a gain of $39.9 million for the year ended December 31, 2009. The gains are attributable to the impact of foreign currency exchange rate changes on intercompany debt balances and on receivables and payables denominated in a currency other than the subsidiaries' functional currency.

Reorganization items, net. Reorganization items, exclusive of discontinued operations reflect the favorable impact of $424.4 million, and inclusive of discontinued operations reflect the unfavorable impact of $439.5 million for the year ended December 31, 2009 due to fresh-start accounting and revaluation of assets and liabilities ($188.6 million), gain on extinguishment of debt ($243.2 million), and reversal of future interest payments recorded as long-term obligations ($20.4 million), offset in part principally by the incurrence of professional fees as a result of the Chapter 11 Cases ($12.6 million).

Income tax benefit (expense): Income tax benefit (expense) is a $9.1 million benefit for the year ended December 31, 2010 compared to a $6.1 million benefit for the year ended December 31, 2009. The benefit includes expenses consisting of foreign withholding tax on intercompany interest, the release of certain "ASC 740" liabilities as a result of the expiration of the statute of limitations and charges for uncertain tax positions under ASC No. 740, "Income Taxes." The foreign tax expense was offset by a significant benefit from the release of valuation allowances related to deferred tax assets. Refer to "Note 8 —Income Taxes," to our consolidated audited financial statements.

Results of operations for the year ended December 31, 2009 as compared to the year ended December 31, 2008

Net revenue: Net revenue, exclusive of the currency effect, decreased $14.4 million, or 1.7%, to $818.4 million for the year ended December 31, 2009 from $832.8 million for the year ended December 31, 2008. Inclusive of the currency effect, which accounted for a decrease of $55.6 million, net revenue decreased $70.1 million to $762.8 million for the year ended December 31, 2009 from $832.8 million for the year ended December 31, 2008.

	Exclusive of Currency Effect							Inclusive of Currency Effect	
	Year Ended							Year Ended	
	December 31, 2009		December 31, 2008		Year-over-Year			December 31, 2009	
(in thousands)	Net Revenue	% of Total	Net Revenue	% of Total	Variance	Variance %	Currency Effect	Net Revenue	% of Total
Canada	$ 241,603	29.5%	$ 260,834	31.3%	$ (19,231)	(7.4%)	$ (17,206)	$ 224,397	29.4%
Australia	262,917	32.1%	276,413	33.2%	(13,496)	(4.9%)	(19,759)	243,158	31.9%
International Carrier Services	230,285	28.1%	197,278	23.7%	33,007	16.7%	(17,323)	212,962	27.9%
United States	67,555	8.3%	88,181	10.6%	(20,626)	(23.4%)	—	67,554	8.9%
Brazil	16,040	2.0%	10,131	1.2%	5,909	58.3%	(1,347)	14,694	1.9%
Total Revenue	$ 818,400	100.0%	$ 832,837	100.0%	$ (14,437)	(1.7%)	$(55,635)	$762,765	100.0%

Canada: Canada net revenue, exclusive of the currency effect, decreased $19.2 million, or 7.4%, to $241.6 million for the year ended December 31, 2009 from $260.8 million for the year ended December 31, 2008. The net revenue decrease is primarily attributable to a decrease of $16.3 million in retail voice services, a decrease of $3.8 million in prepaid voice services, a decrease of $1.1 million in wireless services and a decrease of $0.3 million in local services offset, in part, by an increase of $2.3 million in Internet, data and hosting services. Inclusive of the currency effect, which accounted for a $17.2 million decrease, net revenue decreased $36.4 million to $224.4 million for the year ended December 31, 2009 from $260.8 million for the year ended December 31, 2008.

Australia: Australia net revenue, exclusive of the currency effect, decreased $13.5 million, or 4.9%, to $262.9 million for the year ended December 31, 2009 from $276.4 million for the year ended December 31, 2008. The net revenue decrease is primarily attributable to a decrease of $13.5 million in Internet services, a decrease of $3.1 million in residential voice and a decrease of $2.6 million in broadband services offset, in part, by increases of $3.9 million in business voice services and $1.9 million in wireless services. Inclusive of the currency effect, which accounted for a $19.8 million decrease, net revenue decreased $33.2 million to $243.2 million for the year ended December 31, 2009 from $276.4 million for the year ended December 31, 2008.

International Carrier Services: International Carrier Services net revenue, exclusive of the currency effect, increased $33.0 million, or 16.7%, to $230.3 million for the year ended December 31, 2009 from $197.3 million for the year ended December 31, 2008. The net revenue increase is primarily a result of expanded routed capabilities and enhanced traffic volumes from existing customers and the obtainment of new customers. Inclusive of the currency effect which accounted for a $17.3 million decrease, net revenue increased $15.7 million to $213.0 million for the year ended December 31, 2009, from $197.3 million for the year ended December 31, 2008.

United States: United States net revenue decreased $20.6 million, or 23.4%, to $67.6 million for the year ended December 31, 2009 from $88.2 million for the year ended December 31, 2008. The decrease is primarily attributable to a decrease of $13.2 million in retail voice services (for residential and small businesses), a decrease of $5.6 million in VoIP services and a decrease of $1.8 million in Internet services.

Brazil: Brazil net revenue, exclusive of the currency effect, increased $5.9 million, or 58.4%, to $16.0 million for the year ended December 31, 2009 from $10.1 million for the year ended December 31, 2008. The revenue increase is due primarily to an increase in VoIP services. Inclusive of the currency effect, which accounted for a $1.3 million decrease, net revenue increased $4.6 million to $14.7 million for the year ended December 31, 2009 from $10.1 million for the year ended December 31, 2008.

Cost of revenue: Cost of revenue, exclusive of the currency effect, increased $7.7 million to $534.1 million, or 65.3% of net revenue, for the year ended December 31, 2009 from $526.4 million, or 63.2% of net revenue, for the year ended December 31, 2008. Inclusive of the currency effect, which accounted for a $37.6 million decrease, cost of revenue decreased $29.9 million to $496.5 million for the year ended December 31, 2009 from $526.4 million for the year ended December 31, 2008.

Canada: Canada cost of revenue, exclusive of the currency effect, decreased $8.4 million to $106.0 million, or 43.9% of net revenue, for the year ended December 31, 2009 from $114.4 million, or 43.9% of net revenue, for the year ended December 31, 2008. The decrease is primarily attributable to a decrease in net revenue of $19.2 million. Inclusive of the currency effect, which accounted for a $7.5 million decrease, cost of revenue decreased $15.9 million to $98.5 million for the year ended December 31, 2009 from $114.4 million for the year ended December 31, 2008.

Australia: Australia cost of revenue, exclusive of the currency effect, decreased $4.0 million to $165.4 million, or 62.9% of net revenue, for the year ended December 31, 2009 from $169.4 million, or 61.3% of net revenue, for the year ended December 31, 2008. The decrease is primarily attributable to a $13.5 million decrease in net revenue, offset in part by a $5.8 million reduction to cost of revenue in 2008 as the result of rulings by the Australian regulatory authority. Inclusive of the currency effect, which accounted for a $12.4 million decrease, cost of revenue decreased $16.4 million to $153.0 million for the year ended December 31, 2009 from $169.4 million for the year ended December 31, 2008.

International Carrier Services: International Carrier Services cost of revenue, exclusive of the currency effect, increased $30.4 million to $220.6 million, or 95.8% of net revenue, for the year ended December 31, 2009 from $190.2 million, or 96.4% of net revenue, for the year ended December 31, 2008. The increase is primarily attributable to an increase in net revenue of $33.0 million offset, in part, by lower costs, as a percentage of net revenues. Inclusive of the currency effect, which accounted for a $16.7 million decrease, cost of revenues decreased $13.7 million to $203.9 million for the year ended December 31, 2009 from $190.2 million for the year ended December 31, 2008.

United States: United States cost of revenue decreased $15.8 million to $30.3 million, or 44.9% of net revenue, for the year ended December 31, 2009 from $46.1 million, or 52.5% of net revenue, for the year ended December 31, 2008. The decrease is attributable to a decrease in net revenue of $20.6 million, a cost recovery of $1.5 million from a dispute settlement and lower costs resulting from our cost control initiatives.

Brazil: Brazil cost of revenue, exclusive of the currency effect, increased $5.3 million to $11.7 million, or 73.1% of net revenue, for the year ended December 31, 2009 from $6.4 million, or 62.8% of net revenue, for the year ended December 31, 2008. The increase is primarily attributable to an increase in net revenue of $5.9 million and a shift in the revenue product mix to lower margin products. Inclusive of the currency effect, which accounted for a $1.0 million decrease, cost of revenue increased $4.4 million to $10.8 million for the year ended December 31, 2009 from $6.4 million for the year ended December 31, 2008.

Selling, general and administrative expenses: Selling, general and administrative expenses, exclusive of the currency effect, decreased $44.1 million to $195.0 million, or 23.8% of net revenue, for the year ended December 31, 2009 from $239.1 million, or 28.7% of net revenue, for the year ended December 31, 2008. Inclusive of the currency effect, which accounted for a $11.2 million decrease, selling, general and administrative expenses decreased $55.3 million to $183.8 million for the year ended December 31, 2009 from $239.1 million for the year ended December 31, 2008.

Canada: Canada selling, general and administrative expense, exclusive of the currency effect, decreased $12.9 million to $85.0 million, or 35.2% of net revenue, for the year ended December 31, 2009 from $97.9 million, or 37.5% of net revenue, for the year ended December 31, 2008. The decrease is attributable to a decrease of $7.0 million in salaries and benefits, a decrease of $7.1 million in sales and marketing expenses and a decrease of $0.7 million in general and administrative expenses offset, in part, by an increase of $0.8 million in advertising expenses and $1.1 million of other expenses. Inclusive of the currency effect, which accounted for a $5.7 million decrease, selling, general and administrative expenses decreased $18.6 million to $79.3 million for the year ended December 31, 2009 from $97.9 million for the year ended December 31, 2008.

Australia: Australia selling, general and administrative expense, exclusive of the currency effect, decreased $18.9 million to $63.3 million, or 24.1% of net revenue, for the year ended December 31, 2009 from $82.2 million, or 29.7% of net revenue, for the year ended December 31, 2008. The decrease is attributable to a decrease of $6.1 million in salaries and benefits, a decrease of $8.4 million in sales and marketing expense, a decrease of $2.0 million in advertising expenses, a decrease of $1.7 million in general and administrative and a decrease of $0.7 million in all other expenses. Inclusive of the currency effect, which accounted for a $4.7 million decrease, selling, general and administrative expense decreased $23.6 million to $58.6 million for the year ended December 31, 2009 from $82.2 million for the year ended December 31, 2008.

International Carrier Services: International Carrier Services selling, general and administrative expense, exclusive of the currency effect, decreased $1.2 million to $7.2 million, or 3.1% of net revenue, for the year ended December 31, 2009 from $8.4 million, or 4.3% of net revenue, for the year ended December 31, 2008. Inclusive of the currency effect, which accounted for a $0.5 million decrease, selling, general and administrative expense decreased $1.7 million to $6.7 million for the year ended December 31, 2009 from $8.4 million for the year ended December 31, 2008.

United States: United States selling, general and administrative expense decreased $10.0 million to $25.6 million, or 37.9% of net revenue, for the year ended December 31, 2009 from $35.6 million, or 40.4% of net revenue, for the year ended December 31, 2008. The decrease is attributable to decreases of $4.0 million in salaries and benefits, $2.1 million in general and administrative expenses, $1.6 million in advertising expenses, $1.1 million in sales and marketing expense, $0.7 million in occupancy, and $0.5 million in other expenses.

Brazil: Brazil selling, general and administrative expense, exclusive of the currency effect, decreased $0.5 million to $3.5 million, or 21.6% of net revenue, for the year ended December 31, 2009 from $4.0 million, or 39.8% of net revenue, for the year ended December 31, 2008. The decrease is attributable to a $0.6 million decrease in salaries and benefits and a $0.3 million decrease in sales and marketing offset in part by a $0.3 million increase in all other expenses. Inclusive of the currency effect, which accounted for a $0.3 million decrease, selling, general and administrative expense decreased $0.9 million to $3.1 million for the year ended December 31, 2009 from $4.0 million for the year ended December 31, 2008.

Corporate: Corporate selling, general and administrative expense decreased $0.3 million to $10.8 million for the year ended December 31, 2009 from $11.1 million for the year ended December 31, 2008. The decrease is primarily due to a decrease in salaries and benefits.

Depreciation and amortization expense: Depreciation and amortization expense was $48.5 and $30.4 million for the years ended December 31, 2009 and 2008, respectively. This change occurred as a result of the fair valuing of fixed and intangible assets per Fresh-Start accounting which was implemented effective July 1, 2009. See "Note 4—Fresh-Start Accounting" in our consolidated financial statements for further detail.

Interest expense and accretion (amortization) on debt discount/premium: Interest expense and accretion (amortization) on debt discount/premium, net decreased $22.2 million to $31.2 million for the year ended December 31, 2009 from $53.4 million for the year ended December 31, 2008. The decrease was due to the lower debt levels primarily resulting from the cancellation of certain indebtedness through the Plan of Reorganization, effective as of July 1, 2009.

Gain (loss) from contingent value rights valuation. The value of the contingent value rights decreased $2.8 million during 2009 due to the change of the fair market value. The Company determined these contingent value rights to be derivative instruments to be accounted for as liabilities and were marked to fair value, (and in future periods will be marked to fair value), at each balance sheet date. Upon issuance of the contingent value rights, the Company recorded a liability of $2.6 million in other liabilities as part of fresh-start accounting, and we will adjust this liability quarterly to its then estimated fair value, (which in future periods potentially could be substantially greater than the initial recorded liability balance). The change in fair value of the liability is reflected in our Statements of Operations as other income (expense). Estimates of fair value represent the Company's best estimates based on a Black-Scholes pricing model.

Interest income and other (expense). Interest income and other (expense) decreased $2.4 million to $0.9 million for the year ended December 31, 2009 from $3.3 million expense for the year ended December 31, 2008.

Foreign currency transaction gain (loss): Foreign currency transaction gain increased $86.3 million to a gain of $39.9 million for the year ended December 31, 2009 from a loss of $46.4 million for the year ended December 31, 2008. The gains are attributable to the impact of foreign currency exchange rate changes on intercompany debt balances and on receivables and payables denominated in a currency other than the subsidiaries' functional currency.

Reorganization items, net. Reorganization items, exclusive of discontinued operations reflect the favorable impact of $424.4 million, and inclusive of discontinued operations reflect the favorable impact of $439.5 million for the year ended December 31, 2009 due to fresh-start accounting and revaluation of assets and liabilities ($188.6 million), gain on extinguishment of debt ($243.2 million), and reversal of future interest payments recorded as long-term obligations ($20.4 million), offset in part principally by the incurrence of professional fees as a result of the Chapter 11 Cases ($12.6 million).

Income tax benefit (expense): Income tax benefit (expense) is a $6.1 million benefit for the year ended December 31, 2009 compared to a $0.7 million benefit for the year ended December 31, 2008. The benefit includes expenses consisting of foreign withholding tax on intercompany interest, the release of certain

"ASC 740" liabilities as a result of the expiration of the statute of limitations and charges for uncertain tax positions under ASC No. 740, "Income Taxes." The foreign tax expense was offset by a significant benefit from the release of deferred tax liabilities related to amortization of certain fresh-start adjustments to fixed assets and intangibles as discussed in "Note 8—Income Taxes," to our consolidated audited financial statements.

Liquidity and Capital Resources

Important Long-Term Capital Structure Developments:

Terminated Exchange Offers. In the first quarter of 2011, we announced the commencement of private offers to exchange (the "Exchange Offers") up to $240 million of new 9.50% Senior Secured Notes due 2019 issued by Primus Telecommunications Holding, Inc. for our outstanding 13% Notes and 14 1/4% Notes. As of the expiration time of the Exchange Offers at 5:00 p.m. New York City Time on March 23, 2011 the minimum participation condition with respect to the Exchange Offers was not fully met and we therefore elected to terminate the Exchange Offers.

Debt Redemption. On March 16, 2011 we sent a notice of redemption to holders of the 14 1/4% Notes, pursuant to which Primus Telecommunications IHC, Inc. elected to redeem $24,014,974 aggregate principal amount of our outstanding 14 1/4% Notes, with an April 15, 2011 redemption date (the "Redemption Date") at a redemption price of 100.00% of the principal amount thereof (the "Redemption Price"), plus accrued and unpaid interest to, but excluding the Redemption Date on the redeemed 14 1/4% Notes. On the Redemption Date, the Redemption Price (together with accrued and unpaid interest to, but excluding the Redemption Date of $1,283,300 on the redeemed 14 1/4% Notes) will become due and payable on 14 1/4% Notes called for redemption and, unless Primus Telecommunications IHC, Inc. shall default in the payment of the Redemption Price and accrued interest, interest on 14 1/4% Notes called for redemption shall cease to accrue on and after the Redemption Date.

2009 13% Notes Offering. In the fourth quarter 2009, we completed a private offering of $130 million in 13% Senior Secured Notes due 2016. Net proceeds, after deducting underwriting and transactional expenses, of $123.5 million were used principally to fully repay and terminate our $94.8 million senior secured term loan facility and $27.0 million Canadian credit facility, each of which were due in 2011. In connection with the July 2009 Reorganization and our December 2009 issuance of 13% Notes, we significantly adjusted our capital structure, our debt agreements' covenants and terms, our debt service obligations and our long-term debt maturities. We believe these efforts have better aligned our capital structure with our business's cash flow and liquidity expectations.

Changes in Cash Flows

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

Net cash provided by operating activities was $36.5 million for the year ended December 31, 2010 as compared to net cash provided by operating activities of $29.0 million for the year ended December 31, 2009. For the year ended December 31, 2010, net income, net of non-cash operating activity, provided $54.4 million of cash. In addition, cash was increased by a reduction in accounts receivable of $3.4 million and an increase in accrued interest of $0.1 million. For the year ended December 31, 2010, we used $8.5 million to reduce our accounts payable, $6.2 million to reduce our accrued interconnection costs, $2.6 million to reduce our accrued income taxes, $2.5 million to increase other assets, $0.3 million to reduce our accrued expenses, deferred revenue, other current liabilities and other liabilities, net, and $1.2 million to increase our prepaid expenses and other current assets. Cash effect of reorganization items was $0.1 million.

Net cash provided by operating activities was $29.0 million for the year ended December 31, 2009 as compared to net cash provided by operating activities of $8.8 million for the year ended December 31, 2008. For the year ended December 31, 2009, net income, net of non-cash operating activity, provided $61.6 million of cash. In addition, cash was increased by a reduction in accounts receivable of $12.5 million, a reduction in prepaid expenses and other current assets of $2.3 million, a reduction in other assets of $4.3 million and an increase in accrued interest of $0.4 million. For the year ended December 31, 2009, we used $20.5 million to reduce our accounts payable, $9.0 million to reduce our accrued income taxes, $2.6 million to reduce our accrued expenses, deferred revenue, other current liabilities and other liabilities, net, and $7.8 million to reduce our accrued interconnection costs. Cash effect of reorganization items was $12.2 million.

Net cash used in investing activities was $21.2 million for the year ended December 31, 2010 compared to $15.1 million for the year ended December 31, 2009. Net cash used in investing activities during the year ended December 31, 2010 included $26.4 million of capital expenditures and was primarily offset by $5.7 million from the sale of certain European retail operations, primarily Belgium, United Kingdom and France.

Net cash used in investing activities was $15.1 million for the year ended December 31, 2009 compared to $18.7 million for the year ended December 31, 2008. Net cash used in investing activities during the year ended December 31, 2009 included $15.1 million of capital expenditures.

Net cash used in financing activities was $13.9 million for the year ended December 31, 2010 compared to $12.7 million for the year ended December 31, 2009. During the year ended December 31, 2010, $13.9 million was used to reduce the principal amounts outstanding on capital leases, leased fiber capacity, financing facilities and other long-term obligations.

Net cash used in financing activities was $12.7 million for the year ended December 31, 2009 compared to $28.1 million for the year ended December 31, 2008. During the year ended December 31, 2009, $35.0 million was used to retire in full our Canadian Credit Facility, $96.3 million was used to retire in full the Senior-Secured Term Loan Facility, $4.9 million was used to reduce the principal amounts outstanding on capital leases, leased fiber capacity, financing facilities and other long-term obligations. Net cash proceeds received from the issuance of the Senior Secured Notes was $123.5 million.

Short- and Long-Term Liquidity Considerations and Risks

As of December 31, 2010, we had $41.5 million of unrestricted cash and cash equivalents. We believe that our existing cash and cash equivalents will be sufficient to fund our debt service requirements, other fixed obligations (such as capital leases, vendor financing and other long-term obligations), and other cash needs for our operations for at least the next twelve months.

As of December 31, 2010, we have $45.6 million in future minimum purchase obligations, $68.5 million in future operating lease payments and $245.7 million of indebtedness. At December 31, 2010, approximately $88.3 million of unrecognized tax benefits have been recorded as liabilities in accordance with ASC No. 740; however, we are uncertain as to if or when such amounts may be settled, so we have not included these amounts in the table below.

The obligations reflected in the table below reflect the contractual payments of principal and interest that existed as of December 31, 2010:

(in thousands) Year Ending December 31,	Capital Leases and Other	13% Senior Secured Notes	14 1/4% Senior Subordinated Secured Notes	Purchase Obligations	Operating Leases	Total
2011	$ 1,228	$ 16,900	$ 16,247	$ 34,142	$ 15,706	$ 84,223
2012	340	16,900	16,247	7,115	13,886	54,488
2013	168	16,900	122,139	3,162	11,038	153,407
2014	20	16,900	—	1,162	7,119	25,201
2015	—	16,900	—	54	5,695	22,649
Thereafter	—	146,947	—	—	15,102	162,049
Total Minimum Principal & Interest Payments	1,756	231,447	154,633	45,635	68,546	502,017
Less: Amount Representing Interest	(89)	(101,447)	(40,618)	—	—	(142,154)
Total Long-Term Obligations	$ 1,667	$ 130,000	$ 114,015	$ 45,635	$ 68,546	$ 359,863

The foregoing table assumes that the 14 1/4% Notes are refinanced before January 21, 2013 and holders of 13% Notes do not accept any Excess Cash Flow Offer to purchase 13% Notes. In this regard, the Company must extend an offer to repurchase to the holders of the 13% Notes an applicable amount, (equal to 50% of Excess Cash Flow), of the 13% Notes at par, in the event the Company and certain subsidiaries have excess cash flow (as defined in Note 7 —Long Term Obligations.) for any fiscal year commencing with the fiscal year ending December 31, 2010. See Item 1A. “Risks Associated with our Liquidity Needs and Debt Securities.” for certain risks and uncertainties related thereto.

We have contractual obligations to utilize network facilities from certain carriers with terms greater than one year. We generally do not purchase or commit to purchase quantities in excess of normal usage or amounts that cannot be used within the contract term.

Newly Adopted Accounting Principles

Effective July 1, 2009, the Company adopted ASC No. 105, “Generally Accepted Accounting Principles.” ASC No. 105 establishes the FASB Accounting Standards Codification as the source of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements. The adoption did not have a material impact on its results of operations, financial position and cash flows.

Effective April 1, 2009, the Company adopted ASC No. 855, “Subsequent Events.” ASC No. 855 establishes principles and requirements for evaluating and reporting subsequent events and distinguishes which subsequent events should be recognized in the financial statements versus which subsequent events should be disclosed in the financial statements. The adoption did not have a material effect on the Company’s results of operations, financial position or cash flows.

Effective January 1, 2009, the Company adopted ASC No. 810, “Consolidation.” Reconciliations at the beginning and the end of the period of the total equity, equity attributable to the Company and equity attributable to the noncontrolling interest for Successor’s six months ended December 31, 2009 and Predecessor’s six months ended July 1, 2009 and year ended December 2008 are included in the Company’s consolidated statement of stockholders’ equity (deficit).

Effective January 1, 2009, the Company adopted ASC No. 805, “Business Combinations.” ASC No. 805 establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. The Company applied this standard on July 1, 2009 to the Fresh Start Balance Sheet, (See Note 4 “Fresh Start Accounting” for further detail).

In February 2008, the FASB issued ASC No. 820, “Fair Value Measurements.” The provisions of ASC No. 820 provide guidance for, among other things, the definition of fair value and the methods used to measure fair value, were adopted January 1, 2008 for financial instruments. The provisions adopted in 2008 did not have a material impact on the Company’s financial statements. ASC No. 820 delayed the effective date for all nonrecurring fair value measurements of nonfinancial assets and liabilities (except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis) until financial years beginning after November 15, 2008, and changed the scope of ASC No. 820. On January 1, 2009, the Company adopted the remaining provisions of ASC No. 820 for nonrecurring fair value measurements of nonfinancial assets and liabilities. The provisions adopted in the first quarter 2009 were applied by the Company in the fair value measurements as part of the fresh start accounting adoption upon emergence from bankruptcy on July 1, 2009 and the goodwill impairment analysis performed as of October 1, 2009.

The valuation techniques required by ASC No. 820 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability; and
- Level 3: Unobservable inputs for the asset or liability. These unobservable inputs reflect the entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances (which might include the reporting entity’s own data).

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

In March 2008, the FASB issued ASC No. 815, “Derivatives and Hedging.” ASC No. 815 amends and expands the disclosure requirements with the intent to provide users of financial statements with an enhanced understanding of the use of derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity’s financial statements. ASC No. 815 is effective for financial statements issued for fiscal years interim periods beginning after November 15, 2008. In addition the Company accounted for the Contingent Value Rights Distribution Agreement in accordance with ASC No. 815, “Derivatives and Hedging” as well as related interpretations of this standard. The change in value of the Contingent Value Rights Distribution Agreement is reflected in our Statements of Operations as other income (expense), (see Note 2—Emergence from Voluntary Reorganization Under Chapter 11 of the Bankruptcy Code,” for further detail). The adoption of ASC No. 815 on January 1, 2009 did not have a material impact on the Company’s results of operations, financial position and cash flows.

New Accounting Pronouncements

In June 2009, the FASB issued ASC No. 810-10, “Consolidation,” which amends the definition of the primary beneficiary of a variable interest entity and will require the Company to assess each reporting period if any of the Company's variable interests give it a controlling financial interest in the applicable variable interest entity. The provisions of ASC No. 810-10 will become effective for financial statements issued for fiscal years and interim periods begin after November 15, 2009. The Company is currently evaluating the impact the provisions of ASC No. 810-10 on its financial statements.

In April 2008, the FASB issued ASC No. 852-10, "Reorganizations". ASC No. 852-10 nullifies certain requirements regarding changes in accounting principles that will be applicable to the financial statements of an entity emerging from bankruptcy. Any changes in accounting principles required within the twelve months following the implementation of fresh start accounting by such an entity are no longer required to be adopted at the time fresh start accounting is implemented. Entities emerging from bankruptcy that implement fresh start accounting should only follow accounting standards in effect at the date fresh start accounting is implemented, including any standards eligible for early adoption.

Recently Issued Accounting Standards Updates

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

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

Special Note Regarding Forward Looking Statements

Certain statements in this Report on Form 10-K and elsewhere concerning strategic objectives and initiatives, Arbinet merger synergies and strategies, our overall prospects, our prospects for the International Carrier Services business after giving effect to the Arbinet acquisition, future liquidity, cost savings initiatives and related matters constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based on current expectations, and are not strictly historical statements. In some cases, you can identify forward-looking statements by terminology such as "if," "may," "should," "believe," "anticipate," "future," "forward," "potential," "estimate," "reinstate," "opportunity," "goal," "objective," "exchange," "growth," "outcome," "could," "expect," "intend," "plan," "strategy," "provide," "commitment," "result," "seek," "pursue," "ongoing," "include" or in the negative of such terms or comparable terminology. These forward-looking statements inherently involve certain risks and uncertainties, although they are based on our current plans or assessments which are believed to be reasonable as of the date of this filing. Forward-looking statements include, without limitation, statements set forth in this document and elsewhere regarding, among other things:

- our financial condition, Arbinet business integration and synergy efforts, financing requirements, prospects and cash flow;
- expectations of future growth, creation of shareholder value, revenue, foreign revenue contributions and net income, as well as income from operations, margins, earnings per share, cash flow and cash sufficiency levels, working capital, network development, customer migration and related costs, spending on and success with growth products, including broadband Internet, VOIP, wireless, local, data and hosting services, traffic development, capital expenditures, selling, general and administrative expenses, income tax and withholding tax expense, fixed asset and goodwill impairment charges, service introductions, cash requirements and potential asset sales;
- increased competitive pressures, declining usage patterns, and our growth products, bundled service offerings, the pace and cost of customer migration onto our networks, the effectiveness and profitability of the growth products;
- financing, refinancing, debt extension, de-leveraging, restructuring, exchange or tender plans or initiatives, and potential dilution of existing equity holders from such initiatives;
- liquidity and debt service forecast;
- assumptions regarding currency exchange rates;
- timing, extent and effectiveness of cost reduction initiatives and management's ability to moderate or control discretionary spending;
- management's plans, goals, expectations, guidance, objectives, strategies, and timing for future operations, acquisitions, synergies, asset dispositions, product plans, performance and results;
- management's assessment of market factors and competitive developments, including pricing actions and regulatory rulings; and
- ability to generate net cash proceeds from the disposition of selective assets without material impairment to profitability.

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

- the occurrence of a default or event of default under our indentures or other financing agreements;
- our inability to generate sufficient liquidity and working capital;
- an inability to fully fund and repurchase holder acceptances of offers to repurchase 13% Notes that we are obligated to make annually, subject to certain limitations, in connection with Excess Cash Flow Offers;
- fluctuations in the exchange rates of currencies, particularly of the USD relative to foreign currencies of the countries where we conduct our foreign operations;
- an inability to fully fund and repurchase holder acceptances of offers to repurchase debt securities that we may be obligated to make following certain change in control developments affecting Group and certain of its subsidiaries;
- changes in business conditions causing changes in the business direction and strategy by management;
- heightened competitive pricing and bundling pressures in the markets in which we operate;
- the ability to service substantial indebtedness;

- accelerated decrease in minutes of use on wireline phones;
- difficulty in maintaining or increasing customer revenues and margins through our product initiatives and bundled service offerings, and difficulties in migrating and provisioning broadband and local customers to digital subscriber line (DSL) networks;
- inadequate financial resources to promote and to market product initiatives, whether due to acceptances of Excess Cash Flow Offers or otherwise;
- fluctuations in prevailing trade credit terms or revenues due to the adverse impact of, among other things, further telecommunications carrier bankruptcies or adverse bankruptcy related developments affecting our large carrier customers;
- the possible inability to raise additional capital when needed, on attractive terms, or at all;
- adverse changes in the credit markets or in the ratings given to Primus's debt securities by nationally accredited ratings organizations, which could limit or restrict the availability, or increase the cost, of financing;
- possible claims under our existing debt instruments which could impose constraints and limit our flexibility;
- the inability to service substantial indebtedness and to reduce, refinance, extend, exchange, tender for or restructure debt significantly, or in amounts sufficient to conduct regular ongoing operations;
- further changes in the telecommunications or Internet industry, including rapid technological changes, regulatory and pricing changes in our principal markets and the nature and degree of competitive pressure that we may face;
- adverse tax or regulatory rulings from applicable authorities;
- enhanced broadband, DSL, Internet, wireless, VOIP, date and hosting and local and long distance voice telecommunications competition;
- changes in financial, capital market local and international and economic conditions;
- changes in service offerings or business strategies, including the need to modify business models if performance is below expectations;
- the effects of greater than anticipated competition requiring new pricing, marketing strategies or new product or service offerings and the risk that the combined company, following the Arbinet merger, will not respond on a timely or profitable basis;
- difficulty in retaining existing long distance wireline and dial-up ISP customers;
- difficulty in migrating or retaining customers associated with acquisitions of customer bases, or integrating other assets;
- the effects of changes in both general and local economic conditions on the markets served by Primus or Arbinet, which can affect demand for its products and services, customer purchasing decisions, collectability of revenues and required levels of capital expenditures;
- changes in the regulatory schemes or requirements and regulatory enforcement in the markets in which we operate;
- restrictions on our ability to execute certain strategies or complete certain transactions as a result of our inexperience with new products, or limitations imposed by available cash resources, our capital structure or debt covenants;
- aggregate margin contribution from the new products is not sufficient in amount or timing to offset the margin decline in our legacy long distance voice and dial-up ISP businesses;
- the ability to integrate successfully Arbinet's operations into the existing operations of Primus;

- the effects of increased expenses due to activities related to the Arbinet merger;
- the risk that the growth opportunities and cost synergies (or other efficiencies) from the Arbinet merger may not be fully realized or may take longer to realize than expected;
- the ability to manage effectively, after the Arbinet merger, the combined company's operations, operating expenses and capital expenditures;
- the effect of various buyers and sellers on the Arbinet Exchange, or members, not trading on the Arbinet Exchange or utilizing the Arbinet business's new and additional services;
- volatility in the volume and mix of trading activity on Arbinet's Exchange;
- uncertain and long member enrollment cycle in the Arbinet business;
- the failure to manage Arbinet's carrier services;
- decreased trading volumes due to Arbinet's efforts to increase call quality on the Arbinet Exchange;
- the possible inability to hire and/or retain qualified executive management, sales, technical and other personnel;
- risks and costs associated with our effort to locate certain activities and functions off-shore;
- risks associated with international operations;
- dependence on effective information and billing systems;
- possible claims for patent infringement on products or processes employed in providing our services;
- dependence on third parties for access to their networks to enable us to expand and manage our global network and operations and to offer broadband, DSL, local, VOIP and wireless services, including dependence upon the cooperation of incumbent carriers relating to the migration of customers;
- dependence on the performance of our global standard asynchronous transfer mode and Internet-based protocol (ATM+IP) communications network; risks associated with maintaining and upgrading networks; and
- adverse regulatory rulings or actions affecting our operations, including the imposition of taxes and fees, the imposition of obligations upon VOIP providers to provide enhanced 911 (E911) services and restricting access to broadband networks owned and operated by others, including the development of a national broadband network in Australia.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposures relate to changes in foreign currency exchange rates, valuations of derivatives and to changes in interest rates.

Foreign currency can have a major impact on our financial results. As of December 31, 2010, about 85% of our net revenue is derived from sales and operations outside the U.S. The reporting currency for our consolidated financial statements is the USD. The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive the majority of our net revenue and incur a significant portion of our operating costs from outside the U.S., and therefore changes in exchange rates have had and may continue to have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the following exchange rates: USD/CAD and USD/AUD. 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. We historically have not engaged in hedging transactions.

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

In the year ended December 31, 2010, as compared to the year ended December 31, 2009, the USD was stronger on average as compared to the AUD, CAD, and GBP; and weaker on average to the EUR. As a result, our revenue of the subsidiaries whose local currency is AUD, CAD, GBP and EUR increased (decreased) (2)%, (7)%, 1% and (33)% in local currency compared to the year ended December 31, 2009, but increased (decreased) 14%, 3%, 1% and (32)% in USD, respectively.

In the year ended December 31, 2009, as compared to the year ended December 31, 2008, the USD was stronger on average as compared to the AUD, CAD, and GBP; and weaker on average to the EUR. As a result, our revenue of the subsidiaries whose local currency is AUD, CAD, GBP and EUR increased (decreased) (5)%, (8)%, 24% and 7% in local currency compared to the year ended December 31, 2008, but increased (decreased) (12)%, (14)%, 6% and 2% in USD, respectively.

Interest rates—The Senior Secured Notes and Senior Subordinated Secured Notes are at a fixed interest rate of 13.00% and 14.25%, respectively. We are exposed to interest rate risk as debt refinancing may be required. Our primary exposure to market risk stems from fluctuations in interest rates.

The interest rate sensitivity table below summarizes our market risks associated with fluctuations in interest rates for the year ended December 31, 2010 in USD, which is our reporting currency. The table presents principal cash flows and related weighted average interest rates by year of expected maturity for our Senior Secured Notes, Senior Subordinated Secured Notes, and other long-term obligations in effect at December 31, 2010.

	Year of Maturity							
	2011	2012	2013	2014	2015	Thereafter	Total	Fair Value
	(in thousands, except percentages)							
Fixed Rate	$1,067	$324	$114,182	$ 20	$—	$130,000	$245,593	$249,363
	11.1%	9.3%	14.2%	9.9%	0.0%	13.0%	13.6%	

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, as a result of the material weakness described below, our principal executive officer and our principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective. Disclosure controls and procedures mean our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Evaluation of Internal Control Over Financial Reporting.

As part of our compliance efforts relative to Section 404 of Sarbanes-Oxley Act of 2002, management assessed the effectiveness of internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework. Based on this assessment, management identified a material weakness in our internal controls over accounting for income taxes. The material weakness in internal control related to a lack of process/controls documentation and incomplete knowledge transfer from the former Corporate Tax Director to the new Corporate Tax Director who started in the position on January 3, 2011. This material weakness was first identified as of December 31, 2006 and remained applicable as of December 31, 2007 and December 31, 2008. During 2009, we remediated this material weakness by restructuring our Tax Department, implementing tax provision software, and developing quarterly tax documentation formats. However, during 2010 there were several complicated financial transactions that were not properly accounted for due to insufficient documentation of historical positions. In addition, the effective performance of our tax controls was limited due to the fact that we failed to completely document our key tax processes and controls which prevented an effective knowledge transfer to the new Corporate Tax Director. Management concluded that, as of December 31, 2010, our internal controls over financial reporting were not effective based on the criteria set forth by COSO.

Management's report on internal control over financial reporting as of December 31, 2010 appears on page F-2 and is incorporated herein by reference. This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in Internal Control.

As a result of the Company's determination that the controls in place over the process of translating certain inter-company balances did not operate effectively as of December 31, 2009, the Company designed and implemented new procedures and controls to address the control failure that occurred, including: (a) performing additional recalculations and analysis of the foreign currency transaction gain (loss) recorded on inter-company balances; (b) implementing an improved process for assessing the reasonableness of foreign currency transaction gain (loss) recorded on these inter-company balances; and (c) confirming inter-company settlements related to these balances at a transactional level. As a result of these changes in control, our management concluded as of December 31, 2010 that the controls surrounding the accounting for foreign currency translations on inter-company balances are effective.

As a result of the Company's determination that the controls in place over accounting for income taxes did not operate effectively as of December 31, 2010, the Company has engaged the former Corporate Tax Director as a consultant to coordinate and work with our new Corporate Tax Director to fully document tax processes and controls and to perform a complete knowledge transfer of the existing procedures. The Company also intends to hire third party tax consultants, as needed, to evaluate, document, and make recommendations to improve the current tax reporting process and documentation of tax positions. Management believes that once controls have been fully documented and the knowledge transfer has been successfully completed, our new Corporate Tax Director will be able to take on an effective supervisory role and will ensure the effective enhancement and implementation of our Tax controls. Notwithstanding the existence of a material weakness in our internal controls over accounting for income taxes, we believe, that to the best of our knowledge, our previously filed financial statements (as amended) fairly present, in all material respects, our financial condition and results of operations in conformity with U.S GAAP.

Other than the changes in accounting for income taxes and foreign currency transactions noted above, there have been no changes in our internal control over financial reporting or in other factors that could significantly affect internal controls over financial reporting, that occurred during the year ended December 31, 2010, that have materially affected, or is reasonably likely to affect materially, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

Certain of the information required by Part III will be provided in our definitive proxy statement for our 2011 annual meeting of stockholders, which definitive proxy statement will be filed pursuant to Regulation 14A not later than April 30, 2011 (“2010 Proxy Statement”), and is incorporated herein by this reference.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information relating to our directors is set forth under the caption entitled “Election of Directors” in our 2011 Proxy Statement and is incorporated herein by reference. Information relating to our executive officers is set forth in our 2010 Proxy Statement under the caption “Executive Officers, Directors and Key Employees” and is incorporated herein by reference.

Section 16(a) Beneficial Ownership Reporting Compliance

Our executive officer, directors and 10% stockholders are required under the Securities Exchange Act of 1934 to file with the Securities and Exchange Commission reports of ownership and changes in ownership in their holdings in our stock. Based solely on an examination of these reports, all such reports have been timely filed.

Code of Ethics

We have adopted a Code of Ethics applicable to all directors, officers and employees, including the chief executive officer, senior financial officers and other persons performing similar functions. The Code of Ethics is a statement of business practices and principles of behavior that support our commitment to conducting business while maintaining the highest standards of business conduct and ethics. Our Code of Ethics covers topics including, but not limited to, compliance resources, conflicts of interest, compliance with laws, rules and regulations, internal reporting of violations and accountability for adherence to the Code. A copy of the Code of Ethics is available on our website at www.ptgi.com. Any amendment of the Code of Ethics or any waiver of its provisions for a director, executive officer or senior financial officer must be approved by the Board of Directors. We will publicly disclose any such waivers or amendments pursuant to applicable SEC and the Over-the-Counter Bulletin Board regulations.

ITEM 11. EXECUTIVE COMPENSATION

The information regarding compensation of our officers and directors is set forth under the caption entitled “Executive Compensation” in our 2011 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding ownership of certain of our securities is set forth under the captions entitled “Security Ownership of Certain Beneficial Owners” and “Security Ownership of Management” in our 2011 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions with us is set forth under the caption entitled “Certain Relationships and Related Transactions” in our 2011 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding principal accountant fees and services is set forth under the caption entitled “Ratification of Appointment of Independent Registered Public Accounting Firm” in our 2011 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

a) Financial Statements and Schedules

The financial statements as set forth under Item 8 of this report on Form 10-K are incorporated herein.

Financial Statement Schedules:	Page
(II) Valuation and Qualifying Accounts	S-1

All other financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included.

b) Exhibit listing

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated November 10, 2010 (the "Merger") by and among Primus Telecommunications Group, Incorporated, a Delaware corporation ("Group"), PTG Investments, Inc., a Delaware corporation and a direct wholly owned subsidiary of Group, and Arbinet Corporation, a Delaware corporation ("Arbinet") (incorporated by reference to Exhibit 2.1 to Group's Form 8-K filed with the SEC on November 12, 2010, File No. 000-29092)
2.2	Amendment No. 1 to the Agreement and Plan of Merger, dated as of December 14, 2010, by and among Primus Telecommunications Group, Incorporated, PTG Investments, Inc. and Arbinet Corporation (incorporated by reference to Exhibit 2.1 to Group's current report on Form 8-K, filed December 15, 2010, File No. 000-29092)
3.1	Second Amended and Restated Certificate of Incorporation of Primus Telecommunications Group, Incorporated (incorporated by reference to Exhibit 3.1 to the registrant's Registration Statement on Form 8-A, filed July 1, 2009, Reg. No. 000-29092)
3.2	Amended and Restated By-Laws of Primus Telecommunications Group, Incorporated (as adopted and in effect on November 9, 2010) (incorporated by reference to Exhibit 3.1 to Group's Current Report on Form 8-K, filed November 10, 2010, Reg. No. 000-29092)
4.1	Class A Warrant Agreement, dated as of July 1, 2009, by and between Primus Telecommunications Group, Incorporated and StockTrans, Inc., as Warrant Agent (incorporated by reference to Exhibit 4.1 to Group's Current Report on Form 8-K, filed July 1, 2009, File No. 000-29092)
4.2	Class B Warrant Agreement, dated as of July 1, 2009, by and between Primus Telecommunications Group, Incorporated and StockTrans, Inc., as Warrant Agent (incorporated by reference to Exhibit 4.2 to Group's Current Report on Form 8-K, filed July 1, 2009, File No. 000-29092)
4.3	Contingent Value Rights Distribution Agreement of Primus Telecommunications Group, Incorporated (incorporated by reference to Exhibit 4.1 to Group's Registration Statement on Form 8-A, filed July 1, 2009, Reg. No. 000-29092)
4.4	Indenture, dated as of December 22, 2009, by and among Primus Telecommunications Holding, Inc., Primus Telecommunications Canada Inc., the Guarantors party thereto, The Bank of New York Mellon, as Trustee, U.S. Bank National Association, as U.S. Collateral Trustee, and Computershare Trust Company of Canada, as Canadian Collateral Trustee, relating to Units, each Unit comprised of $653.85 principal amount of 13% Senior Secured Notes due 2016 issued by Primus Telecommunications Holding, Inc. (the "13% Holding Notes") and $346.15 principal amount of 13% Senior Secured Notes due 2016 issued by Primus Telecommunications Canada Inc. (the "13% Canadian Notes") (incorporated by reference to Exhibit 4.1 to Group's Current Report on Form 8-K, filed December 24, 2009, File No. 000-29092)

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Exhibit Number	Description
4.5	Form of Unit comprised of $653.85 principal amount of 13% Senior Secured Notes due 2016 issued by Primus Telecommunications Holding, Inc. and $346.15 principal amount of 13% Senior Secured Notes due 2016 issued by Primus Telecommunications Canada Inc. (included in Exhibit 4.4)
4.6	Form of 13% Senior Secured Note due 2016 issued by Primus Telecommunications Holding, Inc. (included in Exhibit 4.4)
4.7	Form of 13% Senior Secured Notes due 2016 issued by Primus Telecommunications Canada Inc. (included in Exhibit 4.4)
4.8	Specimen of Common Stock (incorporated by reference to Exhibit 3.3 to Group's Registration Statement on Form 8-A, filed July 1, 2009, File No. 000-29092)
4.9	Supplemental Indenture, dated as of July 1, 2009, by and among Primus Telecommunications IHC, Inc., the Guarantors thereto and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 10.1 to Group's Current Report on Form 8-K, filed July 1, 2009, File No. 000-29092)
4.10	Intercreditor Agreement, dated as of February 26, 2007 (as amended), by and among Primus Telecommunications IHC, Inc., Primus Telecommunications Group, Incorporated, Primus Telecommunications Holding, Inc., and the parties thereto (incorporated by reference to Exhibit 4.5 to Group's Amendment to Current Report on Form 8-K/A, filed March 16, 2007, File No. 000-29092)
4.11	Collateral Agreement pursuant to the 14 1/4% Notes Indenture, dated as of February 26, 2007 (as amended), by and among Primus Telecommunications IHC, Inc., and the parties thereto (incorporated by reference to Exhibit 4.4 to Group's Amendment to Current Report on Form 8-K/A, filed March 16, 2007, File No. 000-29092)
4.12	Collateral Agreement, dated as of December 22, 2009, made by Primus Telecommunications Holding, Inc. and certain of its Affiliates in favor of U.S. Bank National Association, as Collateral Trustee in respect of the 13% Holding Notes (incorporated by reference to Exhibit 4.12 to Group's Annual Report on Form 10-K, filed April 5, 2010, File No. 000-29092)
4.13	Canadian Collateral Agreement, dated as of December 22, 2009, made by Primus Telecommunications Canada Inc. and certain of its Affiliates in favor of Computershare Trust Company of Canada, as Canadian Collateral Trustee in respect of the 13% Canadian Notes (incorporated by reference to Exhibit 4.13 to Group's Annual Report on Form 10-K, filed April 5, 2010, File No. 000-29092)
4.14	New Debt Notice and Joinder Agreement, dated as of December 22, 2009 (incorporated by reference to Exhibit 4.14 to Group's Annual Report on Form 10-K, filed April 5, 2010, File No. 000-29092)
10.1*	Primus Telecommunications Group, Incorporated Management Compensation Plan, As Amended
10.2	Form of Restricted Stock Unit Agreement between Grantee and Primus Telecommunications Group, Incorporated (incorporated by reference to Exhibit 10.9 to Group's Current Report on Form 8-K, filed July 1, 2009, File No. 000-29092)
10.3	Form of Nonqualified Stock Option Agreement between Grantee and Primus Telecommunications Group, Incorporated (incorporated by reference to Exhibit 10.10 to Group's Current Report on Form 8-K, filed July 1, 2009, File No. 000-29092)
10.4	Form of Performance Nonqualified Stock Option Agreement between Grantee and Primus Telecommunications Group, Incorporated (incorporated by reference to Exhibit 10.11 to Group's Current Report on Form 8-K, filed July 1, 2009, File No. 000-29092)

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Exhibit Number	Description
10.5	401(k) Plan, as amended (incorporated by reference to Exhibit 4.4 to Group's Registration Statement on Form S-8, filed September 5, 1997, File No. 333-35005)
10.6	Executive Employment Agreement, dated April 26, 2007, between Primus Telecommunications Group, Incorporated and K. Paul Singh (incorporated by reference to Exhibit 10.4 to Group's Annual Report on Form 10-K, filed March 17, 2008, File No. 000-29092)
10.7	Termination Agreement dated October 6, 2010 by and between K. Paul Singh and Primus Telecommunications Group, Incorporated and Primus Telecommunications, Inc. (incorporated by reference to Exhibit 10.1 to Group's Current Report on Form 8-K, filed October 8, 2010, File No. 000-29092)
10.8	Executive Employment Agreement dated as of October 12, 2010 by and between Peter D. Aquino and Primus Telecommunications Group, Incorporated (incorporated by reference to Exhibit 10.1 to Group's Current Report on Form 8-K, filed October 13, 2010, File No. 000-29092)
10.9	Restricted Stock Agreement dated as of October 12, 2010 by and between Peter D. Aquino and Primus Telecommunications Group, Incorporated (incorporated by reference to Exhibit 10.2 to Group's Current Report on Form 8-K, filed October 13, 2010, File No. 000-29092)
10.10	Arbinet Holdings, Inc. Amended and Restated 1997 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to Arbinet Corporation's Registration Statement on Form S-1, filed July 9, 2004, File No. 333-117278)
10.11	Arbinet-thexchange, Inc. 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to Arbinet Corporation's Registration Statement on Form S-1/A, filed November 29, 2004, File No. 333-117278)
10.12	License Agreement, effective as of February 16, 2011, by and between Arbinet Corporation and AIP Acquisition LLC (incorporated by reference to Exhibit 10.2 to Arbinet Corporation's Current Report on Form 8-K filed with the SEC on February 17, 2011, File No. 000-51063)
12.1*	Ratio of Earnings to Fixed Charges
21.1*	Subsidiaries of the Registrant
23.1*	Consent of Independent Registered Public Accounting Firm
31*	Certifications
32*	Certification

* Filed herewith.

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SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 25, 2011.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

By: /S/ PETER D. AQUINO

Peter D. Aquino
President, Chairman,
Chief Executive Officer (Principal Executive Officer) and Director

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Peter D. Aquino and James C. Keeley, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities to sign any and all amendments to this Form 10-K of the Securities and Exchange Commission for the fiscal year of Primus Telecommunications Group, Incorporated ended December 31, 2010, and to file the same, with all exhibits thereto, and other documents in connection therewith, with authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or either of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ PETER D. AQUINO **Peter D. Aquino**	President, Chairman, Chief Executive Officer (Principal Executive Officer) and Director	March 25, 2011
/s/ JAMES C. KEELEY **James C. Keeley**	Acting Chief Financial Officer, Vice President - Corporate Controller (Principal Financial and Accounting Officer)	March 25, 2011
/s/ STEVEN SCHEIWE **Steven Scheiwe**	Director	March 25, 2011
/s/ JOHN B. SPIRTOS **John B. Spirtos**	Director	March 25, 2011
/s/ NEIL S. SUBIN **Neil S. Subin**	Director	March 25, 2011

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Primus Telecommunications Group, Incorporated ("Primus" or the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control system over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

2. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with United States generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

3. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in condition, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of its internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on management's assessment and those criteria, management concludes that Primus did not maintain effective internal control over financial reporting as of December 31, 2010 due to the material weakness in the Company's internal control over accounting for income taxes (details provided in Item 9A, "Controls and Procedures," of the Company's Annual Report on Form 10-K for the period ended December 31, 2010). This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting.

/s/ PETER D. AQUINO **Peter D. Aquino** **President, Chairman, Chief Executive Officer (Principal Executive Officer) and Director**	March 25, 2011
/s/ JAMES C. KEELEY **James C. Keeley** **Acting Chief Financial Officer, Vice President - Corporate Controller (Principal Financial and Accounting Officer)**	March 25, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Primus Telecommunications Group, Incorporated and subsidiaries
McLean, VA

We have audited the accompanying consolidated balance sheets of Primus Telecommunications Group, Incorporated and subsidiaries (the “Company” and “Successor”) as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders’ equity (deficit), cash flows, and comprehensive income (loss) for the year ended December 31, 2010 and for the six months ended December 31, 2009. We have also audited the accompanying consolidated statements of operations, stockholders’ equity (deficit), cash flows, and comprehensive income (loss) for the six months ended July 1, 2009 and for the year ended December 31, 2008 of Primus Telecommunications Group, Incorporated (the “Predecessor”). Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Successor as of December 31, 2010 and 2009 and the results of its operations and its cash flows for the year ended December 31, 2010 and the six months ended December 31, 2009, and the results of operations and cash flows of the Predecessor for the six months ended July 1, 2009 and for the year ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 2 and 4 to the consolidated financial statements, during 2009 the Company and certain subsidiaries filed for reorganization under Chapter 11 of the United States bankruptcy code, and emerged from bankruptcy under a plan of reorganization. As a consequence, the Company adopted fresh-start accounting in accordance with Accounting Standards Codification (“ASC”) No. 852, *Reorganizations*.

/s/ Deloitte & Touche LLP
McLean, Virginia
March 25, 2011

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

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

	Successor		Predecessor	
	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009	Year Ended December 31, 2008
NET REVENUE	$ 764,947	$ 397,520	$ 365,245	$ 832,837
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)	488,612	259,566	236,925	526,435
Selling, general and administrative	198,201	95,223	88,585	239,123
Depreciation and amortization	65,279	36,990	11,545	30,356
(Gain) loss on sale or disposal of assets	196	102	(43)	(5,966)
Total operating expenses	752,288	391,881	337,012	789,948
INCOME FROM OPERATIONS	12,659	5,639	28,233	42,889
INTEREST EXPENSE	(35,490)	(17,278)	(14,093)	(53,971)
ACCRETION (AMORTIZATION) ON DEBT PREMIUM/DISCOUNT, net	(183)	(3)	189	583
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	164	(4,146)	—	36,872
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(13,737)	(2,804)	—	—
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	741	492	378	3,284
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	16,413	19,566	20,332	(46,378)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	(19,433)	1,466	35,039	(16,721)
REORGANIZATION ITEMS, net	1	(421)	424,825	—
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(19,432)	1,045	459,864	(16,721)
INCOME TAX BENEFIT (EXPENSE)	9,085	10,180	(4,074)	739
INCOME (LOSS) FROM CONTINUING OPERATIONS	(10,347)	11,225	455,790	(15,982)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(11,771)	(4,050)	15,081	(5,890)
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	2,926	(110)	251	—
NET INCOME (LOSS)	(19,192)	7,065	471,122	(21,872)
Less: Net (income) loss attributable to the noncontrolling interest	105	(333)	32	(3,159)
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (19,087)	$ 6,732	$ 471,154	$ (25,031)
BASIC INCOME (LOSS) PER COMMON SHARE:				
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (1.05)	$ 1.13	$ 3.19	$ (0.13)
Income (loss) from discontinued operations, net of tax	(1.21)	(0.42)	0.11	(0.05)
Gain (loss) from sale of discontinued operations, net of tax	0.30	(0.01)	—	—
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (1.96)	$ 0.70	$ 3.30	$ (0.18)
DILUTED LOSS PER COMMON SHARE:				
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (1.05)	$ 1.11	$ 2.63	$ (0.13)
Income (loss) from discontinued operations, net of tax	(1.21)	(0.41)	0.09	(0.05)
Gain (loss) from sale of discontinued operations, net of tax	0.30	(0.01)	—	—
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (1.96)	$ 0.69	$ 2.72	$ (0.18)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	9,721	9,600	142,695	142,643
Diluted	9,721	9,800	173,117	142,643
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED				
Income (loss) from continuing operations, net of tax	$ (10,242)	$ 10,892	$ 455,822	$ (19,141)
Income (loss) from discontinued operations, net of tax	(11,771)	(4,050)	15,081	(5,890)
Gain (loss) from sale of discontinued operations, net of tax	2,926	(110)	251	—
Net income (loss)	$ (19,087)	$ 6,732	$ 471,154	$ (25,031)

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	Successor	
	December 31, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 41,534	$ 42,538
Accounts receivable (net of allowance for doubtful accounts receivable of $6,854 and $8,163)	76,828	89,342
Prepaid expenses and other current assets	19,439	15,147
Total current assets	137,801	147,027
RESTRICTED CASH	12,117	10,438
PROPERTY AND EQUIPMENT—Net	138,488	147,606
GOODWILL	63,731	64,220
OTHER INTANGIBLE ASSETS—Net	147,749	178,807
OTHER ASSETS	14,573	10,816
TOTAL ASSETS	$514,459	$558,914
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$ 36,942	$ 45,819
Accrued interconnection costs	29,571	37,561
Deferred revenue	12,891	13,882
Accrued expenses and other current liabilities	46,491	49,704
Accrued income taxes	7,678	10,629
Accrued interest	2,152	1,985
Current portion of long-term obligations	1,143	4,274
Total current liabilities	136,868	163,854
LONG-TERM OBLIGATIONS	242,748	253,242
DEFERRED TAX LIABILITY	32,208	36,052
CONTINGENT VALUE RIGHTS	19,098	5,362
OTHER LIABILITIES	503	495
Total liabilities	431,425	459,005
COMMITMENTS AND CONTINGENCIES (See Note 10.)		
STOCKHOLDERS' EQUITY (DEFICIT):		
Successor Preferred stock, $0.001 par value—20,000,000 shares authorized; none issued or outstanding	—	—
Successor Common stock, $0.001 par value—80,000,000 shares authorized; 9,801,463 and 9,600,000 shares issued or outstanding	10	10
Additional paid-in capital	86,984	85,533
Accumulated earnings (deficit)	(12,355)	6,732
Accumulated other comprehensive income (loss)	4,751	4,064
Total stockholders' equity before noncontrolling interest	79,390	96,339
Noncontrolling interest	3,644	3,570
Total stockholders' equity (deficit)	83,034	99,909
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$514,459	$558,914

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands)

	PREDECESSOR						
	Common Stock						
	Common Shares	Common Stock	Additional Paid-In-Capital	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Stockholders' Equity (Deficit)
BALANCE AS OF DECEMBER 31, 2008	142,695	$ 1,427	$ 718,956	$ (1,099,809)	$ (82,113)	$ 2,814	$ (458,725)
Share based compensation expense	—	—	27	—	—	—	27
Foreign currency translation adjustment	—	—	—	—	(7,103)	149	(6,954)
Net Income (Loss)	—	—	—	39,357	—	(32)	39,325
BALANCE AS OF JUNE 30, 2009	142,695	1,427	718,983	(1,060,452)	(89,216)	2,931	(426,327)
Plan of Reorganization and fresh-start adjustments	(133,095)	(1,417)	(634,601)	1,060,452	89,216	—	513,650
BALANCE AS OF JULY 1, 2009	9,600	10	84,382	—	—	2,931	87,323
	SUCCESSOR						
BALANCE AS OF JULY 1, 2009	9,600	10	84,382	—	—	2,931	87,323
Share based compensation expense	—	—	1,151	—	—	—	1,151
Foreign currency translation adjustment	—	—	—	—	4,064	306	4,370
Net Income (Loss)	—	—	—	6,732	—	333	7,065
BALANCE AS OF DECEMBER 31, 2009	9,600	10	85,533	6,732	4,064	3,570	99,909
Share based compensation expense	—	—	1,795	—	—	—	1,795
Common shares issued for restricted stock units	201	—	(344)	—	—	—	(344)
Foreign currency translation adjustment	—	—	—	—	687	179	866
Net Income (Loss)	—	—	—	(19,087)	—	(105)	(19,192)
BALANCE AS OF DECEMBER 31, 2010	9,801	$ 10	$ 86,984	$ (12,355)	$ 4,751	$ 3,644	$ 83,034

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Successor		Predecessor	
	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009	Year Ended December 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ (19,192)	$ 7,065	$ 471,122	$ (21,872)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Reorganization items, net	(1)	562	(440,094)	—
Provision for doubtful accounts receivable	8,392	5,014	5,140	11,940
Stock compensation expense	1,635	1,151	27	262
Depreciation and amortization	68,220	39,530	12,346	32,798
Impairment expense	6,161	—	—	—
(Gain) loss on sale or disposal of assets	(2,542)	291	(294)	(6,028)
Accretion (amortization) of debt premium/discount, net	183	3	(189)	(583)
Change in fair value of Contingent Value Rights	13,737	2,804	—	—
Deferred income taxes	(6,321)	(3,891)	—	5,838
(Gain) loss on early extinguishment of debt	(164)	2,189	—	(36,872)
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	(15,734)	(20,476)	(20,702)	48,588
Changes in assets and liabilities, net of acquisitions:				
(Increase) decrease in accounts receivable	3,405	4,721	7,798	(15,658)
(Increase) decrease in prepaid expenses and other current assets	(1,176)	1,880	461	10,191
(Increase) decrease in other assets	(2,545)	1,801	2,454	1,877
Increase (decrease) in accounts payable	(8,476)	(7,680)	(12,794)	(5,930)
Increase (decrease) in accrued interconnection costs	(6,167)	(2,478)	(5,361)	2,243
Increase (decrease) in accrued expenses, deferred revenue, other current liabilities and other liabilities, net	(331)	(3,921)	1,313	(5,640)
Increase (decrease) in accrued income taxes	(2,581)	(11,080)	2,113	(10,625)
Increase (decrease) in accrued interest	118	1,965	(1,600)	(1,750)
Net cash provided by (used in) operating activities before cash reorganization items	36,621	19,450	21,740	8,779
Cash effect of reorganization items	(137)	(7,615)	(4,595)	—
Net cash provided by (used in) operating activities	36,484	11,835	17,145	8,779
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property and equipment	(26,421)	(9,396)	(5,660)	(25,441)
Sale of property and equipment and intangible assets	5,598	12	179	5,756
Cash from disposition of business, net of cash disposed	123	(110)	232	1,676
Cash used in business acquisitions, net of cash acquired	—	—	(199)	(583)
(Increase) decrease in restricted cash	(521)	(19)	(146)	(102)
Net cash provided by (used in) investing activities	(21,221)	(9,513)	(5,594)	(18,694)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Purchase of the Company's debt securities	—	—	—	(11,534)
Proceeds from issuance of long-term obligations	—	128,063	—	—
Deferred financing costs	—	(4,569)	—	—
Principal payments on long-term obligations	(13,866)	(127,871)	(8,292)	(16,545)
Proceeds from sale of common stock, net of issuance costs	—	—	—	—
Net cash provided by (used in) financing activities	(13,866)	(4,377)	(8,292)	(28,079)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(2,401)	3,132	1,202	(6,288)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,004)	1,077	4,461	(44,282)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	42,538	41,461	37,000	81,282
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 41,534	$ 42,538	$ 41,461	$ 37,000
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest	$ 35,576	$ 14,609	$ 14,909	$ 53,442
Cash paid for taxes	$ 2,996	$ 3,018	$ 962	$ 1,908
Non-cash investing and financing activities:				
Capital lease additions	$ 51	$ 409	$ 1,882	$ 775
Accrued deferred financing costs	$ —	$ 1,741	$ —	$ —
Settlement of outstanding debt with issuance of new senior secured debt	$ —	$ —	$ —	$ (133,159)
Issuance of new senior secured debt in exchange for outstanding debt	$ —	$ —	$ —	$ 88,794
Business disposition proceeds in note receivable	$ 3,380	$ —	$ —	$ —
Business acquisition financed with note payable	$ —	$ —	$ —	$ 247

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

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

	Successor		Predecessor	
	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009	Year Ended December 31, 2008
NET INCOME (LOSS)	$(19,192)	$ 7,065	$ 471,122	$ (21,872)
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustment	866	4,370	(6,954)	10,374
Fresh-start adjustment	—	—	89,216	—
COMPREHENSIVE INCOME (LOSS)	(18,326)	11,435	553,384	(11,498)
Less: Comprehensive (income) loss attributable to the noncontrolling interest	(74)	(639)	(117)	(2,763)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (18,400)	$ 10,796	$553,267	$ (14,261)

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BUSINESS

Primus Telecommunications Group, Incorporated, ("Primus" or the "Company") is a facilities based telecommunications services provider offering a portfolio of international and domestic voice, wireless, Internet, voice-over-Internet protocol (VOIP), data and data center services to business and residential retail customers and other carriers located primarily in the United States, Australia, Canada and Brazil. The Company's focus is to service the demand for high quality, competitively priced communications services that is being driven by the globalization of the world's economies, the worldwide trend toward telecommunications deregulation and the growth of broadband, Internet, VOIP, wireless and data traffic.

The Company targets customers with significant telecommunications needs, including small- and medium-sized enterprises (SMEs), multinational corporations, residential customers, and other telecommunications carriers and resellers. The Company provides services over its global network, which consists of:

- 10 data centers in 8 cities in Canada, Australia and Brazil;
- 13 carrier-grade international gateway and domestic switching systems (the hardware/software devices that direct the voice traffic across the network), internet routers and media gateways in the United States, Canada, Europe and the Asia-Pacific region;
- approximately 500 interconnection points to the Company's network, or points of presence (POPs), which includes digital subscriber line access (DSLAM), which is equipment that allows digital traffic to flow over copper wiring, within its service regions and other markets;
- undersea and land-based fiber optic transmission line systems that the Company owns or leases and that carry voice and data traffic across the network;
- a global network that use a high-bandwidth network standard (asynchronous transfer mode) and Internet-based protocol (ATM+IP); and
- a global VOIP network is based on routers and gateways with an open network architecture which connects the Company's partners in over 150 countries.

The Company is incorporated in the state of Delaware and operates as a holding company of wholly-owned operating subsidiaries primarily in the United States, Canada, Australia and Brazil.

2. EMERGENCE FROM VOLUNTARY REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

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

On April 27, 2009, the Bankruptcy Court approved the Debtors' use of a disclosure statement dated April 27, 2009 (the "Disclosure Statement") to solicit votes on the Joint Plan of Reorganization of Primus Telecommunications Group, Incorporated and its Affiliate Debtors attached thereto (the "Plan"). The Disclosure Statement was distributed to holders of record (as of April 27, 2009) of claims against, and interests in, the Debtors who are entitled to vote on the Plan (the "Record Date").

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

The Plan was confirmed by the Bankruptcy Court on June 12, 2009 (the "Confirmation Date"). On July 1, 2009 (the "Effective Date"), the Debtors consummated their reorganization under the Bankruptcy Code and the Plan became effective.

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

- Holding's Term Loan facility due February 2011 was reinstated and amended;
- IHC's 14 1/4% Senior Secured Notes were cancelled and the holders thereof received (a) their pro rata portion of $123.5 million of aggregate principal amount of 14 1/4% Senior Subordinated Secured Notes due May 20, 2013, (b) 4,800,000 shares of the new Common Stock of Group (the "New Common Stock"), and (c) all reasonable fees, expenses and disbursements of their counsel;
- the 5% Exchangeable Senior Notes and 8% Senior Notes issued by Holding (collectively, the "Holding Senior Notes") were cancelled, and the holders thereof received (a) 4,800,000 shares of the New Common Stock, (b) Class A warrants to purchase up to an aggregate of 3,000,000 shares of New Common Stock on terms described below under "Warrant Agreements," and (c) all reasonable fees, expenses and disbursements of their counsel;
- 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 on terms described below under "Warrant Agreements;"
- 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 on terms described below under "Contingent Value Rights Distribution Agreement;"
- 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, 387,403 service-based stock options and 100,000 performance-based stock options were granted to certain employees and executive officers under the Management Compensation Plan.

The following table summarizes the effect of the Plan of Reorganization adjustments with respect to long-term obligations after giving effect to the July 1, 2009 emergence from bankruptcy.

	Predecessor	Plan of Reorganization Adjustments	Successor
Long-Term Obligations			
Obligations under capital leases and other	$ 5,056	$ —	$ 5,056
Leased fiber capacity	2,531	—	2,531
Senior secured term loan facility	95,750	—	95,750
Canadian credit facility	29,500	—	29,500
Senior subordinated secured notes	—	123,472	123,472
Subtotal	132,837	123,472	256,309
Less: Current portion of long-term obligations	(107,097)	91,100	(15,997)
Total long-term obligations	$ 25,740	$ 214,572	$ 240,312
Liabilities Subject to Compromise			
Senior secured notes	$ 173,157	$ (173,157)	$ —
Senior notes	200,186	(200,186)	—
Exchangeable senior notes	23,369	(23,369)	—
Convertible senior notes	34,200	(34,200)	—
Step up convertible subordinated debentures	8,641	(8,641)	—
Accrued interest	11,497	(11,497)	—
Total liabilities subject to compromise	$ 451,050	$ (451,050)	$ —

In December 2009, the Company issued $130.0 million principal amount of 13% Senior Secured Notes due 2016 subject to certain conditions. The proceeds from the issuance were used to retire the Senior Secured Term Loan Facility and the Canadian Credit Facility. See “Note 6—Goodwill and Other Intangible Assets,” for further detail.

Warrant Agreements

As of the Effective Date, Group issued Class A warrants to purchase up to an aggregate of 3,000,000 shares of New Common Stock to holders of the Holding Notes. 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 StockTrans, 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, Group issued Class B warrants to purchase up to an aggregate of 1,500,000 shares of New Common Stock to holders of the Group Notes. 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

StockTrans, 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 at 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 account thereof stock, other securities, cash or assets (each, a "Fundamental Change Transaction") the holder of each Warrant outstanding immediately prior to the occurrence of such Fundamental Change Transaction shall have the right to receive upon exercise of the applicable Warrant the kind and amount of stock, other securities, cash and/or assets that such holder would have received if such Warrant had been exercised.

The Company recorded $1.0 million of equity related to the issuance of the warrants as of July 31, 2009, as part of the emergence from bankruptcy.

Contingent Value Rights Distribution Agreement

Pursuant to the terms of the Plan, Group issued to holders of Group's Old Common Stock Contingent Value Rights 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 will receive their pro rata share of up to 2,665,000 CVR Shares. A distribution of CVR Shares is required to be made by Group if, as of any determination date (described 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 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 upon a change of control of 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 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 a change of control) 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 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 a change of control (subject to any potential distribution of CVR Shares as a result thereof), and (3) July 1, 2019.

Due to the nature of CVR, the Company accounted for the instrument in accordance with ASC No. 815, "Derivatives and Hedging", as well as related interpretations of these standards. The Company recorded a liability of $2.6 million in other liabilities as part of fresh-start accounting, and will adjust the liability to its estimated fair value. The change in value is reflected in our Statements of Operations as other income (expense). See Note 9—"Fair Value of Financial Instruments and Derivatives".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

In December 2007, the FASB issued ASC 810 (formerly SFAS No. 160), Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51 ("ASC 810"). ASC 810 amends ARB 51 to establish new standards that will govern the accounting and reporting of noncontrolling interests in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Also, ASC 810 requires that: (1) noncontrolling interest, previously referred to as minority interest, be reported as part of equity in the consolidated financial statements; (2) losses be allocated to the noncontrolling interest even when such allocation might result in a deficit balance, reducing the losses attributed to the controlling interest; (3) changes in ownership interests be treated as equity transactions if control is maintained; and, (4) upon a loss of control, any gain or loss on the interest sold be recognized in earnings. ASC 810 is effective for financial statements issued for fiscal years, beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which will be applied retrospectively. Implementation of the standard did not have a material effect on the Company's results from operations or financial position.

Discontinued Operations—During 2010 the Company classified its European retail operations as discontinued operations. The Company has applied retrospective adjustments for 2009, and 2008 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 Company did not retrospectively adjust its 2009 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 certain balance sheet information is presented, see Note 19, "Discontinued Operations," for further information.

In the first quarter of 2009, the Company sold certain assets of its Japan retail operations. The Company intended and had the authority to sell certain assets of its Japan retail operations since the fourth quarter of 2008, and therefore, reported this unit as discontinued operations. In the second quarter 2008, the Company intended and had the authority to sell certain assets of its German retail operations, and therefore, reported this unit as discontinued operations. In March 2008, the Company sold its minority equity interest in Bekkoame Internet, Inc. ("Bekko"). The Company used the equity method of accounting for its investment in Bekko.

Reorganization Costs—In accordance with Financial Accounting Standard Board ("FASB") Accounting Standards Codification ("ASC") No. 852, "Reorganizations," for periods including and subsequent to the filing of the Chapter 11 petition through the bankruptcy emergence date of July 1, 2009, all revenues, expenses, realized gains and losses, and provisions for losses that result from the reorganization were reported separately as reorganization items, net, in the Consolidated Statements of Operations. Net cash used for reorganization items was disclosed separately in the Consolidated Statements of Cash Flows.

Fresh Start—As of July 1, 2009, the Company adopted fresh-start accounting in accordance with 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 statements of operations, comprehensive income (loss) and any references to "Successor" or "Successor Company" for the year ended December 31, 2010 and for the six months ended December 31, 2009, show the operations of the reorganized Company from and including July 1, 2009, the Effective Date. 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 and comprehensive income (loss), which reflect only the effect of the plan adjustments and fresh-start accounting as of such date and do not reflect any operating results. See "Note 4—Fresh Start Accounting," for further details.

Revenue Recognition and Deferred Revenue—Net revenue is derived from carrying a mix of business, residential and carrier long distance traffic, data and Internet traffic, and also from the provision of hosting, local and wireless services.

For certain voice services, net revenue is earned based on the number of minutes during a call and is recorded upon completion of a call. Revenue for a period is calculated from information received through the Company's network switches. Customized software has been designed to track the information from the switch and analyze the call detail records against stored detailed information about revenue rates. This software provides the Company the ability to do a timely and accurate analysis of revenue earned in a period. Separate prepaid services software is used to track additional information related to prepaid service usage such as activation date, monthly usage amounts and expiration date. Revenue on these prepaid services is recognized as service is provided until expiration, when all unused minutes, which are no longer available to the customers, are recognized as revenue.

Net revenue is also earned on a fixed monthly fee basis for unlimited local and long distance voice plans and for the provision of data/Internet services (including retail VOIP), hosting, and colocation. Data/Internet services include monthly fees collected for the provision of dedicated and dial-up access at various speeds and bandwidths. These fees are recognized as access is provided on a monthly basis. Additionally, service activation and installation fees are deferred and amortized over the longer of the average customer life or the contract term. The Company records payments received in advance for services and services to be provided under contractual agreements, such as Internet broadband, dial-up access, hosting, and colocation, as deferred revenue until such related services are provided.

A portion of revenue, representing less than 1% of total revenue, is earned from the sale of wireless handsets and VOIP routers. The Company applies the provisions of ASC 605-25, "Revenue Recognition—Multiple Element Arrangements," which provides guidance on when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. The Company has concluded to account for the sale of wireless handsets and VOIP routers and the related cost of handset and router revenues as a separate unit of accounting when title to the handset or router passes to the customer. Revenue recognized is the portion of the activation fees allocated to the router or handset unit of accounting in the statement of operations when title to the router or handset passes to the customer. The Company defers the portion of the activation fees allocated to the service unit of accounting, and recognizes such deferred fees on a straight-line basis over the contract life in the statement of operations.

Net revenue represents gross revenue, net of allowance for doubtful accounts receivable, service credits and service adjustments.

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

Cost of Revenue—Cost of revenue includes network costs that consist of access, transport and termination costs. A portion of cost of revenue, representing less than 1% of total cost of revenue, consists of the product cost of wireless handsets and VOIP routers. The majority of the Company's cost of revenue is variable, primarily based upon minutes of use, with transmission and termination costs being the most significant expense. Such costs are recognized when incurred in connection with the provision of telecommunications services.

Foreign Currency Transaction—Foreign currency transactions are transactions denominated in a currency other than a subsidiary's functional currency. A change in the exchange rates between a subsidiary's functional currency and the currency in which a transaction is denominated increases or decreases the expected amount of functional currency cash flows upon settlement of the transaction. That increase or decrease in expected functional currency cash flows is reported by the Company as a foreign currency transaction gain (loss). The primary component of the Company's foreign currency transaction gain (loss) is due to written agreements in place with certain subsidiaries in foreign countries regarding intercompany loans. The Company anticipates repayment of these loans in the foreseeable future, and recognizes the realized and unrealized gains or losses on these transactions that result from foreign currency changes in the period in which they occur as foreign currency transaction gain (loss).

Income Taxes—The Company recognizes income tax expense for financial reporting purposes following the asset and liability approach for computing deferred income taxes. Under this method, the deferred tax assets and liabilities are determined based on the difference between financial reporting and tax bases of assets and liabilities based on enacted tax rates. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company applies the uncertain tax position-related provisions of ASC No 740 "Income Taxes" (formerly FIN No. 48, "Accounting for Uncertainty in Income Taxes"). These provisions clarify the accounting for uncertainty in income taxes recognized in the financial statements in accordance with ASC No. 740.

Foreign Currency Translation—The assets and liabilities of the Company's foreign subsidiaries are translated at the exchange rates in effect on the reporting date. The net effect of such translation gains and losses are reflected within accumulated other comprehensive income (loss) in the stockholders' equity (deficit) section of the balance sheet. Income and expenses are translated at the average exchange rate during the period.

Cash and Cash Equivalents—Cash and cash equivalents are comprised principally of amounts in money market accounts, operating accounts, certificates of deposit, and overnight repurchase agreements with original maturities of three months or less.

Restricted Cash—Restricted cash consists of bank guarantees and certificates of deposit utilized to support letters of credit and contractual obligations.

Advertising Costs—In accordance with ASC No. 720-35, "Other Expenses—Advertising," costs for advertising are expensed as incurred. Advertising expense for the year ended December 31, 2010, the six months ended December 31, 2009 and July 1, 2009, and for the year ended December 31, 2008 was $12.8 million, $8.8 million, $5.6 million and $18.0 million, respectively.

Property and Equipment—Property and equipment is recorded at cost less accumulated depreciation, which is provided on the straight-line method over the estimated useful lives of the assets. Cost includes major expenditures for improvements and replacements which extend useful lives or increase capacity of the assets as well as expenditures necessary to place assets into readiness for use. Expenditures for maintenance and repairs are expensed as incurred. The estimated useful lives of property and equipment are as follows: network equipment—5 to 8 years, fiber optic and submarine cable—8 to 25 years, furniture and equipment—5 years, leasehold improvements and leased equipment—shorter of lease or useful life. Costs for internal use software that are incurred in the preliminary project stage and in the post-implementation stage are expensed as incurred. Costs incurred during the application development stage are capitalized and amortized over the estimated useful life of the software.

Fiber Optic and Submarine Cable Arrangements—The Company obtains capacity on certain fiber optic and submarine cables under three types of arrangements. The Indefeasible Right of Use ("IRU") basis provides the Company the right to use a cable for the estimated economic life of the asset according to the terms of the IRU agreement with most of the rights and duties of ownership. The Minimum Assignable Ownership Units ("MAOU") basis provides the Company an ownership interest in the fiber optic cable with certain rights to control and to manage the facility. The Company accounts for both IRU and MAOU agreements under network equipment and depreciates the recorded asset over the term of the agreement which is generally 25 years. The Company also enters into shorter-term arrangements with other carriers which provide the Company the right to use capacity on a cable but without any rights and duties of ownership. Under these shorter-term arrangements, the costs are expensed in the period the services are provided.

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

Goodwill impairment is tested annually (October 1 for the Company) using a two-step process that begins with an estimation of the fair value of each reporting unit. The first step is a screen for potential impairment by comparing the fair value of a reporting unit with its carrying amount. The second step measures the amount of impairment loss, if any, by comparing the implied fair value of the reporting unit goodwill with its carrying amount. The implied fair value of goodwill shall be determined in the same manner as the amount of goodwill recognized in a business combination is determined, that is through an allocation of the fair value of a reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

Our reporting units are the same as our operating segments as each segment's components have been aggregated and deemed a single reporting unit because they have similar economic characteristics. Each component is similar in that they each provide telecommunications services for which all of the resources and costs are drawn from the same pool, and are evaluated using the same business factors by management.

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

Intangible assets subject to amortization consist of certain trade names and customer relationships. These finite lived intangible assets are amortized based on their useful lives. Such assets are subject to the impairment provisions of ASC No. 360, wherein impairment is recognized and measured only if there are events and circumstances that indicate that the carrying amount may not be recoverable. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset group. An impairment loss is recorded if after determining that it is not recoverable, the carrying amount exceeds the fair value of the asset.

Valuation of Long-Lived Assets—The Company reviews long-lived assets whenever events or changes indicate that the carrying amount of an asset may not be recoverable. In making such evaluations, the Company compares the expected undiscounted future cash flows to the carrying amount of the assets. If the total of the expected undiscounted future cash flows is less than the carrying amount of the assets, the Company is required to make estimates of the fair value of the long-lived assets in order to calculate the impairment loss equal to the difference between the fair value and carrying value of the assets.

The Company makes significant assumptions and estimates in this process regarding matters that are inherently uncertain, such as determining asset groups and estimating future cash flows, remaining useful lives, discount rates and growth rates. The resulting undiscounted cash flows are projected over an extended period of time, which subjects those assumptions and estimates to an even larger degree of uncertainty. While the Company believes that its estimates are reasonable, different assumptions could materially affect the valuation of the long-lived assets. The Company derives future cash flow estimates from its historical experience and its internal business plans, which include consideration of industry trends, competitive actions, technology changes, regulatory actions, available financial resources for marketing and capital expenditures and changes in its underlying cost structure.

The Company has concluded that it has one asset group; the network. This is due to the nature of its telecommunications network which utilizes all of the points of presence (POPs), switches, cables and various other components throughout the network to form seamlessly the telecommunications gateway over which its products and services are carried for any given customer's phone call or data or Internet transmission. Furthermore, outflows to many of the external network providers are not separately assignable to revenue inflows for any phone call or service plan.

The Company makes assumptions about the remaining useful life of its long-lived assets. The assumptions are based on the average life of its historical capital asset additions, its historical asset purchase trend and that its primary assets, its network switches, have an 8-year life. Because of the nature of its industry, the Company also assumes that the technology changes in the industry render all equipment obsolete with no salvage value after their useful lives. In certain circumstances in which the underlying assets could be leased for an additional period of time, the Company includes such estimated cash flows in its estimate.

The estimate of the appropriate discount rate to be used to apply the present value technique in determining fair value was the Company's weighted average cost of capital which is based on the effective rate of its long-term debt obligations at the current market values as well as the current volatility and trading value of the Company's common stock.

Deferred Financing Costs—Deferred financing costs incurred in connection with financing arrangements are reflected within other assets and are amortized over the life of the respective financing arrangements using the effective interest method. As the Company completes debt transactions, corresponding amounts of deferred financing costs are written-off in determining the gain or loss on early extinguishment or restructuring of debt.

Derivative Instruments— Pursuant to the terms of the Reorganization Plan, (see "Note 2—Emergence from Voluntary Reorganization Under Chapter 11 of the Bankruptcy Code"), Group issued to holders of Group's Old Common Stock Contingent Value Rights 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.

Due to the nature of CVR, the company accounted for the instrument in accordance with ASC No. 815, "Derivatives and Hedging," as well as related interpretations of this standard. The Company determined these CVRs to be derivative instruments to be accounted for as liabilities and marked to fair value at each balance sheet date. Upon issuance, the Company estimated the fair value of its CVRs using a Black-Scholes pricing model and consequently recorded a liability of $2.6 million in the balance sheet caption "other liabilities" as part of fresh-start accounting. The Company adjusts the estimated fair value of its CVRs quarterly. The change in value is reflected in our Statements of Operations as gain (loss) from contingent valuation rights valuation. The company's estimates of fair value of its CVRs are correlated to and reflective of the Company's common stock price trends; in general, as the value of the Company's common stock increases, the estimated fair value of the CVRs also increases and as a result the company recognizes a change in value of its CVRs as loss from contingent valuation rights valuation, conversely and also in general, as the value of the Company's common stock decreases, the estimated fair value of the CVRs also decreases and as a result the company would recognize a change in value of the CVRs as gain from contingent rights valuation. See Note 9—"Fair Value of Financial Instruments and Derivatives".

Stock-Based Compensation—The Company accounts for stock-based compensation under ASC No. 718, "Stock Compensation", (former SFAS No. 123(R), "Share-Based Payments"), which addresses the accounting for stock-based payment transactions whereby an entity receives employee services in exchange for equity instruments, including stock options and restricted stock units. ASC No. 718 generally requires that stock-based compensation be accounted for using a fair-value based method. The Company elected the modified prospective transition method which requires that stock-based compensation expense be recorded for all new and unvested stock options that are ultimately expected to vest as the requisite service is rendered. The Company issues new shares of common stock upon the exercise of stock options.

The Company elected to adopt the alternative transition method for calculating the tax effects of share-based compensation. The alternative transition method includes simplified methods to determine the beginning balance of the additional paid in capital ("APIC") pool related to the tax effects of share-based compensation and to determine the subsequent impact on the APIC pool and the statement of cash flows of the tax effects of share-based award that were fully vested and outstanding upon the adoption of ASC No. 718.

The Company uses a Black-Scholes option valuation model to determine the fair value of stock-based compensation under ASC No. 718. The Black-Scholes model incorporates various assumptions including the expected term of awards, volatility of stock price, risk-free rates of return and dividend yield. The expected term of an award is no less than the option vesting period and is based on the Company's historical experience. Expected volatility is based upon the historical volatility of the Company's stock price. Because of the short trading history of the Company's new Common Stock, the Company calculates the expected volatility by averaging the historical volatility of the Company's New Common Stock price and the historical volatility of the stock price of a peer group in the telecommunications industry with similar market capitalization. The risk-free interest rate is approximated using rates available on U.S. Treasury securities with a remaining term similar to the option's expected life. The Company uses a dividend yield of zero in the Black-Scholes option valuation model as it does not anticipate paying cash dividends in the foreseeable future.

The weighted average fair value at date of grant for options granted during the year ended December 31, 2010 was $8.15 per option. The weighted average fair value at date of grant for options granted during the six month period ended December 31, 2009 was $4.00 dollars. Options granted prior to July 1, 2009 were cancelled in conjunction with the cancellation of the Company's Old Common Stock pursuant to the terms of our Plan of Reorganization and we have no continuing obligations with respect to the options issued prior to July 1, 2009. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Successor		Predecessor
	2010	2009	2008
Expected dividend yield	0%	0%	0%
Expected stock price volatility	47%	42%	96%
Risk-free interest rate	1.2%	2.0%	2.3%
Expected option term	4 years	4 years	4 years

Use of Estimates—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of net revenue and expenses during the reporting period. Actual results may differ from these estimates. Estimates include allowance for doubtful accounts receivable, accrued interconnection cost disputes, the fair value of contingent value rights, market assumptions used in estimating the fair values of certain assets and liabilities such as marketable securities and long-term obligations, the calculation used in determining the fair value of the Company's stock options required by ASC No. 718, various tax contingencies, asset impairment write-downs, and fair values of assets and liabilities in connection with fresh-start accounting.

Concentration of Credit Risk—Financial instruments that potentially subject the Company to concentration of credit risk principally consist of trade accounts receivable. The Company performs ongoing credit evaluations of its larger carrier and retail business customers but generally does not require collateral to support customer receivables. The Company maintains its cash with high quality credit institutions, and its cash equivalents are in high quality securities.

Income (Loss) Per Common Share—Basic income (loss) per common share is computed using the weighted average number of shares of common stock outstanding during the year. Diluted income (loss) per common share is computed using the weighted average number of shares of common stock, adjusted for the dilutive effect of potential common stock and related income. Potential common stock, computed using the treasury stock method or the if-converted method, includes options, restricted stock units, warrants and convertible debt securities.

Reclassification—Certain previous year amounts have been reclassified to conform with current year presentations, as related to the reporting of our discontinued operations.

Newly Adopted Accounting Principles

Effective July 1, 2009, the Company adopted ASC No. 105, “Generally Accepted Accounting Principles.” ASC No. 105 establishes the FASB Accounting Standards Codification as the source of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements. The adoption did not have a material impact on its results of operations, financial position and cash flows.

Effective April 1, 2009, the Company adopted ASC No. 855, “Subsequent Events.” ASC No. 855 establishes principles and requirements for evaluating and reporting subsequent events and distinguishes which subsequent events should be recognized in the financial statements versus which subsequent events should be disclosed in the financial statements. The adoption did not have a material effect on the Company’s results of operations, financial position or cash flows.

Effective January 1, 2009, the Company adopted ASC No. 810, “Consolidation.” Reconciliations at the beginning and the end of the period of the total equity, equity attributable to the Company and equity attributable to the noncontrolling interest for Successor’s six months ended December 31, 2009 and Predecessor’s six months ended July 1, 2009 and year ended December 2008 are included in the Company’s consolidated statement of stockholders’ equity (deficit).

Effective January 1, 2009, the Company adopted ASC No. 805, “Business Combinations.” ASC No. 805 establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. The Company applied this standard on July 1, 2009 to the Fresh Start Balance Sheet, (See Note 4 “Fresh Start Accounting,” for further detail).

In February 2008, the FASB issued ASC No. 820, “Fair Value Measurements.” The provisions of ASC No. 820 provide guidance for, among other things, the definition of fair value and the methods used to measure fair value, were adopted January 1, 2008 for financial instruments. The provisions adopted in 2008 did not have a material impact on the Company’s financial statements. ASC No. 820 delayed the effective date for all nonrecurring fair value measurements of nonfinancial assets and liabilities (except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis) until financial years beginning after November 15, 2008, and changed the scope of ASC No. 820. On January 1, 2009, the Company adopted the remaining provisions of ASC No. 820 for nonrecurring fair value measurements of nonfinancial assets and liabilities. The provisions adopted in the first quarter 2009 were applied by the Company in the fair value measurements as part of the fresh start accounting adoption upon emergence from bankruptcy on July 1, 2009 and the goodwill impairment analysis performed as of October 1, 2009.

The valuation techniques required by ASC No. 820 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability; and
- Level 3: Unobservable inputs for the asset or liability. These unobservable inputs reflect the entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances (which might include the reporting entity’s own data).

The Company had a cross-currency principal and interest rate agreement with Lehman Brothers Special Financing, Inc., who entered bankruptcy in October 2008 and ceased performing on the agreement. The

Company estimated the value to be zero, requiring a write-off of $1.2 million in 2008, and moved the instrument from Level 2 to Level 3 because the counter party's credit risk is not observable.

In March 2008, the FASB issued ASC No. 815, "Derivatives and Hedging." ASC No. 815 amends and expands the disclosure requirements with the intent to provide users of financial statements with an enhanced understanding of the use of derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's financial statements. ASC No. 815 is effective for financial statements issued for fiscal years interim periods beginning after November 15, 2008. In addition the Company accounted for the Contingent Value Rights Distribution Agreement in accordance with ASC No. 815, "Derivatives and Hedging" as well as related interpretations of this standard. The change in value of the Contingent Value Rights Distribution Agreement is reflected in our Statements of Operations as other income (expense), (see "Note 2—Emergence from Voluntary Reorganization Under Chapter 11 of the Bankruptcy Code," for further detail). The adoption of ASC No. 815 on January 1, 2009 did not have a material impact on the Company's results of operations, financial position and cash flows.

New Accounting Pronouncements

In June 2009, the FASB issued ASC No. 810-10, "Consolidation," which amends the definition of the primary beneficiary of a variable interest entity and will require the Company to assess each reporting period if any of the Company's variable interests give it a controlling financial interest in the applicable variable interest entity. The provisions of ASC No. 810-10 will become effective for financial statements issued for fiscal years and interim periods begin after November 15, 2009. The Company is currently evaluating the impact the provisions of ASC No. 810-10 on its financial statements.

In April 2008, the FASB issued ASC No. 852-10, "Reorganizations." ASC No. 852-10 nullifies certain requirements regarding changes in accounting principles that will be applicable to the financial statements of an entity emerging from bankruptcy. Any changes in accounting principles required within the twelve months following the implementation of fresh start accounting by such an entity are no longer required to be adopted at the time fresh start accounting is implemented. Entities emerging from bankruptcy that implement fresh start accounting should only follow accounting standards in effect at the date fresh start accounting is implemented, including any standards eligible for early adoption.

Recently Issued Accounting Standards Updates

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

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

4. FRESH START ACCOUNTING

On July 1, 2009, the Company adopted fresh-start accounting in accordance with ASC No. 852, “Reorganizations.” Fresh-start accounting results in the Company becoming a new entity for financial reporting purposes. Accordingly, the Successor Company’s consolidated financial statements are not comparable to consolidated financial statements of the Predecessor Company.

Under ASC No. 852, the Successor Company must determine a value to be assigned to the equity of the emerging company as of the date of adoption of fresh-start accounting. To facilitate this calculation the Company first determined the enterprise value of the Successor Company. The valuation methods included (i) a discounted cash flow analysis, considering a range of the weighted average cost of capital between 14.0% and 16.0% and multiples of projected earnings of between 4.5 and 5.0 times for its terminal value, and (ii) a market multiples analysis. This analysis resulted in an estimated enterprise value of between $320 million and $360 million, and with the midpoint of $340 million chosen for purposes of applying fresh-start accounting.

The estimated enterprise value, and corresponding equity value, is highly dependent upon achieving the future financial results set forth in the financial projections included in the Company’s Plan, as filed with the Bankruptcy Court. These projections were limited by the information available to the Company as of the date of the preparation of the projections and reflected numerous assumptions concerning anticipated future performance and prevailing and anticipated market and economic conditions that were and continue to be beyond the Company’s control and that may not materialize. Projections are inherently subject to uncertainties and to a wide variety of significant business, economic and competitive risks. Therefore variations from the projections may be material.

Fresh-start accounting reflects the value of the Company as determined in the confirmed Plan. Under fresh-start accounting, the Company’s asset values are remeasured and allocated in conformity with ASC No. 805, “Business Combinations.” The excess of reorganization value over the fair value of tangible and identifiable intangible assets is recorded as goodwill in the accompanying consolidated balance sheet. Fresh-start accounting also requires that all liabilities, other than deferred taxes and pension and other postretirement benefit obligations, should be stated at fair value.

Estimates of fair value included in the Successor Company financial statements, in conformity with ASC No. 820, represent the Company’s best estimates and valuations developed with the assistance of independent appraisers and, where the foregoing have not yet been completed or are not available, industry data and trends and by reference to relevant market rates and transactions. The foregoing estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond the control of the Company. Accordingly, the Company cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially. In accordance with ASC No. 805, the allocation of the 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 Company finalized the determination of the fair value of individual assets and liabilities during the first six months of 2010.

The following fresh-start Consolidated Condensed Balance Sheet presents the financial effects on the Company of the implementation of the Plan and the adoption of fresh-start accounting. The effect of the consummation of the transactions contemplated in the Plan includes the settlement of liabilities and the issuance of common stock as described in more detail in “Note 2—Emergence from Reorganization Under Chapter 11 of the Bankruptcy Code.”

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The effects of the Plan and fresh-start reporting on the Company's Consolidated Condensed Balance Sheet are as follows:

	Predecessor July 1, 2009	Plan of Reorganization Adjustments		Fresh-Start Accounting Adjustments		Successor July 1, 2009
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 41,461	$ —		$ —		$ 41,461
Accounts receivable	93,826	—		—		93,826
Prepaid expenses and other current assets	16,955	—		—		16,955
Total current assets	152,242	—		—		152,242
RESTRICTED CASH	9,467	—		—		9,467
PROPERTY AND EQUIPMENT—Net	117,840	—		32,298	d	150,138
GOODWILL	35,351	—		25,947	d, h	61,298
OTHER INTANGIBLE ASSETS—Net	482	—		184,318	d	184,800
OTHER ASSETS	19,155	—		1,461	d, h	20,616
TOTAL ASSETS	$ 334,537	$ —		$ 244,024		$578,561
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
CURRENT LIABILITIES:						
Accounts payable	$ 50,890	$ —		$ —		$ 50,890
Accrued interconnection costs	38,778	—		—		38,778
Deferred revenue	12,322	—		—		12,322
Accrued expenses and other current liabilities	53,982	—		(1,767)	d	52,215
Accrued income taxes	20,986	—		—		20,986
Accrued interest	19	—		—		19
Current portion of long-term obligations	107,097	(91,100)	g	—		15,997
Total current liabilities	284,074	(91,100)		(1,767)		191,207
LONG-TERM OBLIGATIONS	25,740	214,572	e, g	—		240,312
OTHER LIABILITIES	—	2,557	b	57,162	h	59,719
Total liabilities not subject to compromise	309,814	126,029		55,395		491,238
LIABILITIES SUBJECT TO COMPROMISE	451,050	(451,050)	a	—		—
Total Liabilities	760,864	(325,021)		55,395		491,238
COMMITMENTS AND CONTINGENCIES						
STOCKHOLDERS' EQUITY (DEFICIT):						
Primus Telecommuncations Group, Incorporated Stockholders' Equity (Deficit):						
Predecessor Common stock, $0.01 par value—300,000,000 shares authorized; 142,695,390 shares issued and outstanding	1,427	(1,427)	c	—		—
Successor Common stock, $0.001 par value—80,000,000 shares authorized; 9,600,000 shares issued or outstanding	—	10	a	—		10
Predecessor Additional paid-in capital	718,983	(1,129)	c, b	(717,854)	f	—
Successor Additional paid-in capital	—	84,382	a	—		84,382
Accumulated income (deficit)	(1,060,452)	243,185	a	817,267	d, f	—
Accumulated other comprehensive income (loss)	(89,216)	—		89,216	f	—
Total Primus Telecommunications Group, Incorporated stockholders' income (deficit)	(429,258)	325,021		188,629		84,392
Noncontrolling interest	2,931	—		—		2,931
Total stockholders' income (deficit)	(426,327)	325,021		188,629		87,323
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 334,537	$ —		$ 244,024		$578,561

Notes to Plan of Reorganization and fresh-start accounting adjustments:

(a) This adjustment reflects the discharge of $451.1 million of liabilities subject to compromise (see "Liabilities Subject to Compromise" above), of which includes $123.5 million Senior Subordinated Secured Notes reclassed to long-term obligations, in accordance with the terms of the Plan and the issuance of 4.8 million shares of Successor Company common stock to the holders of each of the Senior Subordinated Secured Notes and the Holding Senior Notes.

(b) To record the issuance of Contingent Value Rights to the holders of the Old Common Stock.

(c) To record the cancellation of the Old Common Stock.

(d) To record assets and liabilities at their estimated fair values per fresh-start accounting. These amounts include adjustments to the estimated fair values from what was originally reported in the quarter ending September 30, 2009.

(e) To reclass Term Loan from current portion of long-term obligations to long-term obligations and record the issuance of the Senior Subordinated Secured Notes.

(f) To reset additional paid-in capital, accumulated other comprehensive loss and accumulated deficit to zero.

(g) To reclass long-term portion of the Term Loan to long-term obligations.

(h) To record the deferred tax attributes related to fresh-start accounting.

In the fourth quarter of 2009, the Company further adjusted the fair value of certain assets and liabilities to reflect the excess of the reorganization value of the Successor over the fair values of tangible and identifiable intangible assets, net of liabilities, from the adoption of fresh start reporting. Property, plant and equipment, net and Other intangibles, net, were reduced by $1.9 million and $3.2 million, respectively; Goodwill and Other assets increased by $1.9 million and $1.3 million, respectively; and Accrued expenses and other current liabilities and Other liabilities were reduced by $1.8 million and $0.1 million, respectively.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following (in thousands):

	As of December 31, 2010	As of December 31, 2009
Network equipment	$ 193,321	$158,206
Furniture and equipment	6,220	5,029
Leasehold Improvements	9,592	7,742
Construction in Progress	3,132	2,708
Subtotal	212,265	173,685
Less: accumulated depreciation	(73,777)	(26,079)
Total property and equipment, net	$ 138,488	$ 147,606

Successor

Depreciation and amortization expense for property and equipment for the year ended December 31, 2010 and for the six months ended December 31, 2009, including equipment under capital leases and vendor financing obligations, was $42.9 million and $23.8 million, respectively.

At December 31, 2010, total equipment under capital lease and vendor financing obligations consisted of $3.9 million of network and peripheral equipment, with accumulated depreciation of $1.1 million.

At December 31, 2009, total equipment under capital lease and vendor financing obligations consisted of $12.9 million of network and peripheral equipment, with accumulated depreciation of $1.3 million.

Predecessor

Depreciation and amortization expense for property and equipment including equipment under capital leases and vendor financing obligations for the six months ended July 1, 2009 and the years ended December 31, 2008 and 2007 was $11.1 million, $28.9 million and $24.7 million, respectively.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill reflects the excess of the reorganization value of Successor over the fair value of tangible and identifiable intangible assets as determined upon the adoption of fresh-start accounting. The Company recorded goodwill of $61.3 million upon emergence from bankruptcy as well as intangible assets of $184.8 million, which includes $81.6 million of indefinite-lived trade names, $99.2 million of amortizable customer relationships, and $4.0 million of amortizable trade names.

Generally accepted accounting principles in the United States require the Company to perform a goodwill impairment test, a two-step test, annually and more frequently when negative conditions or a triggering event arise. The Company completes its annual goodwill impairment test using October 1 as the measurement date for each of its reporting units.

In step one, the estimated fair value of each reporting unit is compared to its carrying value. The Company estimates the fair values of each reporting unit by a combination of (i) estimation of the discounted cash flows of each of the reporting units based on projected earnings in the future (the income approach) and (ii) a comparative analysis of revenue and EBITDA multiples of public companies in similar markets (the market approach). If there is a deficiency (the estimated fair value of a reporting unit is less than its carrying value), a step two test is required. In step two, the amount of any goodwill impairment is measured by comparing the implied fair value of the reporting unit's goodwill to the carrying value of goodwill, with the resulting impairment reflected in operations. The implied fair value is determined in the same manner as the amount of goodwill recognized in a business combination.

Estimating the fair value of a reporting unit requires various assumptions including projections of future cash flows, perpetual growth rates and discount rates. The assumptions about future cash flows and growth rates are based on management's assessment of a number of factors including the reporting unit's recent performance against budget, performance in the market that the reporting unit serves, as well as industry and general economic data from third party sources. Discount rate assumptions are based on an assessment of the risk inherent in those future cash flows. Changes to the underlying businesses could affect the future cash flows, which in turn could affect the fair value of the reporting unit.

During the three months ended September 30, 2010, the Company and its Board of Directors ratified a plan to proceed with the disposition of its European retail operations; see Note 19, *Discontinued Operations*. The Company did not retrospectively adjust its 2009 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 prior year balance sheet information is presented. This triggering event prompted the Company to perform a goodwill impairment test, a two-step test, for the Europe reporting unit. Based on the results of the step one test, the Company determined that the carrying value of the Europe reporting unit was in excess of its respective fair value and a step two test was required for the reporting unit.

In completing the step two test to determine the implied fair value of goodwill and therefore the amount of impairment, management first estimated the fair value of the tangible and intangible assets and liabilities. Based on the testing performed, the Company determined that the carrying value of goodwill exceeded its implied fair value for the Europe reporting unit and recorded a goodwill impairment charge of $1.4 million. The impairment charge is included in the line item " *Loss from Discontinued Operations, net of tax,"* on the Company's Statement of Operations.

The primary driver for the decline in the estimated fair value of the Europe reporting unit compared to the prior year is the decline in its overall outlook stemming from its poor performance.

In addition, the Company evaluated the European trade name and long-lived assets, which primarily consisted of the network equipment and customer relationships, for impairment. In performing the impairment test for the European trade name and long-lived assets, the Company estimated the fair value less cost to sell for the asset groups based on executed and pending purchase offers and compared that to the carrying value of the asset groups. The company recorded a total of $4.7 million impairment charges; $4.2 million related to the European trade name, $0.4 million related to customer relationships and $0.1 million related to long-lived assets during the three months ended September 30, 2010. The impairment charge is included in the line item " *Loss from Discontinued Operations, net of tax,"* on the Company's Statement of Operations.

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

	As of December 31, 2010	As of December 31, 2009
Trade names	$ 76,200	$ 81,372
Goodwill	$ 63,731	$ 64,220

The Company allocated goodwill to all of its reporting units as part of fresh-start accounting, excluding the international carrier services reporting unit which had nominal value relative to the total value of the Company. The changes in the carrying amount of goodwill and trade names by reporting unit as of December 31, 2010 and December 31, 2009 are as follows (in thousands):

Goodwill

	Predecessor					
	United States	Canada	Australia	Europe	Brazil	Total
Balance as of January 1, 2009	$ —	$21,913	$10,618	$ —	$ 157	$ 32,688
Effect of change in foreign currency exchange rates		1,266	1,365	—	32	2,663
Fresh-start adjustments	29,960	4,313	(10,437)	2,262	(151)	25,947
Balance as of July 1, 2009	$29,960	$27,492	$ 1,546	$2,262	$ 38	$61,298
	Successor					
Balance as of July 1, 2009	$29,960	$27,492	$ 1,546	$2,262	$ 38	$61,298
Effect of change in foreign currency exchange rates	—	2,793	168	(45)	6	2,922
Balance as of December 31, 2009	$29,960	$30,285	$ 1,714	$2,217	$ 44	$ 64,220
Effect of change in foreign currency exchange rates	—	1,490	236	(109)	2	1,619
Disposition of business	—	—	—	(662)	—	(662)
Accumulated impairment loss	—	—	—	(1,446)	—	(1,446)
Balance as of December 31, 2010	$29,960	$31,775	$ 1,950	$ —	$ 46	$ 63,731

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Trade Names

	Predecessor					
	United States	Canada	Australia	Europe	Brazil	Total
Fresh-start adjustments	76,200	—	—	5,400	—	81,600
Balance as of July 1, 2009	$76,200	$—	$ —	$ 5,400	$—	$81,600
	Successor					
Balance as of July 1, 2009	$76,200	$—	$ —	$ 5,400	$—	$81,600
Effect of change in foreign currency exchange rates				(228)		(228)
Balance as of December 31, 2009	$76,200	$—	$ —	$5,172	$—	$81,372
Effect of change in foreign currency exchange rates	—	—	—	(100)	—	(100)
Disposition of business	—	—	—	(836)	—	(836)
Accumulated impairment loss	—	—	—	(4,236)	—	(4,236)
Balance as of December 31, 2010	$76,200	$—	$ —	$ —	$—	$76,200

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

	Successor			Predecessor		
	As of December 31, 2010			As of December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Book value	Gross Carrying Amount	Accumulated Amortization	Net Book value
Trade names	$ 4,083	$ (593)	$ 3,490	$ 4,057	$ (203)	$ 3,854
Customer relationships	104,553	(36,494)	68,059	107,612	(14,032)	93,580
Total	$108,636	$ (37,087)	$71,549	$111,669	$ (14,235)	$ 97,434

Successor

Amortization expense for customer lists and other intangible assets for the year ended December 31, 2010 and for the six months ended December 31, 2009 was $22.4 million and $13.2 million, respectively. The Company expects amortization expense for customer lists and other intangible assets for the fiscal years ended December 31, 2011, 2012, 2013, 2014, 2015 and thereafter to be approximately $18.1 million, $12.8 million, $9.3 million, $6.9 million, $5.3 million and $19.1 million, respectively.

The intangible assets subject to amortization include trade names and customer relationships. The useful lives of the trade names are 10 years; the useful lives of the customer relationships range from 11 to 22 years. The amortizable trade names are amortized using the straight-line method over the 10 year life, and the customer relationships are amortized using the pattern of benefits method over their useful lives, resulting in accelerated amortization in the early periods of the useful life.

Predecessor

Amortization expense for customer lists and other intangible assets for the six months ended July 1, 2009, and the year ended December 31, 2008 was $0.5 million, and $1.5 million, respectively.

7. LONG-TERM OBLIGATIONS

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

	December 31, 2010	December 31, 2009
Obligations under capital leases and other	$ 1,667	$ 3,178
Leased fiber capacity	—	2,809
Senior secured notes	130,000	130,000
Senior subordinated secured notes	114,015	123,472
Subtotal	$245,682	$259,459
Original issue discount on senior secured notes	(1,791)	(1,943)
Subtotal	$ 243,891	$257,516
Less: Current portion of long-term obligations	(1,143)	(4,274)
Total long-term obligations	$ 242,748	$ 253,242

Successor

The following table reflects the contractual payments of principal and interest for the Company's long-term obligations as of December 31, 2010 as follows (in thousands):

Year Ending December 31,	Capital Leases and Other	13% Senior Secured Notes	14 1/4% Senior Subordinated Secured Notes	Total
2011	$ 1,228	$ 16,900	$ 16,247	$ 34,375
2012	340	16,900	16,247	33,487
2013	168	16,900	122,139	139,207
2014	20	16,900	—	16,920
2015	—	16,900	—	16,900
Thereafter	—	146,947	—	146,947
Total Minimum Principal & Interest Payments	1,756	231,447	154,633	387,836
Less: Amount Representing Interest	(89)	(101,447)	(40,618)	(142,154)
Total Long Term Obligations	$1,667	$ 130,000	$ 114,015	$ 245,682

13% Senior Secured Notes

In December 2009, wholly owned subsidiaries of the Company, Primus Telecommunications Holding, Inc. (the "U.S. Issuer") and Primus Telecommunications Canada, Inc. (the "Canadian Issuer"), (jointly, the "Issuers"), issued $130 million of aggregate principal amount of units (the "Units"), consisting of $85 million of 13% Senior Secured Notes due 2016 issued by the U.S. Issuer (the "U.S. Notes") and $45 million of 13% Senior Secured Notes due 2016 issued by the Canadian Issuer (the "Canadian Notes") (the U.S. Notes and, together with the Canadian Notes, the "13% Senior Secured Notes"). Accrued interest will be paid each June 15 and December 15, beginning June 15, 2010 to holders of record on the preceding June 1 and December 1, respectively. Net cash proceeds from the 13% Senior Secured Notes issuance, after giving effect to expenses, discounts and fees was $123.5 million.

The U.S. Notes are guaranteed by the Company and certain of the U.S. Issuer's domestic subsidiaries and the Canadian Notes are guaranteed by its parent and subsidiaries as well as the Company. The U.S. Notes and related guarantees are secured by a first lien security interest in substantially all of the assets of the U.S. Issuer and 13% Senior Secured guarantors, including a first priority pledge of all of the capital stock held by the U.S. Issuer and the 13% Senior Secured guarantors, which pledge in the case of capital stock of Primus

Telecommunications International, Inc. and each non-U.S. subsidiary shall be limited to 65% of such capital stock. The Canadian Notes and related guarantees are secured by a first lien security interest in substantially all of the assets of the Canadian Issuer and Canadian guarantors.

In the event the Company and certain subsidiaries have excess cash flow (as defined below) for any fiscal year commencing with the fiscal year ending December 31, 2010 then the Issuers must jointly offer to the holders of the 13% Senior Secured Notes to repurchase an applicable amount, (equal to 50% of such Excess Cash Flow), of the Notes at par. As of December 31, 2010 there was no Excess Cash Flow so no repurchase offer was required.

In the event the 14.25% Senior Secured Notes have not been refinanced in accordance with the terms of the 13% Senior Secured Notes indenture by January 21, 2013, then the Issuers will be required to redeem the full principal of the 13% Senior Secured Notes at a price equal to the then applicable optional redemption price on such date.

“Excess Cash Flow” means with respect to any Person, for any period, (a) the excess of (i) Consolidated “EBITDA,” (as defined in the 13% Senior Secured Notes indenture), for such period over (ii) the sum of (A) the aggregate amount of capital expenditures by the Company and its restricted subsidiaries during such period (other than any such capital expenditures made with Net Proceeds from an asset sale (without giving effect to the threshold set forth in the definition thereof) or insurance or condemnation proceeds), (B) the cash portion of consolidated interest expense paid by the Company and its restricted subsidiaries during such period, (C) the aggregate amount (without duplication) of all income franchise taxes paid in cash by the Company and its restricted subsidiaries during such period (D) any reduction in the principal amount of Indebtedness resulting from principal payments made thereon (other than payments on the 13% Senior Secured Notes, any Junior Lien Indebtedness, any unsecured Indebtedness or any Indebtedness that is subordinated to the 13% Senior Secured Notes or any 13% Senior Secured Note guarantee except, in each case, any required amortization payment or payment at the Stated Maturity thereof) during such period (provided that (i) such Indebtedness has been incurred in accordance with the Note’s Indenture and (ii) to the extent such Indebtedness is revolving in nature, such payment shall have been accompanied by a concurrent corresponding permanent reduction in the revolving commitment relating thereto) minus (b) to the extent that Excess Cash Flow for any prior period was less than $0 (dollars) and such amount has not been deducted in the calculation of the calculation of Excess Cash Flow for another prior period, the absolute value of such negative number.

14 1/4% Senior Subordinated Secured Notes

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

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

The 14 1/4% Senior Secured Notes were to mature on May 20, 2011 with early redemption at a premium to par at IHC's option at any time after February 2008. During specified periods, IHC may redeem at par up to 35% of the aggregate principal amount of the 14 1/4% Senior Secured Notes with the net cash proceeds of certain equity offerings of the Company. Accrued interest will be paid each May 31st and November 30th, beginning May 31st, 2007. The effective interest rate for the 14 1/4% Senior Secured Notes at December 31, 2008 was 12.4% for those amounts not related to the troubled debt restructuring discussed above. (see Note 22—"Guarantor/Non-Guarantor Consolidating Condensed Financial Information.")

In December 2008, the Company made open market purchases of $2.1 million principal amount of its 14 1/4% Senior Secured Notes, resulting in a $2.0 million gain on early extinguishment of debt including the write-off of related deferred financing costs. The notes were recorded as a reduction of long-term obligations.

On the Effective Date, IHC, Group, Holding, the other Guarantors party thereto and U.S. Bank National Association, as trustee, entered into a supplemental indenture (the "Supplemental Indenture") to the indenture governing IHC's 14 1/4% Senior Secured Notes due 2011 (the "Original Indenture"). The Supplemental Indenture amended the Original Indenture to provide for the issuance of the "Senior Subordinated Secured Notes". The maturity of the Senior Subordinated Secured Notes was extended by two years to May 20, 2013 beyond the maturity of the notes issued under the Original Indenture. At the option of IHC, prior to the earlier of (1) the extension of the maturity of or the repayment in full of the indebtedness outstanding pursuant to the Amended Term Loan and the Canadian Credit Facility, and (2) June 1, 2011, up to 4.25% per annum of the interest on the Senior Subordinated Secured Notes may be paid in kind. The Supplemental Indenture also modified covenants in the Original Indenture to prevent subsidiary guarantors from incurring debt to refinance indebtedness of non-guarantors and to limit the incurrence of indebtedness of restricted persons that is secured by a lien on the assets of IHC, any subsidiary guarantor or other restricted persons, as defined under the modified indenture.

On the Effective Date, IHC entered into a First Amendment to the Intercreditor Agreement (as amended through the date hereof, the "Amended Intercreditor Agreement"), with Group, Holding, The Bank of New York Mellon, as First Lien Collateral Agent, and U.S. Bank National Association, as Second Lien Collateral Agent. Pursuant to the Amended Intercreditor Agreement, the Senior Subordinated Secured Notes are subordinated in right of payment to the prior indefeasible payment in cash in full of all obligations under the Amended Term Loan.

Also on the Effective Date, IHC, each of the Grantors party thereto and U.S. Bank National Association, as collateral agent, entered into a First Amendment to the Collateral Agreement (as amended through the date hereof, the "Amended Collateral Agreement"), to provide that the obligations of both IHC and PTII, an indirect wholly owned subsidiary of Group, are secured by PTII's assets, including 65% of the voting stock of foreign subsidiaries owned by PTII. In addition, on the Effective Date, Group and Holding entered into an Assumption Agreement in favor of U.S. Bank National Association, as collateral agent, pursuant to which each of Group and Holding became party to the Amended Collateral Agreement. As a result, Group and Holding's existing guarantees of the Senior Subordinated Secured Notes are secured by a lien on the property of Group and Holding, respectively.

In addition, as a result of the Plan of Reorganization, IHC's $173.2 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").

In May 2010, the Company paid $9.4 million in cash and retired $9.5 million in principal of its 14 1/4% Senior Subordinated Secured Notes. As a result, the Company recognized a $0.1 million gain from the early extinguishment of debt in its statement of operations for the three months ended June 30, 2010.

Senior Secured Term Loan Facility

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

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

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

The debt under the Facility was in default as a result of the bankruptcy filings on March 16, 2009. On the Effective Date, Group and Holding entered into a Third Amendment to the Term Loan Agreement (the "Amended Term Loan"). In accordance with the Amended Term Loan, Holding's Term Loan facility due February 2011 was reinstated and amended in certain respects, including: (i) at the option of Holding, interest rates are now (A) LIBOR + 9.00% with a LIBOR floor of 3.00% (or LIBOR + 11.00% with 4.00% to be paid in kind) or (B) Prime Rate + 8.00% with a Prime Rate floor of 4.00% (or Prime Rate + 10.00% with 4.00% to be paid in kind); (ii) The Bank of New York Mellon has been appointed as successor Administrative Agent; (iii) amortization payments have been increased; (iv) mandatory prepayments are required from (A) 25% of the net proceeds of certain equity issuances (including 25% of the cash of businesses acquired in exchange for equity), (B) 100% of the net proceeds from debt issuances (other than as permitted under the limitation of indebtedness covenant), and (C) 80% of net cash proceeds from asset sales or insurance recoveries not otherwise reinvested within 180 days or committed to reinvestment within 270 days of such asset sales; (v) Group or its affiliates are able to purchase annually up to $5 million in principal amount of loans at less than par without being subject to the pro-rata provisions of the Term Loan facility (or purchases in excess of such annual amount by way of an offer to all lenders), any such purchased loans deemed immediately cancelled; and (vi) certain covenants have been modified, including restrictions on the ability to incur additional debt and the addition of a minimum EBITDA covenant, a maximum indebtedness covenant and a maximum capital expenditure covenant. In addition, the Debtors have agreed to pay all reasonable fees, expenses and disbursements of the counsel and financial advisors to the Term Loan lenders.

In December 2009, the Company used proceeds from the issuance of the 13% Senior Secured Notes to retire in full the Senior Secured Term Loan Facility.

Canadian Credit Facility

In March 2007, an indirect wholly-owned subsidiary of the Company, Primus Telecommunications Canada, Inc. ("Primus Canada") entered into a Senior Secured Credit Agreement ("Canadian Credit Facility") with a financial institution to refinance an existing Canadian credit facility. The Canadian Credit Facility provided for a $35.0 million non-amortizing loan bearing interest at a rate of LIBOR plus 425 basis points and matured in March 2012. The loan proceeds were used to refinance the existing Canadian credit facility, including certain costs related to the transaction, and to finance certain capital expenditures. The Canadian Credit Facility was secured by the assets of Primus Canada and certain guarantees.

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

On August 25, 2009, Primus Canada provided notice of Early Termination of the swap agreement, effective August 26, 2009. On September 16, 2009, Primus Canada filed Proofs of Claim in the bankruptcy proceedings of Lehman SFI and Lehman Brothers Holdings Inc. ("LBHI"), which was the guarantor of Lehman SFI's obligations under the swap agreement and which also is in bankruptcy. Lehman SFI and LBHI have stated they reserve all rights to dispute the Proof of Claim, including the effectiveness of Primus Canada's termination notice. The eventual outcome of this matter is unknown. As of December 31, 2009, the Company has not maintained any balances concerning the Lehman cross-currency principal and interest rate swap agreement.

On March 10, 2009, Primus Canada, 3082833 Nova Scotia Company and certain affiliate guarantors entered into a Waiver and Amendment Agreement (the "Waiver and Amendment") to their $35 million Canadian Credit Facility with Guggenheim Corporate Funding, LLC, as Administrative Agent and Collateral Agent.

The lenders under the Waiver and Amendment waived events constituting events of default and potential events of default under the Canadian Credit Facility, subject to the terms and conditions of the Waiver and Amendment. In connection with the Waiver and Amendment, the applicable margin under the Canadian Credit Facility was increased to LIBOR +4.50%, with a 2.50% LIBOR floor, and the maturity date was changed to May 21, 2011.

In December 2009, the Company used proceeds from the issuance of the 13% Senior Secured Notes to retire in full the Canadian Credit Facility.

Leased Fiber Capacity

In December 2000, the Company entered into a financing arrangement to purchase fiber optic capacity in Australia for 51.1 million Australian dollars (AUD) ($28.5 million at December 31, 2000) from Optus Networks Pty. Limited. As of December 31, 2001, the Company had fulfilled the total purchase obligation. The Company signed a promissory note payable over a four-year term ending in April 2005 bearing interest at a rate of 14.31%. During the three months ended June 30, 2003, the Company renegotiated the payment terms extending the payment schedule through March 2007, and lowering the interest rate to 10.2%. In October 2006, the Company renegotiated the payment terms of its promissory note payable to Optus Networks Pty. Limited to defer principal payments from April 2006 through December 2006 and was obligated to pay the remaining balance in three equal monthly principal payments in the first quarter 2007. In February 2007, the Company again renegotiated the payment terms of its $8.8 million (10.1 million AUD) promissory note payable to Optus Networks Pty. Limited to extend the payment schedule through December 2008 in 24 equal monthly payments. During the third quarter 2008, the payment terms were again renegotiated to extend payment of the principal balance of $2.7 million (3.1 million AUD) to June 2010 with monthly payments of interest at a rate of 13.5%. Certain volume purchase targets were not met by September 30, 2009. Accordingly, Optus Networks Pty. Limited may give, but has not given, 30 days notice requiring full payment of the principal balance. At December 31, 2009, the Company had a liability recorded in the amount of $2.8 million (3.1 million AUD). Also, $2.8 million (3.1 million AUD) was classified as current portion of long-term obligations at December 31, 2009. In January 2010, the Company paid $2.7 million (3.1 million AUD) and completed the full repayment of the leased fiber capacity.

Equipment Financing and Other Long-Term Obligations

In November 2005, Primus Australia entered into a financing arrangement for network equipment. Payments are made over a five-year term ending October 2010. In June 2009, the Company entered into an amendment which removed certain financial covenants and required a principal payment of $1.2 million (1.5 million AUD) in the same month. In September 2009, the Company made a principal payment of $1.6 million (1.8 million AUD) and completed the full repayment of the debt.

Predecessor

In accordance with the Plan, on the Effective Date all of the obligations of Group and its subsidiaries with respect to the following indentures were terminated and the respective notes and debentures issued under each such indenture were cancelled:

- Indenture, dated as of January 16, 2004, by and among Holding, as Issuer, Group, as Guarantor, and Wachovia Bank N.A., as Trustee, relating to the 8% Senior Notes due 2014;
- Indenture, dated as of June 28, 2006, by and among Holding, as Issuer, Group, as Guarantor, and U.S. Bank N.A., as Trustee, relating to the 5% Exchangeable Senior Notes due 2009;
- Indenture, dated as of September 15, 2003, by and between Group and Wachovia Bank, N.A., as Trustee, relating to the 3 3/4% Convertible Senior Notes due 2010;
- Indenture, dated as of February 27, 2006, by and between Group and U.S. Bank N.A., as Trustee, relating to the Step-up Convertible Subordinated Debentures due 2009; and
- Indenture, dated as of October 15, 1999, by and between Group and First Union National Bank, as Trustee, relating to the 12 3/4% Senior Notes due 2009

8. INCOME TAXES

The provisions (benefits) for income taxes for the year ended December 31, 2010, the six months ended December 31 and July 1, 2009 and for the year ended December 31, 2008 are as follows (in thousands):

	Successor		Predecessor	
	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009	Year Ended December 31, 2008
Current: Federal	$ 994	$ —	$ —	$ 59
State	—	287	56	63
Foreign	(1,233)	(3,830)	2,365	(7,225)
Subtotal Current	(239)	(3,543)	2,421	(7,103)
Deferred: Federal	—	—	—	162
State	—	—	—	—
Foreign	(8,846)	(6,637)	1,653	6,202
Subtotal Deferred	(8,846)	(6,637)	1,653	6,364
Total Tax Provision (Benefit)	$ (9,085)	$ (10,180)	$ 4,074	$ (739)

The US and foreign components of income from continuing operations before income taxes for the year ended December 31, 2010, the six months ended December 31 and July 1, 2009 and the year ended December 31, 2008 are as follows (in thousands):

	Successor		Predecessor	
	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009	Year Ended December 31, 2008
US	$ (25,883)	$ (3,423)	$ 359,427	$ (43,097)
Foreign	6,451	2,378	100,437	26,376
Income from continuing operations before income taxes	$ (19,432)	$ (1,045)	$459,864	$ (16,721)

The provision for (benefit from) income taxes differed from the amount computed by applying the federal statutory income tax rate to income (loss) before income taxes due to the following items for the year ended December 31, 2010, the six months ended December 31 and July 1, 2009 and the year ended December 31, 2008 (in thousands):

	Successor		Predecessor	
	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009	Year Ended December 31, 2008
Tax provision (benefit) at federal statutory rate	$ (6,801)	$ (366)	$160,952	$ (5,728)
Permanent differences	1,003	3,534	1,531	(1,940)
State tax (net of federal)	(1,099)	(178)	8,887	(1,043)
Effect of statutory tax rate change	644	106	(5,320)	—
Effect of foreign tax rate change	—	—	—	(1,241)
Foreign withholding taxes (net of Federal)	933	(3,554)	774	(3,159)
Uncertain tax positions	(1,396)	(1,324)	3,608	(5,014)
Foreign taxes	—	—	—	3,180
Increase (decrease) in valuation allowance	(3,089)	(7,661)	(67,587)	12,914
Tax—book fresh-start valuation difference	—	—	13,673	—
Capital loss disposal of subsidiary	—	—	(13,283)	—
Reorganization	—	—	4,415	—
Cancellation of debt allocated to foreign basis	—	—	(58,005)	—
Goodwill	—	—	10,227	—
Taxes charged to goodwill	—	—	(54,512)	—
Other	720	(737)	(1,286)	1,292
Income tax (benefit) expense	$ (9,085)	$ (10,180)	$ 4,074	$ (739)

Deferred income taxes are recognized to account for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts of each period-end, based on enacted tax laws and statutory income tax rates applicable to periods in which the differences are expected to affect taxable income. Deferred income taxes reflect the net income tax effect of temporary differences between the basis of assets and liabilities for financial reporting purposes and for income tax purposes. Net deferred tax balances are comprised of the following as of December 31, 2010 and 2009 (in thousands):

	Successor	
	As of December 31,	
	2010	2009
Deferred tax assets	$123,365	$ 154,812
Valuation allowance	(94,284)	(118,520)
Deferred tax liabilities	(58,152)	(76,211)
Net deferred taxes	$ (29,071)	$ (39,919)

Certain fixed and intangible assets were marked to their fair market values, as a result of our emergence from bankruptcy and the associated fresh-start accounting, (see Note 4), which resulted in a substantial decrease to our deferred tax asset, net operating loss carry-forwards, the discharge of certain tax liabilities, and tax attribute reduction, as prescribed by Internal Revenue Code Section 108.

The significant components of the Company's deferred tax assets and liabilities are as follows as of December 31, 2010 and 2009 (in thousands):

	Successor	
	As of December 31,	
	2010	2009
Current		
Allowance for bad debt	$ 1,432	$ 1,024
Basis difference on intangibles	—	(3,873)
Other	5,950	4,056
Valuation allowance	(5,236)	(5,081)
Total Current	$ 2,146	$ (3,874)
Non-current		
Basis difference in intangibles	$(40,591)	$ (46,908)
Bond related adjustments	8,850	11,863
Capital loss carryforwards	23,386	46,171
Net operating loss carryforwards	54,085	50,929
Basis difference in fixed assets	28,371	25,201
Unrealized foreign exchange gains	(3,578)	(11,963)
Basis Difference in Foreign A/R	(13,983)	—
Other	1,291	2,101
Valuation allowance	(89,048)	(113,439)
Total Non-current	$(31,217)	$ (36,045)

As of December 31, 2010, the Company had foreign operating loss carryforwards of approximately $154 million of which $47.6 million expire periodically from 2011 through 2029, and the remainder of which carryforward without expiration.

At December 31, 2010, the Company projects United States operating loss carryforwards available to reduce future United States taxable income in the amount of $37.8 million, of which $35.2 million is subject to limitation under Section 382, and $2.6 million which is not subject to the Section 382 limit. Net operating losses which survived attribute reduction will expire periodically between 2014 through 2029. Any surviving net operating loss carryforwards not related to the second half of 2009 are subject to limitations in the future, in accordance with Section 382 of the Internal Revenue Code. The net operating loss carryforward amounts above reflect all ASC 740-10 (previously FIN No. 48) changes for both foreign and domestic net operating losses.

Pursuant to Section 382 of the Internal Revenue Code, the Company believes that it underwent an ownership change for tax purposes (i.e., a more than 50% change in stock ownership) on the July 1, 2009 emergence date. As a result, the use of any of the Company's federal and state NOL carryforwards and tax credits generated prior to the ownership change (that are not reduced pursuant to the provisions discussed in the preceding paragraph) will be subject to an annual limitation of approximately $1.6 million. The annual limitation was determined based upon an Internal Revenue Code section that allows corporations emerging from bankruptcy to determine their section 382 limitation based upon the post emergence stock value. The Company has prepared its financial statements assuming the annual limitation will apply.

As described in footnote 23, Subsequent Events, on February 28, 2011, the Company completed the merger of PTG Investments, a wholly-owned subsidiary of the Company with and into Arbinet Corporation. The Company believes that an ownership change for tax purposes took place on the merger date, thereby causing a limitation under section 382 of the Company's then-existing NOLs. However, the change to current NOL utilization rates is expected to be minimal due to the existence of limitations resulting from the July 1, 2009, ownership change.

The Company is required to determine whether it had a net unrealized built-in gain (NUBIG) or net unrealized built-in loss (NUBIL) at the 2009 emergence date. The Company believes that there was a NUBIL at the time of the 2009 emergence date. As a result, certain depreciation and loss deductions recognized during the five-year period beginning on the 2009 emergence date would be subject to the Section 382 limitation.

As a result of the fresh start accounting, the Company has increased its deferred tax liabilities and goodwill by $55.7 million to reflect the increase in book basis without any increase in the tax basis of certain assets which were adjusted for the fresh start. $31.2 million of the deferred tax liabilities relates to the fresh start increase in the value of certain indefinite lived intangibles. These deferred tax liabilities will remain on the books indefinitely subject to reduction only if the related indefinite lived intangibles which gave rise to the deferred tax liabilities are impaired. The reduction of the deferred tax liability due to impairment of the underlying indefinite lived intangibles would provide a tax benefit for the Company which would be offset by any future impairment expense of the indefinite lived intangibles. The remaining $24.5 million of deferred tax liability will be a tax benefit which will be offset when its underlying fresh start adjustment is released. The relief of the deferred tax liability will not result in any payment of cash by the company.

The Company incurred $(0.9) million, $(2.8) million and $(3.1) million of expense (benefit) in 2010, 2009 and 2008, respectively, related to foreign withholding tax on intercompany interest and royalties owed to our United States subsidiary.

On December 15, 2008 the U.S. Treasury Department announced that the Fifth Protocol ("Protocol") to the United States—Canada Income Tax Treaty entered into force. The Protocol is generally effective for tax years beginning on or after January 1, 2009, however certain provisions of the Protocol have different effective dates. The elimination of withholding tax on interest paid or credited between related parties is phased in over a 3-year period, between 2008 through 2010. The reduced withholding tax rates are 7% for 2008, 4% for 2009, and 0% for 2010 and thereafter. Effective January 1, 2010, interest paid by or to certain hybrid entities will not qualify for treaty benefits. The changes made by the Protocol have substantially reduced the accrued income tax.

During the fourth quarter of 2009, the company restructured its Canadian hybrid entity such that the Company now qualifies for an exemption from Canadian withholding tax on interest from Canadian subsidiaries. This restructuring also resulted in the release of accrued withholding tax resulting in a tax benefit of $2.8 million during 2009.

No provision, with the exception of $0.1 million of accrued withholding tax, was made in 2010 for United States income taxes on the undistributed earnings of the foreign subsidiaries as it is the Company's intention to utilize those earnings in the foreign operations for an indefinite period of time or to repatriate such earnings only when it is tax effective to do so.

The Company follows the provision of ASC No. 740-10, "Income Taxes" which prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the Company has taken or expects to take on a tax return. The Company is subject to challenge from various taxing authorities relative to certain tax planning strategies, including certain intercompany transactions as well as regulatory taxes.

Reconciliations of the successor period July 2, 2009 to December 31, 2009 and January 1, 2010 to December 31, 2010 and predecessor periods of January 1, 2009 to July 1, 2009 and January 1, 2008 to December 31, 2008 balances of unrecognized tax benefits are as follows (in thousands):

	Unrecognized Tax Benefits			
	Successor		Predecessor	
	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009	Year Ended December 31, 2008
Balance at January 1, (July 2, for Successor period)	$ 89,716	$ 88,953	$ 90,413	$116,454
Foreign currency adjustments	1,372	1,138	3,492	(11,215)
Statute expiration	(6,270)	(4,514)	—	(441)
Gross increases (decreases) of tax positions in prior period	(3,452)	1,622	(6,479)	(501)
Audit resolution	(1,609)	—	—	(16,977)
Gross increases of tax positions in current period	8,304	2,301	1,069	3,042
Penalties and interest	238	216	458	51
Balance at December 31, (July 1, for 2009 Predecessor period)	$ 88,299	$ 89,716	$88,953	$ 90,413

The total unrecognized tax benefits as of December 31 2010 were $88.3 million. Total unrecognized tax benefits of $5.2 million, if recognized, would affect the effective tax rate and includes penalties and interest of $1.9 million. The Company does not expect its unrecognized tax benefits to significantly increase or decrease over the next 12 months, with the possible exception of its Canada operating segment, which is currently involved in an ongoing international tax planning audit; the outcome of the tax planning audit is uncertain at this time.

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

Jurisdiction	Open Tax Years
United States Federal	2000, 2002-2010
Australia	2002-2010
Canada	2003-2010
United Kingdom	2004-2010
Netherlands	2007-2010

The Company has closed certain federal and provincial income tax examinations in Canada for the years 2000 through 2005 (federal) and 2001 through 2005 (provincial) with all assessments being received. The Company has concluded an examination in the Netherlands for the years 2002, 2003, 2004, 2005 and 2006. Based on the final settlement, the Company reversed its remaining liability in the fourth quarter of 2008 and paid those liabilities during 2009. The Company is also currently under examination in other foreign tax jurisdictions, none of which are individually material.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS AND DERIVATIVES

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate fair value due to relatively short periods to maturity. The estimated aggregate fair value of the Company’s 13% Senior Secured Notes and 14 1/4% Senior Subordinated Secured Notes was $247.8 at December 31, 2010 and was $245 million at December 31, 2009.

Contingent Value Rights Distribution Agreement (CVR)

Pursuant to the terms of the Reorganization Plan, (see “Note 2—Emergence from Voluntary Reorganization Under Chapter 11 of the Bankruptcy Code”), Group issued to holders of Group’s Old Common Stock Contingent Value Rights 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.

Due to the nature of CVR, the company accounted for the instrument in accordance with ASC No. 815, “Derivatives and Hedging,” as well as related interpretations of this standard. The Company determined these CVRs to be derivative instruments to be accounted for as liabilities and marked to fair value at each balance sheet date. Upon issuance, the Company estimated the fair value of its CVRs using a Black-Scholes pricing model and consequently recorded a liability of $2.6 million in the balance sheet caption “other liabilities” as part of fresh-start accounting. The Company adjusts the estimated fair value of its CVRs quarterly. The change in value is reflected in our Statements of Operations as gain (loss) from contingent valuation rights valuation. The company’s estimates of fair value of its CVRs are correlated to and reflective of the Company’s common stock price trends; in general, as the value of the Company’s common stock increases, the estimated fair value of the CVRs also increases and as a result the company recognizes a change in value of its CVRs as loss from contingent valuation rights valuation, conversely and also in general, as the value of the Company’s common stock decreases, the estimated fair value of the CVRs also decreases and as a result the company would recognize a change in value of the CVRs as gain from contingent rights valuation. During the year ended December 31, 2010 and the six months ended December 31, 2009 the Company recognized $13.7 million and $2.8 million of loss related from contingent valuation rights valuation, respectively.

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

		Fair Value as of December 31, 2010, using:		
	December 31, 2010	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Contingent Value Rights	$ 19,098	—	$ 19,098	—
Total	$ 19,098	—	$ 19,098	—

10. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments under capital leases and other ("Vendor Financing"), purchase obligations and non-cancelable operating leases as of December 31, 2010 are as follows (in thousands):

Year Ending December 31,	Capital Leases and Other	Purchase Obligations	Operating Leases
2011	$ 1,228	$ 34,142	$ 15,706
2012	340	7,115	13,886
2013	168	3,162	11,038
2014	20	1,162	7,119
2015	—	54	5,695
Thereafter	—	—	15,102
Total minimum lease payments	1,756	45,635	68,546
Less: Amount representing interest	(89)	—	—
Total	$ 1,667	$45,635	$68,546

The Company has contractual obligations to utilize an external vendor for certain customer support functions and to utilize network facilities from certain carriers with terms greater than one year. Generally, the Company does not purchase or commit to purchase quantities in excess of normal usage or amounts that cannot be used within the contract term or at rates below or above market value. The Company made purchases under purchase commitments of $31.3 million, $26.5 million and $33.6 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Successor

Rent expense under operating leases was $15.2 million for the year ended December 31, 2010.

Rent expense under operating leases was $8.1 million for the six months ended December 31, 2009.

Predecessor

Rent expense under operating leases was $5.6 million and $14.9 million for the six months ended July 1, 2009 and the year ended December 31, 2008, respectively.

Litigation

Legal Proceedings

Group 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 the legal proceedings will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

11. STOCKHOLDERS' EQUITY (DEFICIT)

Successor

As of December 31, 2010 there are 9,801,463 shares of common stock outstanding.

On the Effective Date of the Plan of Reorganization, all existing shares of Old Common Stock were cancelled and holders thereof received their pro rata share of contingent value rights to acquire up to 2,665,000 shares of New Common Stock on terms described under the Contingent Value Rights Distribution Agreement in Note 2. Holders of IHC's 14 1/4% Senior Secured Notes and the Holding Senior Notes received 9,600,000 shares of New Common Stock. As of December 31, 2009 there are 9,600,000 shares of common stock outstanding. In addition, the Company recorded $1.0 million of equity related to the issuance of the warrants.

The following table provides a reconciliation of beginning and ending shares (in thousands):

	Successor		Predecessor	
	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009	Year Ended December 31, 2008
Common Shares:				
Beginning balance	9,600	9,600	142,695	142,695
Plan of Reorganization and fresh-start adjustments	—	—	(133,095)	—
Common shares issued for restricted stock units—performance based	200	—	—	—
Common shares withheld to settle tax liability—performance based	(57)	—	—	—
Common shares issued for restricted stock units—service based	60	—	—	—
Common shares withheld to settle tax liability—service based	(2)	—	—	—
Ending balance	9,801	9,600	9,600	142,695

Predecessor

During the year ended December 31, 2008, 100,000 restricted stock units were fully vested upon involuntary termination of an employee without cause. The fair market value of the stock units at the grant date was $0.40 per share. The employee withholding tax was netted against the share issuance, and the Company issued 62,850 shares of common stock to the employee.

12. SHARE-BASED COMPENSATION

Successor

On the Effective Date, pursuant to the Plan, the Predecessor's employee stock compensation plan (the "Equity Incentive Plan") was cancelled and the Group's Management Compensation Plan became effective. The Management Compensation Plan provides that awards may be granted for up to 1,000,000 shares of New Common Stock, subject to adjustment in the case of certain changes in capitalization of reorganized Group, including, among other things, a reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, or other similar corporate transaction or event that affects the New Common Stock. The maximum aggregate number of shares of New Common Stock that may be granted during any fiscal year to any single individual who is likely to be a "covered employee" within the meaning of section 162(m)(3) of the Internal Revenue Code is 600,000, in the case of stock options or stock appreciation rights, and 400,000, in the case of restricted stock or other stock-based awards (other than stock appreciation rights).

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

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

Grants of Awards under the Management Compensation Plan—Emergence Awards

Restricted Stock Unit Award Agreements

On July 2, 2009, 400,000 restricted stock units (RSUs) were granted to certain employees and executive officers pursuant to the terms and conditions set forth in the form of restricted stock unit agreement (the "Emergence RSU Agreement").

Pursuant to the Emergence RSU Agreement, RSUs will vest in two equal tranches if reorganized Group attains at least ninety percent (90%) of the specified Adjusted EBITDA Targets for any fiscal year during the ten-year term of the Emergence RSU Agreement. Under certain circumstances specified in the Emergence RSU Agreement, if a participant's employment is terminated during any fiscal year in which the applicable percentage of the Adjusted EBITDA Target for such fiscal year is met, a pro rata portion of such participant's RSUs will vest based on the number of days such participant was employed during such fiscal year. The aggregate grant date fair value of the RSUs issued upon emergence was $1.6 million.

As of December 31, 2009, 200,000 of such RSUs vested with 143,157 common shares issued, net of shares withheld to settle tax liabilities, in the first quarter of 2010, upon approval by the Compensation Committee.

As of December 31, 2010, 81,085 of such RSUs were cancelled as related to employment terminations and 118,915 vested with common shares to be issued in the first quarter of 2011, upon approval by the Compensation Committee.

On October 12, 2010, 274,166 RSUs, with a fair value of $2.6 million, total were granted to an executive officer pursuant to the terms and conditions set forth in the executive officer's employment agreement.

On November 8, 2010, 100,000 RSUs, with a fair value of $9.80 per share, were granted to non-employee directors. One-half of the grant vested immediately and the remainder vest in quarters on December 31, 2011 and December 31, 2012.

On November 8, 2010, 30,000 RSUs, with a fair value of $9.80 per share, were granted to certain employees and executive officers. One-third of the grant vested immediately and the remainder vest in thirds on December 31, 2011 and December 31, 2012.

On November 8, 2010, 5,000 RSUs, with a fair value of $9.80 per share, were granted to a non-employee director. One-third of the grant vests immediately, or upon issuance and the remainder vest in thirds on December 31, 2011 and December 31, 2012.

Stock Option Award Agreements

On July 1, 2009, 387,403 service-based stock options were granted to certain employees and executive officers pursuant to the terms and conditions set forth in the form of stock option agreement (the "Emergence Option Agreement") and 100,000 performance-based stock options were granted to certain employees and executive officers pursuant to the terms and conditions set forth in the form of performance stock option agreement (the "Emergence Performance Option Agreement").

Emergence Option Agreement

The Emergence Option Agreement provides for the grant of a nonqualified stock option to purchase shares of New Common Stock at an exercise price per share equal to $12.22. The option vests ratably over two years, with 25% of the option vesting every six months after the date of grant, July 1, 2009. The stock option expires on the tenth anniversary of the Effective Date (the "Expiration Date"). The aggregate grant date fair value of the emergence stock options granted was $94 thousand.

Emergence Performance Option Agreement

The Emergence Performance Option Agreement provides for the grant of a nonqualified stock option to purchase shares of New Common Stock at an exercise price per share equal to $12.22. The performance option vests in two equal tranches if at least 115% of the specified Adjusted EBITDA Target is attained for any fiscal year during the term of the Emergence Performance Option Agreement. Under certain circumstances specified in the Emergence Performance Option Agreement, if a participant's employment is terminated during any fiscal year in which the applicable percentage of the Adjusted EBITDA Target for such fiscal year is met, a pro rata portion (based on the number of days such participant was employed during such fiscal year) of such participant's performance options will vest and remain exercisable until the earlier of one year following the date on which the Committee determines the applicable percentage of such Adjusted EBITDA Target has been attained (the "Measurement Date") and the tenth anniversary of the Effective Date (the "Expiration Date"). Any unvested portion of the performance option which is not vested and exercisable as of the Measurement Date will thereafter terminate. The performance option expires on the Expiration Date. The aggregate grant date fair value of the emergence performance stock options granted was $28 thousand.

Non-Employee Directors' Grants

Unless otherwise provided by the Committee, immediately following each annual meeting of the shareholders of Group during the term of the Management Compensation Plan commencing with the 2010 annual meeting of shareholders, each non-employee director will be granted a nonqualified stock option to purchase 10,000 shares of New Common Stock with an exercise price per share equal to the fair market value of a share of New Common Stock on the date of grant. Each stock option so granted will vest one third upon grant, one third on the first anniversary and one third on the second anniversary, such that 100% of the option will be vested and exercisable on the second anniversary of the grant date (subject to continued service as a non-employee director through each applicable vesting date). All other terms and conditions of the grants will be established by the Committee and set forth in the non-employee director's award agreement.

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Stock Option Activity

A summary of the Company's stock option activity during the year ended December 31, 2010 is as follows:

	Successor Year Ended December 31, 2010	
	Shares	Weighted Average Exercise Price
Outstanding—December 31, 2009	478,199	$12.22
Granted	40,000	$ 8.15
Exercised	(15,000)	$12.22
Forfeitures	(215,909)	$12.22
Expirations	(101,990)	$12.22
Outstanding—December 31, 2010	185,300	$ 11.34
Eligible for exercise	185,300	$ 11.34

The weighted average fair value at date of grant for options granted during the year ended December 31, 2010 was $8.15 per option. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Successor Year Ended December 31, 2010
Expected dividend yield	0%
Expected stock price volatility (1)	47%
Risk-free interest rate	1.2%
Expected option term	4 years

(1) Expected volatility is based upon the historical volatility of the Company's stock price. Because of the short trading history of the Company's new Common Stock, the Company calculates the expected volatility by averaging the historical volatility of the Company's New Common Stock price from July 13, 2009 to December 31, 2010 at a rate of 43.2% and the historical volatility of the stock price of a peer group in the telecommunications industry with similar market capitalization from January 1, 2006 to December 31, 2010 at a rate of 55.8%.

The following table summarizes information about Successor's stock options outstanding at December 31, 2010:

	Options Outstanding				Options Exercisable			
Range of Option Prices	Total Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value	Total Exercisable	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value
$7.60 – $12.22	185,300	8.6	$11.34	$214,684	100,382	8.3	$11.68	$82,368

For Emergence Performance Option and RSU compensation expense calculation, the Company met the specified Adjusted EBITDA Targets; therefore, according to the Plan, the two equal tranches of the options and RSUs have vested in Year 1 and Year 2, consecutively.

As of December 31, 2010, Successor had 0.1 million unvested options outstanding of which $0.1 million of compensation expense will be recognized over the weighted average remaining vesting period of 1.6 years. The number of unvested options expected to vest is 0.1 million awards, with a weighted average remaining life of 8.5 years, a weighted average exercise price of $11.39, and an intrinsic value of $0.1 million.

The Company recorded $1.6 million in stock-based compensation expenses for the year ended December 31, 2010, under guidance provided by ASC No. 718.

Predecessor

Under the Plan of Reorganization, all stock options granted under the Predecessor's Equity Incentive Plan were cancelled as of the Effective Date and $64 thousand of share-based compensation expense was recognized due to the accelerated recognition of the cancelled options.

The Company recorded $27 thousand and $0.3 million in stock-based compensation expenses for the six months ended July 1, 2009 and the year ended December 31, 2008, respectively, under guidance provided by ASC No. 718.

13. EMPLOYEE BENEFIT PLANS

The Company sponsors a 401(k) employee benefit plan (the "401(k) Plan") that covers substantially all United States based employees. Employees may contribute amounts to the 401(k) Plan not to exceed statutory limitations. The 401(k) Plan provides an employer matching contribution in cash of 50% of the first 6% of employee annual salary contributions capped at $6,000 which are subject to three-year cliff vesting.

Successor

The matching contribution made during the year ended December 31, 2010 was $206 thousand.

The matching contribution made during the six months ended December 31, 2009 was $87 thousand.

Predecessor

The matching contribution made for the six months ended July 1, 2009, and the year ended 2008 was $94 thousand and $168 thousand, respectively.

14. RELATED PARTIES

There were no material related party transactions during 2010, 2009 or 2008.

15. OPERATING SEGMENT AND RELATED INFORMATION

The Company has six reportable operating segments based on management's organization of the enterprise into geographic areas—United States, Canada, Europe, Australia, Brazil and the international carrier services business from the United States and Europe managed as a separate global segment. During the quarter ended June 30, 2009, management identified its Brazil operating segment as a reportable segment due to management's increased focus on it as a separate market and operations. The Company has appropriately presented its Brazil segment for the current periods and prior periods presented. The Company evaluates the performance of its segments and allocates resources to them based upon net revenue and income (loss) from operations. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Net revenue by geographic segment is reported on the basis of where services are provided. The Company has no single customer representing greater than 10% of its revenues. Corporate assets, capital expenditures and property and equipment-net are included in the United States segment, while corporate expenses are presented separately in Income (loss) from operations. The international carrier services business' assets are indistinguishable from the respective geographic segments. Therefore, any reporting related to the international carrier services business for assets, capital expenditures or other balance sheet items is impractical.

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During the third quarter of 2010 the company discontinued its Europe segment, which is 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 of the reissuance of its consolidated financial statements, 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 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, see Note 19, "Discontinued Operations," for further information.

Summary information with respect to the Company's segments is as follows:

	Successor		Predecessor	
	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009	Year Ended December 31, 2008
Net Revenue by Geographic Region				
United States	$112,669	$ 71,315	$ 78,060	$170,552
Canada	231,185	116,091	108,306	260,834
Europe (International Carrier Services)	116,686	69,010	62,131	114,734
Australia	276,722	132,656	110,502	276,588
Brazil	27,685	8,448	6,246	10,129
Total	$ 764,947	$ 397,520	$365,245	$ 832,837
Net Revenue by Segment				
United States	$ 50,724	$ 31,845	$ 35,709	$ 88,182
Canada	231,185	116,091	108,306	260,834
Australia	276,722	132,656	110,502	276,414
International Carrier Services	178,631	108,480	104,482	197,278
Brazil	27,685	8,448	6,246	10,129
Total	$ 764,947	$ 397,520	$365,245	$ 832,837
Provision for Doubtful Accounts Receivable				
United States	$ 1,789	$ 1,066	$ 1,470	$ 2,859
Canada	2,565	1,077	1,106	2,708
Australia	2,974	1,837	1,738	3,948
International Carrier Services	(422)	441	516	1,092
Brazil	416	160	114	597
Total	$ 7,322	$ 4,581	$ 4,944	$ 11,204
Income (Loss) from Operations				
United States	$ 819	$ 2,764	$ 4,439	$ 2,400
Canada	12,366	3,127	18,738	41,393
Australia	12,944	3,073	10,123	10,408
International Carrier Services	3,154	971	1,372	(1,407)
Brazil	952	(206)	231	(437)
Total From Operating Segments	30,235	9,729	34,903	52,357
Corporate	(17,576)	(4,090)	(6,670)	(9,468)
Total	$ 12,659	$ 5,639	$ 28,233	$ 42,889
Capital Expenditures				
United States	$ 1,146	$ 43	$ 73	$ 1,579
Canada	10,747	5,261	3,127	10,394
Europe (International Carrier Services)	535	40	174	839
Australia	13,044	3,795	1,997	12,376
Brazil	949	257	289	253
Total	$ 26,421	$ 9,396	$ 5,660	$ 25,441

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

	December 31, 2010	December 31, 2009
Property and Equipment—Net		
United States	$ 8,039	$ 10,760
Canada	56,476	58,927
Europe (International Carrier Services)	1,650	4,955
Australia	70,357	71,682
Brazil	1,966	1,282
Total	$ 138,488	$147,606

	December 31, 2010	December 31, 2009
Total Assets		
United States	$ 107,298	$ 133,276
Canada	206,310	194,600
Europe (International Carrier Services)	52,278	84,587
Australia	137,717	138,988
Brazil	10,856	7,463
Total	$514,459	$558,914

The Company offers four main products—retail voice, international carrier services voice, data/Internet and VOIP. Summary net revenue information with respect to the Company's products is as follows (in thousands):

	Successor		Predecessor	
	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009	Year Ended December 31, 2008
Retail voice	$358,599	$179,606	$166,253	$ 402,770
International Carrier Services	178,631	108,480	104,482	197,278
Data/Internet	194,632	88,166	71,650	185,483
Retail VOIP	33,085	21,268	22,860	47,306
Total	$ 764,947	$ 397,520	$365,245	$ 832,837

16. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a tabulation of the unaudited quarterly results of operations for the years ended December 31, 2010 and 2009.

	For the Quarter Ended (in thousands, except per share amounts)			
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
Net revenue	$ 193,017	$194,593	$188,199	$189,138
Cost of revenue (exclusive of depreciation)	121,991	123,960	120,858	121,803
Income from operations	3,029	4,774	2,124	2,732
Income (loss) from continuing operations	(174)	(11,809)	11,007	(9,371)
Income (loss) from discontinued operations, net of tax	(689)	(1,528)	(5,464)	(4,090)
Gain (loss) from sale of discontinued operations, net of tax	—	193	(389)	3,122
Net income (loss)	$ (999)	$ (13,038)	$ 5,080	$ (10,130)
Basic income (loss) per common share:				
Income (loss) from continuing operations	$ (0.03)	$ (1.20)	$ 1.12	$ (0.94)
Income (loss) from discontinued operations	(0.07)	(0.16)	(0.56)	(0.42)
Gain (loss) from sale of discontinued operations	—	0.02	(0.04)	0.32
Net income (loss)	$ (0.10)	$ (1.34)	$ 0.52	$ (1.04)
Diluted income (loss) per common share:				
Income (loss) from continuing operations	$ (0.03)	$ (1.20)	$ 1.12	$ (0.94)
Income (loss) from sale of discontinued operations	(0.07)	(0.16)	(0.56)	(0.42)
Gain (loss) from discontinued operations	—	0.02	(0.04)	0.32
Net income (loss)	$ (0.10)	$ (1.34)	$ 0.52	$ (1.04)

	For the Quarter Ended (in thousands, except per share amounts)			
	Predecessor		Successor	
	March 31, 2009	July 1, 2009	September 30, 2009	December 31, 2009
Net revenue	$181,189	$184,056	$ 194,946	$ 202,574
Cost of revenue (exclusive of depreciation)	120,045	116,880	126,889	132,677
Income from operations	13,925	14,308	2,149	3,490
Income (loss) from continuing operations	14,182	441,608	4,550	6,675
Income (loss) from discontinued operations, net of tax	(327)	15,659	2,175	(1,985)
Net income (loss)	$ 13,991	$457,163	$ 2,165	$ 4,567
Basic income (loss) per common share:				
Income (loss) from continuing operations	$ 0.10	$ 3.09	$ 0.46	$ 0.67
Income (loss) from discontinued operations	—	0.11	(0.22)	(0.20)
Gain (loss) from sale of discontinued operations	—	—	(0.01)	—
Net income (loss)	$ 0.10	$ 3.20	$ 0.23	$ 0.47
Diluted income (loss) per common share:				
Income (loss) from continuing operations	$ 0.08	$ 2.55	$ 0.46	$ 0.66
Income (loss) from discontinued operations	—	0.09	(0.22)	(0.20)
Gain (loss) from discontinued operations			(0.01)	
Net income (loss)	$ 0.08	$ 2.64	$ 0.23	$ 0.46

Quarterly and year-to-date computations of per share amounts are made independently; therefore, the sum of per share amounts for the quarters may not agree with per share amounts for the year.

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 of reorganization adjustments and fresh-start accounting as of such date and do not reflect any operating results. (See Note 4 “Fresh-Start Accounting” for further detail).

17. (GAIN) LOSS ON SALE OR DISPOSAL OF ASSETS

Successor

During the year ended December 31, 2010, the Company recognized a loss of $0.2 million associated with the sale or disposal of specific long-lived assets, which were taken out of service. The assets disposed or sold were comprised of leasehold improvement, switch and peripheral and other network equipment

During the six months ended December 31, 2009, the Company recognized a loss of $0.1 million associated with the sale or disposal of specific long-lived assets which were taken out of service. The assets disposed or sold were comprised of switch and peripheral and other network equipment.

Predecessor

During the six months ended July 1, 2009, the company recognized a gain of $43 thousand associated with the sale or disposal of specific long-lived assets which were taken out of service. The assets disposed or sold were comprised of switch and peripheral and other network equipment.

During the year ended December 31, 2008, the Company recognized a gain of $6.0 million associated with the sale or disposal of specific long-lived assets, as detailed below.

In the third quarter of 2008, a consolidated, variable interest entity in Canada, of which the Company currently owns 45.6% of the equity, sold certain primarily rural WIMAX spectrum (spectrum for transmission of sound, data, and video) assets (representing approximately 10% of the entity’s spectrum population coverage) for cash consideration of $4.9 million ($5.0 million CAD). The gain on the sale was $4.6 million; the noncontrolling interest on this gain was $2.5 million and was included in interest income and other income (expense). Total noncontrolling interest is $2.9 million included in other long-term liabilities. The cash proceeds from the sale of $4.9 million can be used for operations within the variable interest entity, but requires unanimous shareholder consent for a dividend distribution. Note that upon the adoption of the noncontrolling interest provisions of ASC No. 810, the presentation within the financial statements for these items has changed in accordance with these provisions. See “Note 3—Summary Of Significant Accounting Policies; Newly Adopted Accounting Principles.” Additionally, a $0.8 million gain was recognized for the sale of certain surplus fiber assets in the United States; a $1.7 million gain was recognized for the sale of a minority equity investment in a Japanese entity; and a $0.9 million loss was recognized on the disposal of certain equipment related to the WIMAX operations in Canada.

18. GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT

In May 2010, the Company paid $9.4 million in cash and retired $9.5 million in principal of its 14 1/4% Senior Subordinated Secured Notes. As a result, the Company recognized a $0.1 million gain from the early extinguishment of debt in its statement of operations for the year ended December 31, 2010.

In December 2009, the Company issued $130.0 million principal amount of 13% Senior Secured Notes due 2016. The proceeds from the offering were used to pay-off the Senior Secured Term Loan Facility and the Canadian Credit Facility. The Company recorded a $4.1 million loss on the early extinguishment of debt for the six months ended December 31, 2009 which included the write-off of related deferred financing costs, a prepayment premium and professional fees.

In 2008, the Company exchanged $49.0 million principal amount of the 8% Senior Notes, $33.0 million principal amount of the 5% Exchangeable Senior Notes, $43.1 million principal amount of the 3 3/4% Convertible Senior Notes, $5.3 million principal amount of the 12 3/4% Senior Notes for $67.1 million principal amount of its newly issued 14 1/4% Senior Secured Notes and $4.7 million of cash, resulting in a gain on restructuring of debt of $32.2 million including the expensing of related financing costs, which was adjusted to $32.3 million in the third quarter. The Company also made open market purchases of $0.8 million principal amount of the 12 3/4% Senior Notes, $13.8 million principal amount of the Step Up Convertible Subordinated Debentures and $2.1 million principal amount of the 14 1/4% Senior Secured Notes, resulting in a $0.1 million, $2.1 million and $2.0 million gain, respectively, on early extinguishment of debt including the write-off of related deferred financing costs, discount and effective interest.

19. DISCONTINUED OPERATIONS

Discontinued Operations—subsequent to December 31, 2009

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

During the third quarter of 2010 the Company committed to dispose of and began actively soliciting the disposition of its Europe segment, also known as the Company's remaining European retail operations. As of December 31, 2010 the Company presented its remaining European retail operations as discontinued operations and the related assets and liabilities as held for sale. The Company sold its Belgian operations, to Webcetra BVBA, for a sale price of approximately $1.3 million during the third quarter and as a result, recorded a $40 thousand gain from the sale of these retail operations. In October 2010 the Company completed the sale of its United Kingdom retail operations customer base and certain of its assets, to NewCall Telecom Ltd., for a sale price of approximately $6.8 million including a note receivable of $2.1 million, and completed the sale of its Italian retail operations customer base for approximately $0.2 million; as a result the Company recorded gain of $2.4 million and loss of $0.3 million, respectively, from the sale of these assets. The Company sold its operations located in France, to AFone, during December 2010 for a sale price of approximately $4.0 million, in addition AFone assumed all of the existing liabilities of the France operations, consequently the Company recognized a gain from the sale of these operations of approximately $0.9 million. Consideration received from the sale of the France operations included a note receivable of $1.3 million.

Discontinued Operations—prior to December 31, 2009

In the first quarter 2009, the Company sold certain assets of its Japan retail operations. The sale price was $0.4 million (40 million Japanese yen), which included $0.2 million (20 million Japanese yen) in cash and $0.2 million (20 million Japanese yen) receivable. The Company recorded a $0.3 million gain from sale of assets. The Company reported Japan retail operations as a discontinued operation beginning in the fourth quarter of 2008.

In the second quarter 2008, the Company determined it would sell its German retail operations. However, buyers were not found; therefore the Company decided to cease operations of the German retail business during the first quarter of 2009.

As a result of these events, the Company's consolidated financial statements reflect the European retail operations, Japan retail operations, German retail operations, discontinued German subsidiary and Planet Domain operations as discontinued operations for the year ended December 31, 2010 and for the six months ended December 31 and the six months ended July 1, 2009, and the year ended December 31, 2008. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as income or loss, (where applicable), from discontinued operations.

Summarized operating results of the discontinued operations for the year ended December 31, 2010, six months ended December 31, 2009, six months ended July 1, 2009 and year ended December 31, 2008 are as follows (in thousands): .

	Successor		Predecessor	
	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009	Year Ended December 31, 2008
Net revenue	$ 37,506	$ 26,813	$ 26,271	$ 66,876
Operating expenses	50,605	29,322	27,408	71,718
Income (loss) from operations	(13,099)	(2,509)	(1,137)	(4,842)
Interest expense	(8)	(45)	(42)	83
Interest income and other income (expense)	(396)	(160)	37	52
Foreign currency transaction gain (loss)	(137)	(1,184)	788	(808)
Reorganization items	—	(14)	15,269	—
Income (loss) before income tax	(13,640)	(3,912)	14,915	(5,515)
Income tax benefit (expense)	1,869	(138)	166	(375)
Income (loss) from discontinued operations	$ (11,771)	$ (4,050)	$ 15,081	$ (5,890)

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

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

Successor

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

The Company had no dilutive common share equivalents during the year ended December 31, 2010, due to the results of operations being a net loss. For the year ended December 31, 2010, the following were potentially dilutive but were excluded from the calculation of diluted loss per common share due to their antidilutive effect:

- 0.6 million shares issuable upon exercise of stock options and RSUs under the Successor's Management Compensation Plan;
- 4.5 million shares issuable upon exercise of stock warrants; and
- 2.7 million shares issuable upon exercise of CVRs.

For the six months ended December 31, 2009, the following could potentially dilute income per common share in the future but was excluded from the calculation of diluted income per common share due to its antidilutive effect:

- 0.7 million shares issuable upon exercise of stock options and RSUs under the Successor's Management Compensation Plan;
- 4.5 million shares issuable upon exercise of stock warrants; and
- 2.7 million shares issuable upon exercise of CVRs.

Predecessor

Potentially dilutive common shares for Predecessor primarily included the dilutive effects of common shares issuable under Predecessor's Equity Incentive Plan computed using the treasury stock method and the dilutive effects of shares issuable upon conversion of its 5% Exchangeable Senior Notes, the Step Up Convertible Subordinated Debentures, the 3 3/4% Convertible Senior Notes and the 2000 Convertible Subordinated Debentures.

For the six months ended July 1, 2009, the following was potentially dilutive but was excluded from the calculation of diluted income per common share due to its antidilutive effect:

- 7.8 million shares issuable under the Predecessor's Equity Incentive Plan.

The Company had no dilutive common share equivalents during the year ended December 31, 2008, due to the results of operations being a net loss. For the year ended December 31, 2008, the following were potentially dilutive but were excluded from the calculation of diluted loss per common share due to their antidilutive effects:

- 7.8 million shares issuable under the Company's stock option compensation plans,
- 19.5 million shares issuable upon the conversion of the 5% Exchangeable Senior Notes,
- 7.3 million shares issuable upon the conversion of the Step Up Convertible Subordinated Debentures, and
- 3.7 million shares issuable upon conversion of the 3 3/4% Convertible Senior Notes.

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

	Successor		Predecessor	
	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009	Year Ended December 31, 2008
Income (loss) from continuing operations	$ (10,242)	$ 10,892	$ 455,822	$ (19,141)
Loss from discontinued operations, net of tax	(11,771)	(4,050)	15,081	(5,890)
Gain from sale of discontinued operations, net of tax	2,926	(110)	251	—
Net income (loss) attributable to common stockholders—basic	(19,087)	6,732	471,154	(25,031)
Adjustment for interest expense on Step Up Convertible Subordinated Debentures	—	—	210	—
Adjustment for interest expense on 3 3/4% Convertible Senior Notes	—	—	332	—
Income attributable to common stockholders—diluted	$ (19,087)	$ 6,732	$ 471,696	$ (25,031)
Weighted average common shares outstanding—basic	9,721	9,600	142,695	142,643
Restricted Stock Units (1)		200	—	—
5% Exchangeable Senior Notes	—	—	19,474	—
Step Up Convertible Subordinated Debentures	—	—	7,280	—
3 3/4% Convertible Senior Notes	—	—	3,668	—
In-the-money options exercisable under stock option compensation plans	—	—	—	—
Weighted average common shares outstanding—diluted	9,721	9,800	173,117	142,643
Basic income per common share:				
Income from continuing operations attributable to common stockholders	$ (1.05)	$ 1.13	$ 3.19	$ (0.13)
Loss from discontinued operations	(1.21)	(0.42)	0.11	(0.05)
Gain from sale of discontinued operations	0.30	(0.01)	0.00	—
Net income (loss) attributable to common stockholders	$ (1.96)	$ 0.70	$ 3.30	$ (0.18)
Diluted income per common share:				
Income from continuing operations attributable to common stockholders	$ (1.05)	$ 1.11	$ 2.63	$ (0.13)
Loss from discontinued operations	(1.21)	(0.41)	0.09	(0.05)
Gain from sale of discontinued operations	0.30	(0.01)	0.00	—
Net income (loss) attributable to common stockholders	$ (1.96)	$ 0.69	$ 2.72	$ (0.18)

(1) Restricted Stock Units that vested in 2009 and common stock that was issuable subsequent to December 31, 2009

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21. REORGANIZATION ITEMS, NET

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

	Successor	
	Year Ended December 31, 2010	Six Months Ended December 31, 2009
Professional Fees	$ 1	$ (421)
Gain on Extinguishment of debt	—	—
Revaluation of assets and liabilities	—	—
Debt Premium, Discount and Deferred Financing Costs Write-off	—	—
Reversal of Future Interest Payments Recorded as Long Term Obligations	—	—
Interest Income	—	—
Reorganization Items, net	$ 1	$ (421)

Professional fees include financial, legal and other services directly associated with the reorganization process. Payments for reorganization expense for the six months ended December 30, 2009 were $7.6 million. Payments for reorganization expense for the six months ended July 1, 2009 were $4.6 million. In accordance with ASC No. 852, the Company ceased amortization of debt premiums, discounts and deferred financing costs related to the liabilities subject to compromise on the Petition Date. The $3.5 million of unamortized debt premiums and discounts have been written off and recorded as a gain, offset by the expensing of $3.6 million of unamortized deferred financing costs, as an adjustment to the net carrying value of the pre-petition debt. Long term debt was further reduced by $20.5 million of future interest payable that previously had been recorded as a portion of long-term obligations for the 14 1/4% Senior Secured Notes and 5% Exchangeable Senior Notes as the issuance of these notes had been deemed troubled debt restructurings. Upon emergence from bankruptcy, Predecessor debt in the amount of $439.6 million was written off along with the accrued interest related to this debt in the amount of $11.5 million. In addition, the Successor Company issued $123.5 million of new debt upon emergence and issued 4.8 million shares of Successor Company common stock to the former holders of the Company's debt.

22. GUARANTOR/NON-GUARANTOR CONSOLIDATING CONDENSED FINANCIAL INFORMATION

Primus Telecommunications IHC, Inc.'s 14 1/4% Senior Secured Notes were fully, unconditionally, jointly and severally guaranteed by Group on a senior basis and by Holding, Primus Telecommunications, Inc., Least Cost Routing, Inc., iPRIMUS.com Inc., TresCom International Inc., TresCom U.S.A., Inc., and iPRIMUS USA, Inc., all 100% indirectly owned subsidiaries of Group (collectively, the "Other Guarantors"). Group has a 100% ownership in Holding and no direct subsidiaries other than Holding.

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

Accordingly, the following consolidating condensed financial information for the year ended December 31, 2010 and the six months ended December 31, 2009 for Successor and for the six months ended July 1, 2009, and the year ended December 31, 2008 are included for (a) Group on a stand-alone basis; (b) Primus Telecommunications IHC, Inc. (IHC) on a stand-alone basis; (c) the Other Guarantor subsidiaries on a combined basis; (d) Group's indirect non-guarantor subsidiaries on a combined basis and (e) Group on a consolidated basis. The plan and fresh-start accounting adjustments reflected in Predecessor's Consolidated Condensed Statements of Operations on July 1, 2009 are not presented separately in this presentation.

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

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(in thousands)

	Successor					
	For the Year Ended December 31, 2010					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$ —	$ —	$ 92,949	$ 671,998	$ —	$ 764,947
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)	—	—	72,770	415,842	—	488,612
Selling, general and administrative	4,749	9	30,578	162,865	—	198,201
Depreciation and amortization	—	—	5,133	60,146	—	65,279
Gain (loss) on sale or disposal of assets	—	—	(196)	392	—	196
Total operating expenses	4,749	9	108,285	639,245	—	752,288
INCOME (LOSS) FROM OPERATIONS	(4,749)	(9)	(15,336)	32,753	—	12,659
INTEREST EXPENSE	—	(16,710)	(11,660)	(7,120)	—	(35,490)
ACCRETION (AMORTIZATION) ON DEBT PREMIUM/DISCOUNT, net	—	—	(149)	(34)	—	(183)
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	—	91	73	—	—	164
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(13,737)	—	—	—	—	(13,737)
INTEREST AND OTHER INCOME	4	—	—	737	—	741
FOREIGN CURRENCY TRANSACTION GAIN	—	2,457	13	13,943	—	16,413
INTERCOMPANY INTEREST	(924)	15,362	(9,859)	(4,579)	—	—
MANAGEMENT FEE	—	—	4,292	(4,292)	—	—
ROYALTY FEE	—	13,088	—	(13,088)	—	—
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(19,406)	14,279	(32,626)	18,320	—	(19,433)
REORGANIZATION ITEMS, net	1	—	—	—	—	1
INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES	(19,405)	14,279	(32,626)	18,320	—	(19,432)
INCOME TAX BENEFIT (EXPENSE)	—	(929)	414	9,600	—	9,085
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(19,405)	13,350	(32,212)	27,920	—	(10,347)
EQUITY IN NET INCOME OF SUBSIDIARIES	318	—	32,530	—	(32,848)	—
INCOME FROM CONTINUING OPERATIONS	(19,087)	13,350	318	27,920	(32,848)	(10,347)
LOSS FROM DISCONTINUED OPERATIONS, net of tax	—	—	—	(11,771)	—	(11,771)
GAIN ON SALE OF DISCONTINUED OPERATIONS, net of tax	—	—	—	2,926	—	2,926
NET INCOME (LOSS)	(19,087)	13,350	318	19,075	(32,848)	(19,192)
Less: Net income attributable to the noncontrolling interest	—	—	—	105	—	105
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$(19,087)	$ 13,350	$ 318	$ 19,180	$ (32,848)	$ (19,087)
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income from continuing operations, net of tax	$(19,087)	$ 13,350	$ 318	$ 28,025	$ (32,848)	$ (10,242)
Loss from discontinued operations	—	—	—	(11,771)	—	(11,771)
Gain from sale of discontinued operations	—	—	—	2,926	—	2,926
Net income	$(19,087)	$ 13,350	$ 318	$ 19,180	$ (32,848)	$ (19,087)

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(in thousands)

	Successor					
	For the Six Months Ended December 31, 2009					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$ —	$ —	$ 59,751	$ 337,769	$ —	$ 397,520
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)	—	—	48,017	211,549	—	259,566
Selling, general and administrative	266	1	13,091	81,865	—	95,223
Depreciation and amortization	—	—	2,334	34,656	—	36,990
(Gain) loss on sale or disposal of assets	—	—	11	91	—	102
Total operating expenses	266	1	63,453	328,161	—	391,881
INCOME (LOSS) FROM OPERATIONS	(266)	(1)	(3,702)	9,608	—	5,639
INTEREST EXPENSE	—	(8,797)	(6,196)	(2,285)	—	(17,278)
ACCRETION (AMORTIZATION) ON DEBT PREMIUM/ DISCOUNT, net	—	—	(3)	—	—	(3)
LOSS ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	—	—	(2,728)	(1,418)	—	(4,146)
LOSS FROM CONTINGENT VALUE RIGHTS VALUATION	(2,804)	—	—	—	—	(2,804)
INTEREST AND OTHER INCOME	—	—	135	357	—	492
FOREIGN CURRENCY TRANSACTION GAIN	13	8,989	6	10,558	—	19,566
INTERCOMPANY INTEREST	(616)	7,698	(5,118)	(1,964)	—	—
MANAGEMENT FEE	—	—	2,070	(2,070)	—	—
ROYALTY FEE	—	6,314	—	(6,314)	—	—
INCOME (LOSS) BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(3,673)	14,203	(15,536)	6,472	—	1,466
REORGANIZATION ITEMS—NET	(515)	—	95	(1)	—	(421)
INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES	(4,188)	14,203	(15,441)	6,471	—	1,045
INCOME TAX BENEFIT (EXPENSE)	64	916	34	9,166	—	10,180
INCOME (LOSS) BEFORE EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(4,124)	15,119	(15,407)	15,637	—	11,225
EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	10,856	—	26,671	—	(37,527)	—
INCOME (LOSS) FROM CONTINUING OPERATIONS	6,732	15,119	11,264	15,637	(37,527)	11,225
LOSS FROM DISCONTINUED OPERATIONS, net of tax	—	—	—	(4,050)	—	(4,050)
LOSS FROM SALE OF DISCONTINUED OPERATIONS, net of tax	—	—	—	(110)	—	(110)
NET (LOSS) INCOME	6,732	15,119	11,264	11,477	(37,527)	7,065
Less: Net income attributable to the noncontrolling interest	—	—	—	(333)	—	(333)
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 6,732	$15,119	$ 11,264	$ 11,144	$ (37,527)	$ 6,732
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income (loss) from continuing operations, net of tax	$ 6,732	$15,119	$ 11,264	$ 15,304	$ (37,527)	$ 10,892
Loss from discontinued operations	—	—	—	(4,050)	—	(4,050)
Gain from sale of discontinued operations	—	—	—	(110)	—	(110)
Net income (loss)	$ 6,732	$15,119	$ 11,264	$ 11,144	$ (37,527)	$ 6,732

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(in thousands)

	Predecessor					
	For the Six Months Ended July 1, 2009					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$ —	$ —	$ 65,361	$ 299,884	$ —	$ 365,245
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)	—	—	52,058	184,867	—	236,925
Selling, general and administrative	4,638	23	12,587	71,337	—	88,585
Depreciation and amortization	—	—	1,317	10,228	—	11,545
(Gain) loss on sale or disposal of assets	—	—	(177)	134	—	(43)
Total operating expenses	4,638	23	65,785	266,566	—	337,012
INCOME (LOSS) FROM OPERATIONS	(4,638)	(23)	(424)	33,318	—	28,233
INTEREST EXPENSE	(794)	(3,331)	(7,867)	(2,101)	—	(14,093)
ACCRETION (AMORTIZATION) ON DEBT PREMIUM/DISCOUNT, net	(129)	318	—	—	—	189
INTEREST AND OTHER INCOME	—	—	8	370	—	378
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	2,632	8,349	(705)	10,056	—	20,332
INTERCOMPANY INTEREST	(4,169)	14,549	(8,764)	(1,616)	—	—
MANAGEMENT FEE	—	—	4,152	(4,152)	—	—
ROYALTY FEE	—	5,277	—	(5,277)	—	—
INCOME (LOSS) BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(7,098)	25,139	(13,600)	30,598	—	35,039
REORGANIZATION ITEMS—NET	(34,650)	79,592	286,279	93,604	—	424,825
INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(41,748)	104,731	272,679	124,202	—	459,864
INCOME TAX EXPENSE	—	(380)	(53)	(3,641)	—	(4,074)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(41,748)	104,351	272,626	120,561	—	455,790
EQUITY IN NET INCOME OF SUBSIDIARIES	512,902	—	321,743	—	(834,645)	—
INCOME FROM CONTINUING OPERATIONS	471,154	104,351	594,369	120,561	(834,645)	455,790
LOSS FROM DISCONTINUED OPERATIONS, net of tax	—	—	—	15,081	—	15,081
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax	—	—	—	251	—	251
NET INCOME	471,154	104,351	594,369	135,893	(834,645)	471,122
Less: Net loss attributable to the noncontrolling interest	—	—	—	32	—	32
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 471,154	$104,351	$ 594,369	$ 135,925	$ (834,645)	$ 471,154
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income from continuing operations, net of tax	$ 471,154	$104,351	$ 594,369	$ 120,593	$ (834,645)	$ 455,822
Loss from discontinued operations	—	—	—	15,081	—	15,081
Gain from sale of discontinued operations	—	—	—	251	—	251
Net income	$ 471,154	$104,351	$ 594,369	$ 135,925	$ (834,645)	$ 471,154

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(in thousands)

	Predecessor					
	For the Year Ended December 31, 2008					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$ —	$ —	$141,065	$691,772	$ —	$ 832,837
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)	—	—	114,897	411,538	—	526,435
Selling, general and administrative	5,097	171	33,534	200,321	—	239,123
Depreciation and amortization	—	—	3,245	27,111	—	30,356
Gain on sale or disposal of assets	—	—	(806)	(5,160)	—	(5,966)
Total operating expenses	5,097	171	150,870	633,810	—	789,948
INCOME (LOSS) FROM OPERATIONS	(5,097)	(171)	(9,805)	57,962	—	42,889
INTEREST EXPENSE	(5,301)	(15,900)	(27,818)	(4,952)	—	(53,971)
ACCRETION (AMORTIZATION) ON DEBT PREMIUM/DISCOUNT, net	(858)	1,441	—	—	—	583
GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	12,448	1,532	22,784	108	—	36,872
INTEREST AND OTHER INCOME (EXPENSE)	18	—	(1)	3,267	—	3,284
FOREIGN CURRENCY TRANSACTION LOSS	(3,523)	(16,270)	(525)	(26,060)	—	(46,378)
INTERCOMPANY INTEREST	(9,390)	20,594	(12,075)	871	—	—
MANAGEMENT FEE	—	—	5,925	(5,925)	—	—
ROYALTY FEE	—	13,684	—	(13,684)	—	—
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(11,703)	4,910	(21,515)	11,587	—	(16,721)
INCOME TAX BENEFIT (EXPENSE)	211	379	558	(409)	—	739
INCOME (LOSS) BEFORE EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(11,492)	5,289	(20,957)	11,178	—	(15,982)
EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(13,539)	—	3,207	—	10,332	—
INCOME (LOSS) FROM CONTINUING OPERATIONS	(25,031)	5,289	(17,750)	11,178	10,332	(15,982)
LOSS FROM DISCONTINUED OPERATIONS, net of tax	—	—	—	(5,890)	—	(5,890)
NET INCOME (LOSS)	$ (25,031)	$ 5,289	$ (17,750)	$ 5,288	$ 10,332	$ (21,872)
Less: Net income attributable to the noncontrolling interest	—	—	—	(3,159)	—	(3,159)
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (25,031)	$ 5,289	$ (17,750)	$ 2,129	$ 10,332	$ (25,031)
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income (loss) from continuing operations, net of tax	$ (25,031)	$ 5,289	$ (17,750)	$ 8,019	$ 10,332	$ (19,141)
Loss from discontinued operations	—	—	—	(5,890)	—	(5,890)
Net income (loss)	$ (25,031)	$ 5,289	$ (17,750)	$ 2,129	$ 10,332	$ (25,031)

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED BALANCE SHEET

(in thousands)

	Successor					
	December 31, 2010					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 15,398	$ 273	$ 1,947	$ 23,916	$ —	$ 41,534
Accounts receivable	—	—	8,930	67,898	—	76,828
Prepaid expenses and other current assets	898	—	6,152	12,389	—	19,439
Total current assets	16,296	273	17,029	104,203	—	137,801
INTERCOMPANY RECEIVABLES	—	231,765	557,033	50,385	(839,183)	—
INVESTMENTS IN SUBSIDIARIES	474,684	—	193,775	—	(668,459)	—
RESTRICTED CASH	—	—	253	11,864	—	12,117
PROPERTY AND EQUIPMENT—Net	—	—	7,956	130,532	—	138,488
GOODWILL	—	29,642	318	33,771	—	63,731
OTHER INTANGIBLE ASSETS—Net	—	76,200	2,224	69,325	—	147,749
OTHER ASSETS	—	—	3,987	10,586	—	14,573
TOTAL ASSETS	$490,980	$ 337,880	$ 782,575	$ 410,666	$ (1,507,642)	$ 514,459
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
CURRENT LIABILITIES:						
Accounts payable	$ 17	$ —	$ 2,016	$ 34,909	$ —	$ 36,942
Accrued interconnection costs	—	—	6,549	23,022	—	29,571
Deferred revenue	—	—	1,550	11,341	—	12,891
Accrued expenses and other current liabilities	1,915	—	10,194	34,382	—	46,491
Accrued income taxes	20	2,956	(90)	4,792	—	7,678
Accrued interest	—	1,354	522	276	—	2,152
Current portion of long-term obligations	—	—	—	1,143	—	1,143
Total current liabilities	1,952	4,310	20,741	109,865	—	136,868
INTERCOMPANY PAYABLES	390,540	—	202,788	245,855	(839,183)	—
LONG-TERM OBLIGATIONS	—	114,016	83,859	44,873	—	242,748
DEFERRED TAX LIABILITY	—	29,642	1,433	1,133	—	32,208
CONTINGENT VALUE RIGHTS	19,098	—	—	—	—	19,098
OTHER LIABILITIES	—	—	(930)	1,433	—	503
Total liabilities	411,590	147,968	307,891	403,159	(839,183)	431,425
COMMITMENTS AND CONTINGENCIES						
STOCKHOLDERS' EQUITY (DEFICIT):						
Primus Telecommunications Group, Incorporated Stockholders' Equity (Deficit):						
Common stock	10	—	—	—	—	10
Additional paid-in capital	86,984	161,445	458,763	(31,661)	(588,547)	86,984
Accumulated earnings (deficit)	(12,355)	28,467	11,174	30,325	(69,966)	(12,355)
Accumulated other comprehensive loss	4,751	—	4,747	5,199	(9,946)	4,751
Total Primus Telecommunications Group, Incorporated stockholders' equity (deficit)	79,390	189,912	474,684	3,863	(668,459)	79,390
Noncontrolling interest	—	—	—	3,644	—	3,644
Total stockholders' equity (deficit)	79,390	189,912	474,684	7,507	(668,459)	83,034
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$490,980	$ 337,880	$ 782,575	$ 410,666	$ (1,507,642)	$ 514,459

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED BALANCE SHEET
(in thousands)

	Successor					
	December 31, 2009					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 6,736	$ —	$ 1,672	$ 34,130	$ —	$ 42,538
Accounts receivable	—	—	9,831	79,511	—	89,342
Prepaid expenses and other current assets	324	—	5,666	9,157	—	15,147
Total current assets	7,060	—	17,169	122,798	—	147,027
INTERCOMPANY RECEIVABLES	—	227,973	557,151	55,390	(840,514)	—
INVESTMENTS IN SUBSIDIARIES	473,703	—	80,922	—	(554,625)	—
RESTRICTED CASH	—	—	253	10,185	—	10,438
PROPERTY AND EQUIPMENT—Net	—	—	10,356	137,250	—	147,606
GOODWILL	—	29,642	318	34,260	—	64,220
OTHER INTANGIBLE ASSETS—Net	—	—	83,497	95,310	—	178,807
OTHER ASSETS	—	—	4,615	6,201	—	10,816
TOTAL ASSETS	$ 480,763	$ 257,615	$ 754,281	$ 461,394	$ (1,395,139)	$ 558,914
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
CURRENT LIABILITIES:						
Accounts payable	$ 57	$ —	$ 3,784	$ 41,978	$ —	$ 45,819
Accrued interconnection costs	—	—	10,427	27,134	—	37,561
Deferred revenue	—	—	1,860	12,022	—	13,882
Accrued expenses and other current liabilities	1,251	—	7,827	40,626	—	49,704
Accrued income taxes	—	2,622	78	7,929	—	10,629
Accrued interest	—	1,515	307	163	—	1,985
Current portion of long-term obligations	—	—	62	4,212	—	4,274
Total current liabilities	1,308	4,137	24,345	134,064	—	163,854
INTERCOMPANY PAYABLES	377,754	—	171,457	291,303	(840,514)	—
LONG-TERM OBLIGATIONS	—	123,472	83,874	45,896	—	253,242
DEFERRED TAX LIABILITY	—	29,642	—	6,410	—	36,052
CONTINGENT VALUE RIGHTS	5,362	—	—	—	—	5,362
OTHER LIABILITIES	—	—	495	—	—	495
Total liabilities	384,424	157,251	280,171	477,673	(840,514)	459,005
COMMITMENTS AND CONTINGENCIES						
STOCKHOLDERS' EQUITY (DEFICIT):						
Primus Telecommunications Group, Incorporated Stockholders' Equity (Deficit):						
Common stock	10	—	—	—	—	10
Additional paid-in capital	85,533	85,245	458,783	(35,161)	(508,867)	85,533
Accumulated deficit	6,732	15,119	11,263	11,145	(37,527)	6,732
Accumulated other comprehensive loss	4,064	—	4,064	4,167	(8,231)	4,064
Total Primus Telecommunications Group, Incorporated stockholders' equity (deficit)	96,339	100,364	474,110	(19,849)	(554,625)	96,339
Noncontrolling interest	—	—	—	3,570	—	3,570
Total stockholders' equity (deficit)	96,339	100,364	474,110	(16,279)	(554,625)	99,909
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 480,763	$ 257,615	$ 754,281	$ 461,394	$ (1,395,139)	$ 558,914

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
(in thousands)

	Successor					
	For the Year Ended December 31, 2010					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$(19,087)	$ 13,350	$ 318	$ 19,075	$ (32,848)	$ (19,192)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Reorganization items, net	(1)	—	—	—	—	(1)
Provision for doubtful accounts receivable	—	—	1,150	7,242	—	8,392
Stock compensation expense	—	—	1,635	—	—	1,635
Depreciation and amortization	—	—	5,134	63,086	—	68,220
Impairment expense	—	—	—	6,161	—	6,161
Gain on sale or disposal of assets	—	—	(196)	(2,346)	—	(2,542)
Accretion (amortization) of debt premium/discount, net	—	30	57	96	—	183
Equity in net income of subsidiary	(318)	—	(32,530)	—	32,848	—
Change in fair value of Contingent Value Rights	13,737	—	—	—	—	13,737
Deferred income taxes	—	—	(1,307)	(5,014)	—	(6,321)
Gain (loss) on early extinguishment or restructuring of debt	—	(91)	(73)	—	—	(164)
Unrealized foreign currency transaction gain on intercompany and foreign debt	—	(1,562)	—	(14,172)	—	(15,734)
Changes in assets and liabilities, net of acquisitions:						
(Increase) decrease in accounts receivable	—	—	(209)	3,614	—	3,405
(Increase) decrease in prepaid expenses and other current assets	(576)	—	(572)	(28)	—	(1,176)
(Increase) decrease in other assets	—	—	747	(3,292)	—	(2,545)
(Increase) decrease in intercompany balance	—	24,940	3,945	(28,885)	—	—
Increase (decrease) in accounts payable	(39)	—	(1,773)	(6,664)	—	(8,476)
Increase (decrease) in accrued interconnection costs	—	—	(3,878)	(2,289)	—	(6,167)
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities, and other liabilities	802	—	1,455	(2,588)	—	(331)
Increase (decrease) in accrued income taxes	—	134	1,465	(4,180)	—	(2,581)
Increase (decrease) in accrued interest	—	(161)	1,135	(856)	—	118
Net cash provided by (used in) operating activities before reorganization items	(5,482)	36,640	(23,497)	28,960	—	36,621
Cash effect of reorganization items	(137)	—	—	—	—	(137)
Net cash provided by (used in) operating activities	(5,619)	36,640	(23,497)	28,960	—	36,484
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of property and equipment	—	—	(961)	(25,460)	—	(26,421)
Sale of property and equipment and intangible items	—	—	196	5,402	—	5,598
Cash from disposition of business, net of cash disposed	—	—	—	123	—	123
(Increase) decrease in restricted cash	—	—	—	(521)	—	(521)
Proceeds from intercompany balance	14,098	—	46,856	—	(60,954)	—
Net cash provided by (used in) investing activities	14,098	—	46,091	(20,456)	(60,954)	(21,221)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Proceeds from issuance of long-term obligations	183	—	74	(257)	—	—
Principal payments on other long-term obligations	—	(9,446)	(164)	(4,256)	—	(13,866)
Proceeds from (payments on) intercompany balance	—	(26,921)	(21,547)	(12,486)	60,954	—
Net cash provided by (used in) financing activities	183	(36,367)	(21,637)	(16,999)	60,954	(13,866)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	—	(682)	(1,719)	—	(2,401)
NET CHANGE IN CASH AND CASH EQUIVALENTS	8,662	273	275	(10,214)	—	(1,004)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,736	—	1,672	34,130	—	42,538
CASH AND CASH EQUIVALENTS, END OF PERIOD	$15,398	$ 273	$ 1,947	$ 23,916	$ —	$ 41,534

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
(in thousands)

	Successor					
	For the Six Months Ended December 31, 2009					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$ 6,732	$15,119	$ 11,264	$ 11,477	$ (37,527)	$ 7,065
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Reorganization items, net	515	—	(95)	142	—	562
Provision for doubtful accounts receivable	—	—	678	4,336	—	5,014
Stock compensation expense	—	—	1,151	—	—	1,151
Depreciation and amortization	—	—	2,334	37,196	—	39,530
Gain on sale or disposal of assets	—	—	11	280	—	291
Accretion (amortization) of debt premium/discount, net	—	—	3	—	—	3
Equity in net income of subsidiary	(10,856)	—	(26,671)	—	37,527	—
Change in fair value of Contingent Value Rights	2,804	—	—	—	—	2,804
Deferred income taxes	—	—	—	(3,891)	—	(3,891)
Loss on early extinguishment or restructuring of debt	—	—	817	1,372	—	2,189
Unrealized foreign currency transaction gain on intercompany and foreign debt	—	(9,399)	(6)	(11,071)	—	(20,476)
Changes in assets and liabilities, net of acquisitions:						
(Increase) Decrease in accounts receivable	—	—	(851)	5,572	—	4,721
(Increase) decrease in prepaid expenses and other current assets	(219)	—	(914)	3,013	—	1,880
Decrease in other assets	—	—	1,016	785	—	1,801
(Increase) decrease in intercompany balance	—	535	173,909	(174,444)	—	—
Decrease in accounts payable	(90)	—	(490)	(7,100)	—	(7,680)
Increase (Decrease) in accrued interconnection costs	—	—	(4,267)	1,789	—	(2,478)
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities and other liabilities	(702)	—	2,793	(6,012)	—	(3,921)
Decrease in accrued income taxes	(73)	(1,320)	(494)	(9,193)	—	(11,080)
Increase in accrued interest	—	1,515	288	162	—	1,965
Net cash provided by (used in) operating activities before reorganization items	(1,889)	6,450	160,476	(145,587)	—	19,450
Cash effect of reorganization items	(7,615)	—	—	—	—	(7,615)
Net cash provided by (used in) operating activities	(9,504)	6,450	160,476	(145,587)	—	11,835
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of property and equipment	—	—	(207)	(9,189)	—	(9,396)
Sale of property and equipment and intangible assets	—	—	—	12	—	12
Cash from disposition of business, net of cash disposed	—	—	—	(110)	—	(110)
Increase in restricted cash	—	—	(15)	(4)	—	(19)
Proceeds from intercompany balance	16,209	—	8,057	—	(24,266)	—
Net cash provided by (used in) investing activities	16,209	—	7,835	(9,291)	(24,266)	(9,513)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Proceeds from issuance of long-term obligations	—	—	83,733	44,330	—	128,063
Deferred financing costs	—	—	(2,362)	(2,207)	—	(4,569)
Principal payments on other long-term obligations	—	—	(95,763)	(32,108)	—	(127,871)
Proceeds from (payments on) intercompany balance	—	(6,450)	(163,419)	145,603	24,266	—
Net cash provided by (used in) financing activities	—	(6,450)	(177,811)	155,618	24,266	(4,377)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	—	462	2,670	—	3,132
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,705	—	(9,037)	3,409	—	1,077
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	31	—	10,709	30,721	—	41,461
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 6,736	$ —	$ 1,672	$ 34,130	$ —	$ 42,538

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
(in thousands)

	Predecessor					
	For the Six Months Ended July 1, 2009					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$ 471,154	$104,351	$ 594,369	$ 135,893	$ (834,645)	$ 471,122
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Reorganization items, net	30,186	(79,592)	(287,970)	(102,718)	—	(440,094)
Provision for doubtful accounts receivable	—	—	937	4,203	—	5,140
Stock compensation expense	—	—	27	—	—	27
Depreciation and amortization	—	—	1,317	11,029	—	12,346
Gain on sale or disposal of assets	—	—	(177)	(117)	—	(294)
Accretion (amortization) of debt premium/discount, net	129	(318)	—	—	—	(189)
Equity in net income of subsidiary	(512,902)	—	(321,743)	—	834,645	—
Deferred income taxes	—	—	141	(141)	—	—
Unrealized foreign currency transaction gain (loss) on intercompany and foreign debt	(2,636)	(8,668)	778	(10,176)	—	(20,702)
Changes in assets and liabilities, net of acquisitions:						
Decrease in accounts receivable	—	—	3,628	4,170	—	7,798
(Increase) decrease in prepaid expenses and other current assets	183	—	327	(49)	—	461
Decrease in other assets	52	17	1,036	1,349	—	2,454
(Increase) decrease in intercompany balance	—	(6,885)	15,765	(8,880)	—	—
Decrease in accounts payable	(1,411)	—	(500)	(10,883)	—	(12,794)
Decrease in accrued interconnection costs	—	—	(1,768)	(3,593)	—	(5,361)
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities and other liabilities	8,885	—	(1,910)	(5,662)	—	1,313
Increase (decrease) in accrued income taxes	4	699	(649)	2,059	—	2,113
Increase (decrease) in accrued interest	397	3,314	(5,174)	(137)	—	(1,600)
Net cash provided by (used in) operating activities before reorganization items	(5,959)	12,918	(1,566)	16,347	—	21,740
Cash effect of reorganization items	(3,528)	—	(2,384)	1,317	—	(4,595)
Net cash provided by (used in) operating activities	(9,487)	12,918	(3,950)	17,664	—	17,145
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of property and equipment	—	—	(115)	(5,545)	—	(5,660)
Sale of property and equipment and intangible assets	—	—	177	2	—	179
Cash from disposition of business, net of cash disposed	—	—	—	232	—	232
Cash used for business acquisitions, net of cash acquired	—	—	—	(199)	—	(199)
(Increase) decrease in restricted cash	—	—	61	(207)	—	(146)
Proceeds from intercompany balance	9,366	—	7,992	—	(17,358)	—
Net cash provided by (used in) investing activities	9,366	—	8,115	(5,717)	(17,358)	(5,594)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Principal payments on other long-term obligations	—	—	(517)	(7,775)	—	(8,292)
Proceeds from (payments on) intercompany balance	—	(12,918)	3,510	(7,950)	17,358	—
Net cash provided by (used in) financing activities	—	(12,918)	2,993	(15,725)	17,358	(8,292)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	—	—	1,202	—	1,202
NET CHANGE IN CASH AND CASH EQUIVALENTS	(121)	—	7,158	(2,576)	—	4,461
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	152	—	3,551	33,297	—	37,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 31	$ —	$ 10,709	$ 30,721	$ —	$ 41,461

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
(in thousands)

	Predecessor					
	For the Year Ended December 31, 2008					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income (loss)	$(25,031)	$ 5,289	$ (17,750)	$ 5,288	$ 10,332	$ (21,872)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Provision for doubtful accounts receivable	—	—	2,359	9,581	—	11,940
Stock compensation expense	—	—	262	—	—	262
Depreciation and amortization	—	—	3,245	29,553	—	32,798
Gain on sale or disposal of assets	—	—	(806)	(5,222)	—	(6,028)
Accretion (amortization) of debt premium/discount, net	858	(1,441)	—	—	—	(583)
Equity in net income of subsidiary	13,539	—	(3,207)	—	(10,332)	—
Deferred income taxes	—	—	591	5,247	—	5,838
Gain on early extinguishment or restructuring of debt	(12,448)	(1,532)	(22,784)	(108)	—	(36,872)
Unrealized foreign currency transaction loss on intercompany and foreign debt	3,549	17,303	698	27,038	—	48,588
Changes in assets and liabilities, net of acquisitions:						
Increase in accounts receivable	—	—	(2,581)	(13,077)	—	(15,658)
(Increase) decrease in prepaid expenses and other current assets	20	—	(450)	10,621	—	10,191
(Increase) decrease in other assets	521	49	1,442	(135)	—	1,877
(Increase) decrease in intercompany balance	—	(12,162)	3,415	8,747	—	—
Increase (decrease) in accounts payable	753	—	(115)	(6,568)	—	(5,930)
Increase in accrued interconnection costs	—	—	1,262	981	—	2,243
Decrease, net, in deferred revenue, accrued expenses, other current liabilities and other liabilities	(40)	(504)	(1,777)	(3,319)	—	(5,640)
Decrease in accrued income taxes	(236)	(1,413)	(1,058)	(7,918)	—	(10,625)
Increase (decrease) in accrued interest	(904)	(7)	(976)	137	—	(1,750)
Net cash provided by (used in) operating activities	(19,419)	5,582	(38,230)	60,846	—	8,779
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of property and equipment	—	—	(1,405)	(24,036)	—	(25,441)
Sale of property and equipment and intangible assets	—	—	806	4,950	—	5,756
Cash from disposition of business, net of cash disposed	—	—	—	1,676	—	1,676
Cash used for business acquisitions, net of cash acquired	—	—	—	(583)	—	(583)
Increase in restricted cash	—	—	—	(102)	—	(102)
Proceeds from intercompany balance	30,689	—	20,614	—	(51,303)	—
Net cash provided by (used in) investing activities	30,689	—	20,015	(18,095)	(51,303)	(18,694)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Purchase of the Company's debt securities	(11,217)	(317)	—	—	—	(11,534)
Principal payments on other long-term obligations	(1,200)	(4,676)	(6,343)	(4,326)	—	(16,545)
Proceeds from (payments on) intercompany balance	—	(589)	27,439	(78,153)	51,303	—
Net cash provided by (used in) financing activities	(12,417)	(5,582)	21,096	(82,479)	51,303	(28,079)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	—	—	(6,288)	—	(6,288)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,147)	—	2,881	(46,016)	—	(44,282)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,299	—	670	79,313	—	81,282
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 152	$ —	$ 3,551	$ 33,297	$ —	$ 37,000

23. SUBSEQUENT EVENTS

Acquisition of Arbinet Corporation

On February 28, 2011, the Company completed the previously announced merger of PTG Investments, Inc. (“Merger Sub”), a Delaware corporation and a wholly-owned subsidiary of the Company with and into Arbinet Corporation (“Arbinet”) (the “Merger”), 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 Company intends to integrate Arbinet’s operations into the Company’s International Carrier Services segment.

The value of Primus shares issued as merger consideration is 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 $50.4 million. This includes the issued and outstanding shares of Arbinet and includes 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.

On February 11, 2011, Arbinet entered into a definitive asset purchase agreement (the “Asset Purchase Agreement”) with AIP Acquisition LLC, a Delaware limited liability company (“Buyer”), pursuant to which Buyer agreed to acquire from Arbinet and certain of its wholly owned subsidiaries, a portfolio of patents and patent applications and the rights arising from such patents and patent applications (the “Patent Portfolio”) for an aggregate cash consideration equal to $4,000,000 and to assume all liabilities associated with the Patent Portfolio. Pursuant to the terms of the Asset Purchase Agreement, the Patent Portfolio is being sold on an “as is,” “where is” basis. The closing of the sale of the Patent Portfolio pursuant to the Asset Purchase Agreement occurred on February 16, 2011. In connection with the signing of the Asset Purchase Agreement, Arbinet and Buyer also entered into a license agreement (the “License Agreement”) that became effective on February 16, 2011, pursuant to which Buyer granted-back to Arbinet a royalty-free, worldwide, assignable (on a non-exclusive basis) and perpetual license and right to use the Patent Portfolio.

The Singer Children’s Management Trust, which owned approximately 23.1% of Arbinet’s outstanding common stock and approximately 9.5% of the outstanding common stock of Primus Telecommunications Group, Incorporated, as of January 7, 2011, is the sole member of the Buyer.

The Arbinet acquisition will be 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 will be determined by the Company and in doing so management will rely in part upon a third-party valuation report to measure the identifiable intangible assets, property and equipment acquired. The third-party valuation reports are not final at the time of filing this annual report. This means that the assets and liabilities of Arbinet will be recorded, as of the completion of the Merger, at their fair values and added to those of the Company, including an amount for goodwill representing the difference between the purchase price and fair value of the identifiable net assets. 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 $9.5464. The initial purchase price valuation of Arbinet was
based in part upon consultation with a third-party and the total aggregate consideration contemplated in the

Merger Agreement was $28 million and was later augmented as per the terms of Merger Agreement by $3.65 million to include the sale of Arbinet's intellectual property. The Merger Agreement, though based on a reasonable agreed upon consideration of $31.65 million, provided that increases in the market price of Primus's common stock would have the effect of increasing the total fair value of the consideration and therefore would increase the amount of the purchase price allocable to goodwill. The base-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 inception of the Merger through the closing date, February 28, 2011, and was not affected by the increase in the value of Primus's stock which occurred after the Merger Agreement date. On February 28, 2011, the final consideration to be allocated to Arbinet's net assets under ASC No. 805 was valued at approximately $50 million and was based upon a Primus common stock per share price of $15.60.

The Company believes that 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 may trigger the requirement for the company to perform a goodwill impairment test upon completion of its acquisition accounting. The Company expects to record its acquisition accounting during the first quarter of 2011.

Given the above, the Company believes that goodwill arising from the acquisition of Arbinet may potentially be considered impaired, fully, or in part, upon completion of the allocation of the consideration to Arbinet's net assets. The Company will perform a step one test of goodwill impairment during the first quarter of 2011 for the International Carrier Services reporting unit.

Private Exchange Offer

In the first quarter 2011 we announced the commencement of private offers to exchange (the "Exchange Offers") up to $240 million of new 9.50% Senior Secured Notes due 2019 issued by Primus Telecommunications Holding, Inc. for our outstanding 13% Notes and 14 1/4% Notes. As of the expiration time of the Exchange Offers at 5:00 p.m. New York City Time on March 23, 2011, the minimum participation condition with respect to the Exchange Offers was not fully met and we therefore elected to terminate the Exchange Offers.

Management Compensation Plan

A special meeting of stockholders of Primus Telecommunications Group, Incorporated, a Delaware corporation, or Primus, was held on February 25, 2011 for the purpose of voting a proposal to approve the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended. Primus stockholders approved the proposal. Effectively, the Management Compensation Plan, as Amended was expanded to allow for the issuance of up to an additional 1,000,000 awards.

Debt Redemption

On March 16, 2011 we sent a notice of redemption to holders of the 14 1/4% Notes, pursuant to which Primus Telecommunications IHC, Inc. elected to redeem $24,014,974 aggregate principal amount of our outstanding 14 1/4% Notes, with an April 15, 2011 redemption date (the "Redemption Date") at a redemption price of 100.00% of the principal amount thereof (the "Redemption Price"), plus accrued and unpaid interest to, but excluding the Redemption Date on the redeemed 14 1/4% Notes. On the Redemption Date, the Redemption Price (together with accrued and unpaid interest, but excluding to the Redemption Date of $1,283,300 on the redeemed 14 1/4% Notes) will become due and payable on 14 1/4% Notes called for redemption and, unless Primus Telecommunications IHC, Inc. shall default in the payment of the Redemption Price and accrued interest, interest on 14 1/4% Notes called for redemption shall cease to accrue on and after the Redemption Date.

Vesting of Emergence Awards

During March 2011 the Company certified the performance criteria which vested all remaining performance based RSUs, per the Emergence RSU Agreement, and the Emergence Performance Options.

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SCHEDULE II

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
VALUATION AND QUALIFYING ACCOUNTS

Activity in the Company's allowance accounts for the years ended December 31, 2010, 2009, and 2008 was as follows (in thousands):

	Doubtful Accounts Receivable			
Period	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
	Predecessor:			
2008	$ 12,039	$ 11,940	$(14,269)	$ 9,710
Six months ended July 1, 2009	$ 9,710	$ 5,140	$ (5,755)	$ 9,095
	Successor:			
Six months ended December 31, 2009	$ 9,095	$ 5,015	$ (5,947)	$ 8,163
2010	$ 8,163	$ 8,392	$ (9,701)	$ 6,854

	Deferred Tax Asset Valuation			
Period	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
	Predecessor:			
2008	$ 239,680	$ (11,882)	$ —	$ 227,798
Six months ended July 1, 2009	$ 227,798	$ (75,236)		$152,562
	Successor:			
Six months ended December 31, 2009	$ 152,562	$ (34,042)	$ —	$ 118,520
2010	$ 118,520	$ (24,236)		$ 94,284

Exhibit 10.1

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
MANAGEMENT COMPENSATION PLAN, AS AMENDED

1. PURPOSE; TYPES OF AWARDS; CONSTRUCTION.

The purposes of the Management Compensation Plan, As Amended, (the “Plan”) of Primus Telecommunications Group, Incorporated (the “Company”) are to attract, motivate and retain (a) employees of the Company, any Subsidiary or any Affiliate, (b) independent contractors who provide significant services to the Company, any Subsidiary or Affiliate and (c) non-employee directors of the Company, any Subsidiary or any Affiliate. The Plan is also designed to encourage stock ownership by such persons, thereby aligning their interest with those of the Company’s stockholders and to permit the payment of compensation that qualifies as performance-based compensation under Section 162(m) of the Code. Pursuant to the Plan described herein, there may be granted stock options (including “incentive stock options” and “non-qualified stock options”), and other stock based awards, including but not limited to restricted stock, restricted stock units, dividend equivalents, performance units, stock appreciation rights and other long-term stock-based or cash-based Awards; excluding, however, reload or other automatic Awards made upon exercise of Options, which Awards shall not be granted under the Plan. Notwithstanding any provision of the Plan, to the extent that any Award would be subject to Section 409A of the Code, no such Award may be granted if it would fail to comply with the requirements set forth in Section 409A of the Code and any regulations or guidance promulgated thereunder.

2. DEFINITIONS. For purposes of the Plan, the following terms shall be defined as set forth below:

(a) “Affiliate” means an affiliate of the Company, as defined in Rule 12b-2 promulgated under Section 12 of the Exchange Act.

(b) “Award” means, individually or collectively, a grant under the Plan of Options, Restricted Stock or Other Stock-Based Awards or Other Cash-Based Awards.

(c) “Award Agreement” means any written agreement, contract, or other instrument or document evidencing an Award.

(d) “Beneficial Owner” shall have the meaning set forth in Rule 13d-3 under the Exchange Act.

(e) “Board” means the Board of Directors of the Company.

(f) “Cause” shall have the meaning set forth in the Grantee’s employment or other agreement with the Company, any Subsidiary or any Affiliate, provided that if the Grantee is not a party to any such employment or other agreement or such employment or other agreement does not contain a definition of Cause, then Cause shall mean (i) the willful and continued failure of the Grantee to perform substantially the Grantee’s duties with the Company or any Subsidiary or Affiliate (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Grantee by the employing Company, Subsidiary or Affiliate that specifically identifies the alleged manner in which the Grantee has not substantially performed the Grantee's duties, (ii) the Grantee shall have been convicted by a court of competent jurisdiction of, or pleaded guilty or nolo contendere to, any felony, or (iii) the Grantee shall have committed an act of fraud, embezzlement, misappropriation or breach of fiduciary duty against the Company or any Subsidiary or Affiliate. For purposes of this provision, no act or failure to act, on the part of the Grantee, shall be considered "willful" unless it is done, or omitted to be done, by the Grantee in bad faith or without reasonable belief that the Grantee's action or omission was in the best interests of the Company, any Subsidiary or any Affiliate.

(g) "Change of Control" shall have the meaning set forth in Section 7(b) hereof.

(h) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

(i) "Committee" means the committee established by the Board to administer the Plan. The Committee shall consist of not less than two directors who shall be appointed from time to time by, and shall serve at the pleasure of, the Board. The Committee shall be comprised solely of directors who are (a) "non-employee directors" under Rule 16b-3 of the Exchange Act and (b) "outside directors" under Section 162(m) of the Code, *provided*, that any action taken by the Committee shall be valid and effective whether or not members of the Committee at the time of such action are later determined not to have satisfied the requirements for membership set forth in this Section 2(i) or otherwise provided in any charter of the Committee.

(j) "Company" means Primus Telecommunications Group, Incorporated, a corporation organized under the laws of the State of Delaware, or any successor corporation.

(k) "Covered Employee" shall have the meaning set forth in Section 162(m)(3) of the Code.

(l) "Disability" means that a Grantee (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering employees of the Company or an Affiliate of the Company.

(m) "Effective Date" means the date on which the Joint Plan of Reorganization of the Company and its Affiliate Debtors becomes effective.

(n) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and as now or hereafter construed, interpreted and applied by regulations, rulings and cases.

(o) "Fair Market Value" means, with respect to Stock or other property, the fair market value of such Stock or other property determined by such methods or procedures as shall be established from time to time by the Committee. Unless otherwise set forth in an applicable Award Agreement or otherwise determined by the Committee in good faith, the per share Fair Market Value of Stock as of a particular date shall mean, (i) the closing sales price per share of Stock on the national securities exchange on which the Stock is principally traded, on such date, or (ii) if the shares of Stock are then traded in an over-the-counter market, the average of the closing bid and asked prices for the shares of Stock in such over-the-counter market on such date, or (iii) if the shares of Stock are not then listed on a national securities exchange or traded in an over-the-counter market, such value as the Committee, in its sole discretion, shall determine in good faith using a reasonable method in accordance with Section 409A of the Code.

(p) “Good Reason” shall have the meaning set forth in the Grantee’s employment or other agreement with the Company, any Subsidiary or any Affiliate, provided that if the Grantee is not a party to any such employment or other agreement or such employment or other agreement does not contain a definition of Good Reason, then Good Reason shall mean, the occurrence, on or after the date of a Change of Control and without the affected Grantee’s written consent, of (i) a material diminution in the Grantee’s base compensation, (ii) the assignment to the Grantee of duties in the aggregate that are materially inconsistent with the Grantee’s level of responsibility immediately prior to the date of the Change of Control or any material diminution in the Grantee’s authority, duties, or responsibilities, or (iii) the relocation of the Grantee’s principal place of employment to a location more than fifty (50) miles from the Grantee’s principal place of employment immediately prior to the date of the Change of Control, provided, however, that such relocation also requires a material adverse change in the Grantee’s commute. Notwithstanding the foregoing, the Grantee shall not have Good Reason unless (x) within a period not to exceed 90 days following the initial existence of the condition or event giving rise to Good Reason, the Grantee provides notice to the Company of such condition or event, and (y) upon receipt of such notice by the Grantee, the Company is given at least 30 days to remedy the condition.

(q) “Grantee” means a person who, as an employee of or independent contractor or non-employee director with respect to the Company, a Subsidiary or an Affiliate, has been granted an Award under the Plan.

(r) “ISO” means any Option intended to be and designated as an incentive stock option within the meaning of Section 422 of the Code.

(s) “NQSO” means any Option that is designated as a nonqualified stock option.

(t) “Option” means a right, granted to a Grantee under Section 6(b)(i), to purchase shares of Stock. An Option may be either an ISO or an NQSO.

(u) “Other Cash-Based Award” means an Award granted to a Grantee under Section 6(b)(iii) hereof, including (i) cash awarded as a bonus or upon the attainment of Performance Goals or otherwise as permitted under the Plan or (ii) an Award that can be paid in cash or Stock and is paid in cash.

(v) “Other Stock-Based Award” means an Award granted to a Grantee pursuant to Section 6(b)(iii) hereof, that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Stock including but not limited to performance units, stock appreciation rights (payable in shares), restricted stock units or dividend equivalents, each of which may be subject to the attainment of Performance Goals or a period of continued employment or other terms and conditions as permitted under the Plan.

(w) “Performance Goals” means performance goals based on one or more of the following criteria: (i) earnings including operating income, earnings before or after taxes, earnings before or after interest, depreciation, amortization, or extraordinary or special items or book value per share (which may exclude nonrecurring items); (ii) pre-tax income or after-tax income; (iii) earnings per common share (basic or diluted); (iv) operating profit; (v) revenue, revenue growth or rate of revenue growth; (vi) return on assets (gross or net), return on investment, return on capital, or return on equity; (vii) returns on sales or revenues; (viii) operating expenses; (ix) stock price appreciation; (x) cash flow, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, or cash flow in excess of cost of capital; (xi) implementation or completion of critical projects or processes; (xii) economic value created; (xiii) cumulative earnings per share growth; (xiv) operating margin or profit margin; (xv) common stock price or total stockholder return; (xvi) cost targets, reductions and savings, productivity and efficiencies; (xvii) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, geographic business expansion, customer satisfaction, employee satisfaction, human resources management, supervision of litigation, information technology, and goals relating to acquisitions, divestitures, joint ventures and similar transactions, and budget comparisons; (xviii) personal professional objectives, including any of the foregoing performance goals, the implementation of policies and plans, the negotiation of transactions, the development of long term business goals, formation of joint ventures, research or development collaborations, and the completion of other corporate transactions; (xix) any combination of, or a specified increase in, any of the foregoing; and (xx) solely with respect to Awards that are granted to individuals other than Covered Employees, such other criteria as may be determined by the Committee in its sole discretion. Where applicable, the Performance Goals may be expressed in terms of attaining a specified level of the particular criteria or the attainment of a percentage increase or decrease in the particular criteria, and may be applied to one or more of the Company, a Subsidiary or Affiliate, or a division or strategic business unit of the Company, or may be applied to the performance of the Company relative to a market index, a group of other companies or a combination thereof, all as determined by the Committee. The Performance Goals may include a threshold level of performance below which no payment will be made (or no vesting will occur), levels of performance at which specified payments will be made (or specified vesting will occur), and a maximum level of performance above which no additional payment will be made (or at which full vesting will occur). Each of the foregoing Performance Goals shall be determined in accordance with generally accepted accounting principles and shall be subject to certification by the Committee; provided that the Committee shall make equitable adjustments to the Performance Goals in recognition of unusual or non-recurring events affecting the Company or any Subsidiary or affiliate or the financial statements of the Company or any Subsidiary or Affiliate, in response to changes in applicable laws or regulations, or to account for items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business or related to a change in accounting principles.

(x) "Person" shall have the meaning set forth in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (1) the Company or any Subsidiary corporation, (2) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary corporation, (3) an underwriter temporarily holding securities pursuant to an offering of such securities, or (4) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(y) "Plan" means this Primus Telecommunications Group, Incorporated Management Compensation Plan, as amended from time to time.

(z) “Plan Year” means a calendar year.

(aa) “Restricted Stock” means a share of Stock that is subject to restrictions set forth in the Plan or any Award Agreement.

(bb) “Rule 16b-3” means Rule 16b-3, as from time to time in effect promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act, including any successor to such Rule.

(cc) “Stock” means shares of common stock, par value $0.001 per share, of the Company.

(dd) “Subsidiary” means any corporation in an unbroken chain of corporations beginning with the Company if, at the time of granting of an Award, each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

3. ADMINISTRATION.

(a) At the discretion of the Board, the Plan shall be administered either (i) by the Board or (ii) by the Committee. In the event the Board is the administrator of the Plan, references herein to the Committee shall be deemed to include the Board. The Board may from time to time appoint a member or members of the Committee in substitution for or in addition to the member or members then in office and may fill vacancies on the Committee however caused. The Committee shall choose one of its members as chairman and shall hold meetings at such times and places as it shall deem advisable. A majority of the members of the Committee shall constitute a quorum and any action may be taken by a majority of those present and voting at any meeting. The Board or the Committee may appoint and delegate to another committee (“Management Committee”) any or all of the authority of the Board or the Committee, as applicable, with respect to Awards to Grantees other than Grantees who are subject to potential liability under Section 16(b) of the Exchange Act with respect to transactions involving equity securities of the Company at the time any such delegated authority is exercised. With respect to Awards that are intended to meet the performance-based compensation exception of Section 162(m) of the Code and that are made to a Grantee who is or is reasonably expected to be a Covered Employee, such delegation shall not include any authority, which if exercised by the Management Committee rather than by the Committee, would cause the Grantee’s Award to fail to meet such exception.

(b) Any action may also be taken without the necessity of a meeting by a written instrument signed by a majority of the Committee. The decision of the Committee as to all questions of interpretation and application of the Plan shall be final, binding and conclusive on all persons. The Committee shall have the authority in its discretion, subject to and not inconsistent with the express provisions of the Plan, to administer the Plan and to exercise all the power and authority either specifically granted to it under the Plan or necessary or advisable in the administration of the Plan, including without limitation, the authority to grant Awards, to determine the persons to whom and the time or times at which Awards shall be granted, to determine the type and number of Awards to be granted, the number of shares of Stock to which an Award may relate and the terms, conditions, restrictions and Performance Goals relating to any Award; to determine Performance Goals no later than such time as is required to ensure that an underlying Award which is intended to comply with the requirements of Section 162(m) of the Code so complies; to determine whether, to what extent, and under what circumstances an Award may be settled, cancelled, forfeited, accelerated, exchanged, or surrendered; to make adjustments in the terms and conditions (including Performance Goals) applicable to Awards; to construe and interpret the Plan and any Award; to prescribe, amend and rescind rules and regulations relating to the Plan; to determine the terms and provisions of the Award Agreements (which need not be identical for each Grantee); and to make all other determinations deemed necessary or advisable for the administration of the Plan. Except in connection with any extraordinary dividend or other distribution (whether in the form of cash, Stock, or other property), recapitalization, Stock split, reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, or share exchange, or other similar corporate transaction or event (each, a “Corporate Transaction”) subject to Section 5(d), the Company may not, without obtaining stockholder approval: (a) amend the terms of outstanding Options or stock appreciation rights to reduce the exercise price of such outstanding Options or stock appreciation rights; (b) cancel outstanding Options or stock appreciation rights in exchange for Options or stock appreciation rights with an exercise price that is less than the exercise price of the original Options or stock appreciation rights; or (c) cancel outstanding Options or stock appreciation rights with an exercise price below the current stock price in exchange for cash or other securities. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any Award Agreement granted hereunder in the manner and to the extent it shall deem expedient to carry the Plan into effect and shall be the sole and final judge of such expediency. No Committee member shall be liable for any action or determination made with respect to the Plan or any Award.

4. ELIGIBILITY.

(a) Awards may be granted to officers, independent contractors, employees and non-employee directors of the Company or of any of its Subsidiaries and Affiliates; provided, however, that Options shall be granted only to officers, independent contractors, employees and non-employee directors of the Company or any of its Subsidiaries; and provided, further, that ISOs shall be granted only to employees (including officers and directors who are also employees) of the Company or any of its Subsidiaries.

(b) No ISO shall be granted to any employee of the Company or any of its Subsidiaries if such employee owns, immediately prior to the grant of the ISO, stock representing more than 10% of the voting power or more than 10% of the value of all classes of stock of the Company or a Subsidiary, unless the purchase price for the stock under such ISO shall be at least 110% of its Fair Market Value at the time such ISO is granted and the ISO, by its terms, shall not be exercisable more than five years from the date it is granted. In determining the stock ownership under this paragraph, the provisions of Section 424(d) of the Code shall be controlling.

5. STOCK SUBJECT TO THE PLAN; AWARD LIMITS; SHARE COUNTING.

(a) The maximum number of shares of Stock reserved for the grant of Stock or settlement in Stock of Awards under the Plan (the “Share Limit”) shall be 2,000,000 and shall be subject to adjustment as provided herein.

(b) The aggregate Awards granted during any fiscal year to any single individual who is likely to be a Covered Employee shall not exceed (i) 600,000 shares subject to Options or stock appreciation rights, (ii) 400,000 shares subject to Restricted Stock or Other Stock-Based Awards (other than stock appreciation rights), (iii) $2 million for an Other Cash-Based Award with a single year payout feature, and (iv) $5 million for an Other Cash-Based Award with a multi-year payout feature. Determinations made in respect of the limitation set forth in the preceding sentence shall be made in a manner consistent with Section 162(m) of the Code. Shares paid pursuant to any Award may, in whole or in part, be authorized but unissued shares or shares that shall have been or may be reacquired by the Company in the open market, in private transactions or otherwise.

(c) If any shares subject to an Award are forfeited, cancelled, exchanged or surrendered or if an Award otherwise terminates or expires without a distribution of shares to the Grantee, the shares of Stock with respect to such Award, to the extent of any such forfeiture, cancellation, exchange, surrender, termination or expiration, shall not count against the Share Limit and shall again be available for subsequent Awards under the Plan. In addition, shares of Stock that are exchanged by a Grantee or withheld by the Company as full or partial payment in connection with any Award under the Plan, as well as any shares of Stock exchanged by a Grantee or withheld by the Company or any Subsidiary to satisfy the tax withholding obligations related to any Award under the Plan, shall not count against the Share Limit and shall again be available for subsequent Awards under the Plan. Upon the exercise of any Award granted in tandem with any other Awards (including an Other Cash-Based Award that is granted with another Award) and the issuance of Stock upon exercise of such Award, such related Awards shall be cancelled to the extent of the number of shares of Stock as to which the Award is exercised and such number of shares so issued shall count against the Share Limit and shall no longer be available for subsequent Awards under the Plan; however, to the extent such a tandem award is paid in cash, the cancellation of the Award upon payment of cash shall not count against the Share Limit and the Stock that was the subject of such tandem award shall be available for subsequent Awards under the Plan.

(d) Except as provided in an Award Agreement or as otherwise provided in the Plan, in the event that the Committee shall determine that any Corporate Transaction affects the Stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Grantees under the Plan, then the Committee shall make such equitable changes or adjustments as it deems necessary or appropriate to any or all of (i) the number and kind of shares of Stock or other property (including cash) that may thereafter be issued in connection with Awards or the total number of Awards issuable under the Plan, (ii) the number and kind of shares of Stock or other property issued or issuable in respect of outstanding Awards, (iii) the exercise price, grant price or purchase price relating to any Award, (iv) the Performance Goals and (v) the individual limitations applicable to Awards; provided that, with respect to ISOs, any adjustment shall be made in accordance with the provisions of Section 424(h) of the Code and any regulations or guidance promulgated thereunder, and provided further that no such adjustment shall cause any Award hereunder which is or becomes subject to Section 409A of the Code to fail to comply with the requirements of such section.

6. SPECIFIC TERMS OF AWARDS.

(a) General. The term of each Award shall be for such period as may be determined by the Committee. Subject to the terms of the Plan and any applicable Award Agreement, payments to be made by the Company or a Subsidiary or Affiliate upon the grant, maturation, or exercise of an Award may be made in such forms as the Committee shall determine at the date of grant or thereafter, including, without limitation, cash, Stock, or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis.

(b) Awards. The Committee is authorized to grant to Grantees the following Awards, as deemed by the Committee to be consistent with the purposes of the Plan. The Committee shall determine the terms and conditions of such Awards at the date of grant or thereafter.

(i) Options. The Committee is authorized to grant Options to Grantees on the following terms and conditions:

(A) Type of Award. The Award Agreement evidencing the grant of an Option under the Plan shall designate the Option as an ISO or an NQSO.

(B) Exercise Price. The exercise price per share of Stock purchasable under an Option shall be determined by the Committee, but in no event shall the exercise price of an Option per share of Stock be less than the Fair Market Value of a share of Stock as of the date of grant of such Option. The purchase price of Stock as to which an Option is exercised shall be paid in full at the time of exercise; payment may be made in cash, which may be paid by check, or other instrument acceptable to the Company, or, with the consent of the Committee, in shares of Stock, valued at the Fair Market Value on the date of exercise (including shares of Stock that otherwise would be distributed to the Grantee upon exercise of the Option), or if there were no sales on such date, on the next preceding day on which there were sales or (if permitted by the Committee and subject to such terms and conditions as it may determine) by surrender of outstanding Awards under the Plan, or the Committee may permit such payment of exercise price by any other method it deems satisfactory in its discretion. In addition, subject to applicable law and pursuant to procedures approved by the Committee, payment of the exercise price may be made through the sale of Stock acquired on exercise of the Option, valued at Fair Market Value on the date of exercise, sufficient to pay for such Stock (together with, if requested by the Company, the amount of federal, state or local withholding taxes payable by Grantee by reason of such exercise). Any amount necessary to satisfy applicable federal, state or local tax withholding requirements shall be paid promptly upon notification of the amount due. The Committee may permit such amount of tax withholding to be paid in shares of Stock previously owned by the employee, or a portion of the shares of Stock that otherwise would be distributed to such employee upon exercise of the Option, or a combination of cash and shares of such Stock.

(C) Term and Exercisability of Options. Options shall be exercisable over the exercise period (which shall not exceed ten years from the date of grant), at such times and upon such conditions as the Committee may determine, as reflected in the Award Agreement; provided that, the Committee shall have the authority to accelerate the exercisability of any outstanding Option at such time and under such circumstances as it, in its sole discretion, deems appropriate. An Option may be exercised to the extent of any or all full shares of Stock as to which the Option has become exercisable, by giving written notice of such exercise to the Committee or its designated agent. No partial exercise may be made for less than one hundred (100) full shares of Stock.

(D) Termination of Employment. Unless otherwise provided in the applicable Award Agreement or employment or other agreement, or unless otherwise determined by the Committee:

(I) Except as set forth herein or in subsections II, III, IV or V below, an Option may not be exercised unless the Grantee is then in the employ of, maintains an independent contractor relationship with, or is a director of, the Company or a Subsidiary (or a company or a parent or subsidiary company of such company issuing or assuming the Option in a transaction to which Section 424(a) of the Code applies), and unless the Grantee has remained continuously so employed, or continuously maintained such relationship, since the date of grant of the Option.

(II) If the Grantee's employment or service terminates because of the Grantee's death or Disability, the portions of outstanding Options granted to such Grantee that are exercisable as of the date of such termination of employment or service shall remain exercisable until the earlier of (i) one year following the date of the Grantee's death or Disability and (ii) the expiration of the term of the Option and shall thereafter terminate. All additional portions of outstanding Options granted to such Grantee which are not exercisable as of the date of such termination of employment or service, shall terminate upon the date of such termination of employment or service.

(III) If the Grantee's employment or service terminates upon the Grantee's retirement on or after the Grantee's normal retirement date under any Company or Subsidiary qualified retirement plan, the portions of outstanding Options granted to such Grantee that are exercisable as of the date of such termination of employment or service shall remain exercisable until the earlier of (i) eighteen (18) months following the date of such termination of employment or service and (ii) expiration of the term of the Option and shall thereafter terminate. All additional portions of outstanding Options granted to such Grantee which are not exercisable as of the date of such termination of employment or service, shall terminate upon the date of such termination of employment or service.

(IV) If the Grantee's employment or service is terminated for Cause, all vested and unvested outstanding Options granted to such Grantee shall terminate on the date of the Grantee's termination of employment or service.

(V) If the Grantee's employment or service with the Company and its Subsidiaries terminates (including by reason of the Subsidiary which employs the Grantee ceasing to be a Subsidiary of the Company) other than as described in subsections (II), (III) and (IV) above, the portions of outstanding Options granted to such Grantee that are exercisable as of the date of such termination of employment or service shall remain exercisable until the earlier of (i) 90 days following the date of such termination of employment or service and (ii) the expiration of the term of the Option and shall thereafter terminate. All additional portions of outstanding Options granted to such Grantee which are not exercisable as of the date of such termination of employment or service, shall terminate upon the date of such termination of employment or service.

(E) Non-Employee Director's Grants. Unless otherwise provided by the Committee, immediately following each annual meeting of Company stockholders during the term of the Plan, each non-employee director serving as such shall be granted (I) a NQSO to purchase 10,000 shares of Stock with an exercise price per share equal to the Fair Market Value of a share of Stock on the date of grant and (II) 5,000 restricted stock units (collectively, the "Annual Director Award"). Each such Option shall vest and become exercisable ratably in three installments commencing on the date of grant such that 100% of the Option shall be vested and exercisable on the second anniversary of the grant date (subject to continued service as a director through each such vesting date). Each such restricted stock unit shall vest in two equal installments on the first and second anniversary of the grant date (subject to continued service as a director through each such vesting date). In the event a non-employee director is first elected to the Board by the Board, and not at an annual meeting of stockholders, the Committee shall grant to such newly elected director, as of the date of election, a pro rata Annual Director Award for the estimated service period until the next annual meeting of stockholders. For example, the Committee would grant 5,000 non-qualified stock options and 2,500 restricted stock units as a pro rata Annual Director Award to a non-employee director who is first elected six months in advance of the next annual meeting of stockholders. Other terms and conditions of the grants shall be established by the Committee pursuant to Section 3 of the Plan and set forth in such non-employee director's Award Agreement.

(F) Other Provisions. Options may be subject to such other conditions including, but not limited to, restrictions on transferability of, or provisions for recovery of, the shares acquired upon exercise of such Options (or proceeds of sale thereof), as the Committee may prescribe in its discretion or as may be required by applicable law.

(ii) Restricted Stock.

(A) The Committee may grant Awards of Restricted Stock, alone or in tandem with other Awards under the Plan, subject to such restrictions, terms and conditions, as the Committee shall determine in its sole discretion and as shall be evidenced by the applicable Award Agreement (provided that any such Award is subject to the vesting requirements described herein). The vesting of a Restricted Stock Award granted under the Plan may be conditioned upon the completion of a specified period of employment or service with the Company or any Subsidiary or Affiliate, upon the attainment of specified Performance Goals, and/or upon such other criteria as the Committee may determine in its sole discretion. Notwithstanding the foregoing, Restricted Stock and restricted stock units granted after stockholder approval of the Plan, as amended, that vest solely by the passage of time shall not vest in full in less than three (3) years from the grant date (but may vest pro-rata during such period on a daily, monthly, annual or other basis), and Restricted Stock and restricted stock units that vest upon achievement of performance goals shall not vest in full in less than one (1) year from the grant date; *provided,* that (i) up to ten percent (10%) of the maximum number of new shares of Stock available for issuance after stockholder approval of the Plan, as amended, may be issued without being subject to the foregoing restrictions, and (ii) any dividends or dividend equivalent rights, or other distributions, issued in connection with any Award granted after stockholder approval of the Plan, as amended, under the Plan shall not be subject to or counted for either such restrictions or such ten percent (10%) share issuance limit. The foregoing ten percent (10%) share issuance limit shall be subject to adjustment consistent with the adjustment provisions of Section 5(d) and the share usage rules of Section 5(c).

(B) The Committee shall determine the price, which, to the extent required by law, shall not be less than par value of the Stock, to be paid by the Grantee for each share of Restricted Stock or unrestricted stock or stock units subject to the Award. Each Award Agreement with respect to such Award shall set forth the amount (if any) to be paid by the Grantee with respect to such Award and when and under what circumstances such payment is required to be made.

(C) The Committee may, upon such terms and conditions as the Committee determines, provide that a certificate or certificates representing the shares underlying a Restricted Stock Award shall be registered in the Grantee's name and bear an appropriate legend specifying that such shares are not transferable and are subject to the provisions of the Plan and the restrictions, terms and conditions set forth in the applicable Award Agreement, or that such certificate or certificates shall be held in escrow by the Company on behalf of the Grantee until such shares become vested or are forfeited. Except as provided in the applicable Award Agreement, no shares of Stock underlying a Restricted Stock Award may be assigned, transferred, or otherwise encumbered or disposed of by the Grantee until such shares of Stock have vested in accordance with the terms of such Award.

(D) If and to the extent that the applicable Award Agreement may so provide, a Grantee shall have the right to vote and receive dividends on Restricted Stock granted under the Plan. Unless otherwise provided in the applicable Award Agreement, any Stock received as a dividend on or in connection with a stock split of the shares of Stock underlying a Restricted Stock Award shall be subject to the same restrictions as the shares of Stock underlying such Restricted Stock Award.

(E) Upon termination of employment with or service to the Company or any Affiliate or Subsidiary of the Company (including by reason of such Subsidiary or Affiliate ceasing to be a Subsidiary or Affiliate of the Company), during the applicable restriction period, unvested Restricted Stock shall be forfeited; provided, that the Committee may provide, by rule or regulation or in any Award Agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Stock will be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Restricted Stock.

(iii) <u>Other Stock-Based Awards or Other Cash-Based Awards</u>.

(A) The Committee is authorized to grant Awards to Grantees in the form of Other Stock-Based Awards or Other Cash-Based Awards, as deemed by the Committee to be consistent with the purposes of the Plan. The Committee shall determine the terms and conditions of such Awards, consistent with the terms of the Plan, at the date of grant or thereafter, including the Performance Goals and performance periods. Stock or other securities or property delivered pursuant to an Award in the nature of a purchase right granted under Section 6(b)(iii) shall be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, Stock, other Awards, notes or other property, as the Committee shall determine, subject to any required corporate action.

(B) Payments earned in respect of any Other Cash-Based Award may be decreased or, with respect to any Grantee who is not a Covered Employee, increased in the sole discretion of the Committee based on such factors as it deems appropriate. Notwithstanding the foregoing, any Awards may be adjusted in accordance with Section 5(d) hereof.

7. CHANGE OF CONTROL PROVISIONS.

(a) To the extent determined by the Committee in its sole discretion (either as evidenced in an applicable Award Agreement, employment agreement or otherwise), if a Grantee's employment or service is terminated by the Company without Cause or by the Grantee for Good Reason, in each case within twenty-four (24) months following a Change of Control:

(i) any Award carrying a right to exercise that was not previously vested and exercisable shall become fully vested and exercisable and all outstanding Awards shall remain exercisable for one (1) year following such date of termination of employment or service but in no event beyond the original term of the Award and shall thereafter terminate; and

(ii) the restrictions, deferral limitations, payment conditions, and forfeiture conditions applicable to any Award other than an Award described in (i) granted under the Plan shall lapse and such Awards shall be deemed fully vested, and any performance conditions imposed with respect to Awards shall be deemed to be achieved at the higher of (x) the target level for the applicable performance period or (y) the level of achievement of such performance conditions for the most recently concluded performance period.

Notwithstanding the foregoing, the Committee shall have the discretion to:

(x) accelerate the vesting or payment of any Award effective immediately upon the occurrence of a Change of Control, or

(y) convert the vesting of performance-based Awards to a time-based vesting schedule as deemed appropriate by the Committee, in each case, only to the extent that such action would not cause any Award to result in deferred compensation that is subject to the additional 20% tax under Section 409A of the Code.

(b) A "Change of Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

(i) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates) representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding voting securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (A) of paragraph (iii) below; or

(ii) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, as of December 14, 2010, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved or recommended by a vote of at least a majority of the directors then still in office who either were directors as of December 14, 2010 or whose appointment, election or nomination for election was previously so approved or recommended by such directors; or

(iii) there is consummated a merger or consolidation of the Company with any other corporation or other entity, other than (A) a merger or consolidation which results in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding securities; or

(iv) the stockholders of the Company approve a plan of liquidation or dissolution of the Company or there is consummated an agreement for the sale or other disposition, directly or indirectly, by the Company of all or substantially all of the Company's assets, other than such sale or other disposition by the Company of all or substantially all of the Company's assets to an entity, more than fifty percent (50%) of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.

Notwithstanding the foregoing, a "Change of Control" shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions. In addition, for each Award subject to Section 409A of the Code, a "Change of Control" shall be deemed to have occurred under this Plan with respect to such Award only if a change in the ownership or effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company shall also be deemed to have occurred under Section 409A of the Code.

8. GENERAL PROVISIONS.

(a) Nontransferability, Deferrals and Settlements. Unless otherwise determined by the Committee or provided in an Award Agreement, Awards shall not be transferable by a Grantee except by will or the laws of descent and distribution and shall be exercisable during the lifetime of a Grantee only by such Grantee or his guardian or legal representative.

(b) No Right to Continued Employment, etc. Nothing in the Plan or in any Award granted or any Award Agreement, promissory note or other agreement entered into pursuant hereto shall confer upon any Grantee the right to continue in the employ or service of the Company, any Subsidiary or any Affiliate or to be entitled to any remuneration or benefits not set forth in the Plan or such Award Agreement, promissory note or other agreement or to interfere with or limit in any way the right of the Company or any such Subsidiary or Affiliate to terminate such Grantee's employment or service.

(c) Taxes. The Company or any Subsidiary or Affiliate is authorized to withhold from any Award granted, any payment relating to an Award under the Plan, including from a distribution of Stock, or any other payment to a Grantee, amounts of withholding and other taxes due in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Company and Grantees to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This authority shall include authority to withhold or receive Stock or other property with a Fair Market Value not in excess of the minimum amount required to be withheld and to make cash payments in respect thereof in satisfaction of a Grantee's tax obligations.

(d) Amendment and Termination. The Plan shall take effect on the Effective Date. The Board may amend, alter or discontinue the Plan, but no amendment, alteration, or discontinuation shall be made that would impair the rights of a Grantee under any Award theretofore granted without such Grantee's consent, or that without the approval of the stockholders (as described below) would, except as provided in Section 5, increase the total number of shares of Stock reserved for the purpose of the Plan. In addition, stockholder approval shall be required with respect to any amendment that materially increases benefits provided under the Plan or materially alters the eligibility provisions of the Plan. Unless earlier terminated by the Board pursuant to the provisions of the Plan, the Plan shall terminate on the tenth anniversary of its Effective Date. No Awards shall be granted under the Plan after such termination date.

(e) No Rights to Awards; No Stockholder Rights. No Grantee shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Grantees. Except as provided specifically herein, a Grantee or a transferee of an Award shall have no rights as a stockholder with respect to any shares covered by the Award until the date of the issuance of a stock certificate to him for such shares.

(f) Unfunded Status of Awards. The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Grantee pursuant to an Award, nothing contained in the Plan or any Award shall give any such Grantee any rights that are greater than those of a general unsecured creditor of the Company.

(g) No Fractional Shares. No fractional shares of Stock shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards, or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(h) Regulations and Other Approvals.

(i) The obligation of the Company to sell or deliver Stock with respect to any Award granted under the Plan shall be subject to all applicable laws, rules and regulations, including all applicable federal and state securities laws, and the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Committee.

(ii) Each Award is subject to the requirement that, if at any time the Committee determines, in its absolute discretion, that the listing, registration or qualification of Stock issuable pursuant to the Plan is required by any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the grant of an Award or the issuance of Stock, no such Award shall be granted or payment made or Stock issued, in whole or in part, unless listing, registration, qualification, consent or approval has been effected or obtained free of any conditions not acceptable to the Committee.

(iii) In the event that the disposition of Stock acquired pursuant to the Plan is not covered by a then current registration statement under the Securities Act of 1933, as amended (the "Securities Act"), and is not otherwise exempt from such registration, such Stock shall be restricted against transfer to the extent required by the Securities Act or regulations thereunder, and the Committee may require a Grantee receiving Stock pursuant to the Plan, as a condition precedent to receipt of such Stock, to represent to the Company in writing that the Stock acquired by such Grantee is acquired for investment only and not with a view to distribution.

(i) Section 409A Compliance. The intent of the parties is that payments and benefits under the Plan comply with Section 409A of the Code to the extent subject thereto, and, accordingly, to the maximum extent permitted, the Plan shall be interpreted and be administered to be in compliance therewith. Notwithstanding anything contained herein to the contrary, to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A of the Code, the Grantee shall not be considered to have terminated employment with the Company for purposes of the Plan and no payment shall be due to the Grantee under the Plan or any Award Agreement until the Grantee would be considered to have incurred a "separation from service" from the Company within the meaning of Section 409A of the Code. Any payments described in the Plan that are due within the "short term deferral period" as defined in Section 409A of the Code shall not be treated as deferred compensation unless applicable law requires otherwise. Notwithstanding anything to the contrary in the Plan, to the extent that any Awards are payable upon a separation from service and such payment would result in the imposition of any individual excise tax and late interest charges imposed under Section 409A of the Code, the settlement and payment of such awards shall instead be made on the first business day after the date that is six (6) months following such separation from service (or death, if earlier).

(j) Governing Law. The Plan and all determinations made and actions taken pursuant hereto shall be governed by the laws of the State of Delaware without giving effect to the conflict of laws principles thereof.

Exhibit 12.1

Computation of Ratio of Earnings to Fixed Charges
(in thousands)

	Predecessor				Successor	
	Year Ended December 31,			Six Months Ended July 1, 2009	Six Months Ended December 31, 2009	Year Ended December 31, 2010
	2006	2007	2008			
Earnings:						
Pre-tax income (loss) from continuing operations before adjustment for income (loss) of equity investees	$ (197,354)	$15,933	$(16,721)	$459,864	$ 1,045	$ (19,432)
Add: Fixed charges	61,078	67,305	59,998	16,747	20,705	42,722
Add: Distributed income of equity investees	—	—	—	—	—	—
Less: Equity investment	—	—	—	—	—	—
Total earnings before fixed charges	$(136,276)	$ 83,238	$ 43,277	$476,611	$ 21,750	$ 23,290
Fixed charges:						
Interest expense	$ 53,920	$60,709	$ 53,971	$ 14,093	$ 17,278	$ 35,490
Accretion (amortization)on debt discount/premium, net	1,732	449	(583)	(189)	3	183
Estimated interest component of rent expense	5,426	6,147	6,610	2,843	3,424	7,049
Total fixed charges	$ 61,078	$67,305	$59,998	$ 16,747	$ 20,705	$ 42,722
Ratio of earnings to fixed charges(1)	<1	1.01	<1	28.46	1.05	<1

(1) The ratio of earnings to fixed charges is computed by dividing the sum of pre-tax income from continuing operations (before adjustment for minority interests in consolidated subsidiaries and loss from equity investees) plus fixed charges, by fixed charges. Fixed charges consist of interest charges, whether expensed or capitalized, and that portion of rental expense we believe to be representative of interest.

Operating Subsidiaries

Primus Telecommunications, Inc.	(Delaware)
Primus Telecommunications IHC, Inc.	(Delaware)
STSJ Overseas Telephone Company, Inc.	(Puerto Rico)
St. Thomas & San Juan Telephone Company, Inc.	(US Virgin Islands)
Primus Telecommunications Canada, Inc.	(Canada)
Telesonic Communications, Inc.	(Canada)
MIPPS, Incorporated	(Canada)
Primus Telecom Holdings Pty., Ltd.	(Australia)
Primus Network (Australia) Pty., Ltd.	(Australia)
Primus Telecom Pty, Ltd	(Australia)
Primus Telecommunications Pty., Ltd	(Australia)
Primus Telecommunications (Australia) Pty., Ltd.	(Australia)
0014 Pty, Ltd.	(Australia)
Primus Online Pty., Ltd.	(Australia)
Telegroup UK Ltd.	(United Kingdom)
Primus Telecommunications Ltd.	(United Kingdom)
Planet Talk UK Limited	(United Kingdom)
Primus Telecommunications KK Japan	(Japan)
Global Access Pty., Ltd.	(South Africa)
P1 do Brasil Ltda	(Brazil)
Matrix Internet, S.A.	(Brazil)
US Matrix Telecommunications, Inc.	(Florida)
Primus Telecommunications Netherlands B.V.	(Netherlands)
Primus Nederland B.V.	(Netherlands)
Primus Telecommunications GmbH	(Germany)
Primus Telecommunications S.r.1.	(Italy)
Telegroup Italia S.r.1.	(Italy)
Primus Telecommunications Iberica SA	(Spain)
PTI Telecommunications GmbH	(Austria)
Lingo, Inc.	(Delaware)
Primus Professional Services Private Limited (*fka Primus Telecommunication India Private Limited*)	(India)
Globility Communications Corporation	(Canada)
Arbinet Corporation	(Delaware)
Arbinet - theXchange LTD	(United Kingdom)
Arbinet - theXchange HK LTD	(Hong Kong)
Arbinet Corner Services, Inc.	(Delaware)

Non-Operating Subsidiaries

Primus Telecommunications International, Inc.	(Delaware)
iPRIMUS.com, Inc.	(Delaware)
Lingo Holdings, Inc.	(Delaware)
Primus Telecommunications Holding, Inc.	(Delaware)
OTC Network Assets, Inc.	(Puerto Rico)
Stubbs, Ltd.	(Hong Kong)
PRIMUS Telecom SA de C.V.	(El Salvador)
Primus Telecommunications Holdings Ltd	(United Kingdom)
Primus Telecommunications de Mexico SA de CV	(Mexico)
3082833 Nova Scotia LLC	(Delaware)
3620212 Canada Inc.	(Canada)
Primus Telecommunications Europe BV	(Netherlands)
Delta One America Do Sul	(Brazil)
Primus Telecommunications AG	(Switzerland)
Primus Telecom Mauritius Holdings	(Mauritius)
PTG Investments, Inc.	(Delaware)
NetGlobalis Telecommunicacoes	(Brazil)
Primus Participacoes S.A.	(Brazil)
Arbinet Digital Media Corporation	(Delaware)
Bellfax, Inc.	(Delaware)
ANIP, Inc.	(Delaware)
Arbinet Services, Inc.	(Delaware)
Arbinet Managed Services, Inc.	(Delaware)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-172534 on Form S-8 of our report dated March 25, 2011, relating to the consolidated financial statements and financial statement schedule of Primus Telecommunications Group, Incorporated and subsidiaries (which report expresses an unqualified opinion, and includes an emphasis of matter paragraph relating to the Company’s emergence from bankruptcy and implementation of fresh-start accounting), appearing in this Annual Report on Form 10-K of Primus Telecommunications Group, Incorporated and subsidiaries for the year ended December 31, 2010.

/s/ Deloitte & Touche LLP
McLean, Virginia
March 25, 2011

Exhibit 31

CERTIFICATIONS

I, Peter D. Aquino, certify that:

1. I have reviewed this report on Form 10-K of Primus Telecommunications Group, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15f) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: March 25, 2011

By: /s/ PETER D. AQUINO
Name: Peter D. Aquino
Title: President, Chairman and Chief Executive Officer (Principal Executive Officer) and Director

I, James C. Keeley, certify that:

1. I have reviewed this report on Form 10-K of Primus Telecommunications Group, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15f) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: March 25, 2011

By: /s/ JAMES C. KEELEY
Name: James C. Keeley
Title: Acting Chief Financial Officer, Vice President - Corporate Controller
(Principal Financial and Accounting Officer)

Exhibit 32

CERTIFICATION

Pursuant to Section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002 (18 U.S.C. § 1350, as adopted), Peter D. Aquino, the Chief Executive Officer of Primus Telecommunications Group, Incorporated (the "Company"), and James C. Keeley, the Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company's Annual Report on Form 10-K for the year ended December 31, 2010, to which this Certification is attached as Exhibit 32 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Periodic Report and results of operations of the Company for the period covered by the Periodic Report.

Dated: March 25, 2011

/s/ PETER D. AQUINO
Peter D. Aquino
President, Chairman and Chief Executive Officer (Principal Executive Officer) and Director

/s/ JAMES C. KEELEY
James C. Keeley
Acting Chief Financial Officer, Vice President - Corporate Controller (Principal Financial and Accounting Officer)