AYERS CHRISTOPHER L
Form 4
August 31, 2012

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
AYERS CHRISTOPHER L

(Last) (First) (Middle)

1631 KYLE CREST TRAIL

(Street)

CYPRESS, TX 77433

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
UNIVERSAL STAINLESS & ALLOY PRODUCTS INC [USAP]

3. Date of Earliest Transaction (Month/Day/Year)
08/31/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)

(Instr. 3)	Price of Derivative Security	(Month/Day/Year)	(Instr. 8)		Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)					
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
USAP Common Stock	$ 36.28	08/31/2012	A		2,500		08/31/2013 (1)	08/31/2022	Common Stock	2,500

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
AYERS CHRISTOPHER L 1631 KYLE CREST TRAIL CYPRESS, TX 77433	X			

Signatures

Paul A. McGrath (AIF)	08/31/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) 825 options exercisable 08/31/2013 825 options exercisable 08/31/2014 850 options exercisable 08/31/2015

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. (4,074) 739 9,264

INCOME (LOSS) FROM CONTINUING OPERATIONS

(28,069) (11,317) 11,439 453,687 (15,447) 23,908

INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax

(419) (10,801) (4,264) 17,184 (6,425) (14,304)

GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax

(4,781) 2,926 (110) 251 6,132

NET INCOME (LOSS)

(33,269) (19,192) 7,065 471,122 (21,872) 15,736

Less: Net (income) loss attributable to the noncontrolling interest

(5,461) 105 (333) 32 (3,159)

NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

$(38,730)	$(19,087)	$6,732	$471,154	$(25,031)	$15,736

BASIC INCOME (LOSS) PER COMMON SHARE:

Explanation of Responses:

Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated

$(2.58) $(1.15) $1.15 $3.18 $(0.13) $0.18

Income (loss) from discontinued operations

(0.03) (1.11) (0.44) 0.12 (0.05) (0.11)

Gain (loss) from sale of discontinued operations

(0.37) 0.30 (0.01) 0.05

Net income (loss) attributable to Primus Telecommunications Group, Incorporated

$(2.98) $(1.96) $0.70 $3.30 $(0.18) $0.12

DILUTED INCOME (LOSS) PER COMMON SHARE:

Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$(2.58)	$(1.15)	$1.14	$2.62	$(0.13)	$0.13
Income (loss) from discontinued operations	(0.03)	(1.11)	(0.44)	0.10	(0.05)	(0.07)
Gain (loss) from sale of discontinued operations	(0.37)	0.30	(0.01)			0.03

Net income (loss) attributable to Primus Telecommunications Group, Incorporated					
$(2.98)	$(1.96)	$0.69	$2.72	$(0.18)	$0.09

56

Table of Contents

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

57

Table of Contents

Balance Sheet Data:

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

Discontinued Operations Data:

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

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with the information in our consolidated annual audited financial statements and the notes thereto, each of which are contained in Item 8 entitled Financial Statements and Supplementary Data, and other financial information incorporated by reference herein. Some of the information contained in this discussion and analysis includes forward-looking statements that involve risks and uncertainties. You should review the Risk Factors section for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Introduction and Overview of Operations

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

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

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

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

Table of Contents

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

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

Emergence from Voluntary Reorganization Under Chapter 11 Proceedings

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Recent Developments

Acquisition of Arbinet Corporation

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

Table of Contents

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

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

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

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

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

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

Given the above, the Company had goodwill arising from the acquisition of Arbinet that was considered impaired upon implementing the purchase accounting of Arbinet s net assets. The Company performed Step 1

Table of Contents

and Step 2 testing for goodwill impairment during the first quarter 2011 and, as a result, recognized an impairment expense of $14.7 million during the first quarter 2011.

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

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

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

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

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

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

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

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

Table of Contents

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

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

New York Stock Exchange Listing

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

Globility s Agreement to Sell Canadian Wireless Spectrum Assets

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

Foreign Currency

Foreign currency can have a major impact on our financial results. During 2011, approximately 82% of our net revenue was derived from sales and operations outside the U.S. The reporting currency for our consolidated financial statements is the United States dollar. The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive the majority of our net revenue and incur a significant portion of our operating costs from outside the U.S., and therefore changes in exchange rates have had and may continue to have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the following exchange rates: USD/Canadian dollar (CAD), USD/Australian dollar (AUD), USD/British pound (GBP), and USD/Euro (EUR). Due to the large percentage of our revenue derived outside of the U.S., changes in the USD relative to one or more of the foregoing currencies could have an adverse impact on our future results of operations. We have agreements with certain subsidiaries for repayment of a portion of the investments and advances made to these subsidiaries. As we anticipate repayment in the foreseeable future, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies.

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

Table of Contents

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

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

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

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

	For the Year Ended December 31,			
	2011	2010	Variance	Variance%
Canada (in CAD)	243,656	238,229	5,427	2.3%
Australia (in AUD)	277,461	301,324	(23,863)	-7.9%
United Kingdom (in GBP)	170,124	60,619	109,505	180.6%
Europe[(1),(2)] (in EUR)	64	45,518	(45,454)	-99.9%
Brazil[(2)] (in BRL)	42,049	48,908	(6,859)	-14.0%

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

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 GBP and EUR. 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	2009	Variance	Variance%
Canada	231,185	224,397	6,788	3.0%
Australia	276,614	243,158	33,456	13.8%
United Kingdom	93,440	93,078	362	0.4%
Europe[(1),(2)]	60,617	89,291	(28,674)	-32.1%
Brazil[(2)]	27,686	14,694	12,992	88.4%

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

	For the Year Ended December 31,			
	2010	2009	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)	60,619	59,919	700	1.2%

Europe[1,2] (in EUR)	45,518	63,716	(18,198)	-28.6%
Brazil[2] (in BRL)	48,908	29,067	19,841	68.3%

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

65

Table of Contents

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.

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.

Table of Contents

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 1st. 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. For purposes of this calculation, we have aggregated the carrying values of our US and International Carrier Services (ICS) operating segments together. The goodwill which was acquired in the Arbinet purchase was not specifically allocated to each subsidiary of Arbinet (who has both US and UK operations). Therefore, in order to appropriately match carrying values and invested capital, we needed to include the carrying value of our ICS UK subsidiary since the revenues were being included in the valuation of the combined US/ICS segment.

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 7 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 13% and 15% weighted average costs of capital and market-based multiples of projected earnings 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 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.

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.

As of the most recent annual test conducted on October 1, 2011, the Company concluded that the fair value of each of the reporting units exceeded its carrying value of invested capital and therefore, no potential goodwill impairment existed. For one of the reporting units for which the goodwill balance was $37 million as of

Table of Contents

December 31, 2011, the fair value exceeded the carrying value by approximately 6%. The Company performed a sensitivity test at October 1, 2011 that showed a 100 basis point increase and decrease in its discount rate or a 50 basis point increase and decrease in the terminal growth rate for each reporting unit and concluded that no potential goodwill impairment existed at October 1, 2011.

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 Australian 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 Australian 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. If our assumptions with respect to our Australian 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 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 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 statements of operations. Net cash used for reorganization items was disclosed separately in the consolidated 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 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 9 Income Taxes, to the Company s consolidated financial statements for further details.

Discontinued Operations

2011 Developments During the fourth quarter of 2011, the Company sold its Brazilian segment. As a result, the Company has applied retrospective adjustments for 2010 and 2009 to reflect the effects of the discontinued operations that occurred subsequent to December 31, 2010. Accordingly, revenue, costs, and

expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as income, or loss, as applicable, from discontinued operations.

2010 Developments During the third quarter of 2010, the Company discontinued its Europe segment, which was also known as European retail operations and has presented the results of the Europe segment as discontinued operations and held for sale as of September 30, 2010. As a result, the Company has applied retrospective adjustments for 2009 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 consolidated balance sheet, as held for sale criteria was not met until the third quarter of 2010. As such, financial information for the Europe segment will appear, as applicable, where balance sheet information is presented for fiscal years 2009.

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.

As a result of these events, the Company s consolidated financial statements for all periods presented reflect the Brazil operations, European retail operations and Japan retail operations as discontinued operations for the years ended December 31, 2011 and 2010 and six months ended December 31, 2009, and July 1, 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 from discontinued operations.

Summarized operating results of the discontinued operations for the years ended December 31, 2011 and 2010, and the six months ended December 31, 2009 and July 1, 2009 are as follows:

		Successor		Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009
Net revenue	$ 25,370	$ 65,192	$ 35,261	$ 32,518
Operating expenses	25,856	77,340	37,976	33,423
Income (loss) from operations	(486)	(12,148)	(2,715)	(905)
Interest expense	(77)	(59)	(68)	(63)
Interest income and other income (expense)	485	(328)	(144)	53
Foreign currency transaction gain (loss)	(101)	(135)	(1,185)	787
Reorganization items			(14)	17,146
Income (loss) before income tax	(179)	(12,670)	(4,126)	17,018
Income tax (expense) benefit	(240)	1,869	(138)	166
Income (loss) from discontinued operations	$ (419)	$ (10,801)	$ (4,264)	$ 17,184

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

Table of Contents

period from January 1, 2009 to July 1, 2009 and we compare these combined results of operations with Successor s results of operations for the year ended December 31, 2010. 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 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 carryforward 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.

Table of Contents

Results of Operations

The following information for the years ended December 31, 2011, 2010 and 2009 reflects all the items included in consolidated statements of operations as a percentage of net revenue:

	Successor			Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009
NET REVENUE	100.0%	100.0%	100.0%	100.0%
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)	70.3%	63.2%	65.1%	64.7%
Selling, general and administrative	21.7%	26.4%	24.0%	24.3%
Depreciation and amortization	6.5%	8.7%	9.3%	3.2%
(Gain) loss on sale or disposal of assets	-1.3%	0.0%	0.0%	0.0%
Goodwill impairment	1.5%	0.0%	0.0%	0.0%
Total operating expenses	98.7%	98.4%	98.5%	92.2%
INCOME (LOSS) FROM OPERATIONS	1.3%	1.6%	1.5%	7.8%
INTEREST EXPENSE	-3.3%	-4.8%	-4.4%	-3.9%
ACCRETION (AMORTIZATION) ON DEBT PREMIUM/DISCOUNT, net	0.0%	0.0%	0.0%	0.1%
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	-0.7%	0.0%	-1.1%	0.0%
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	0.3%	-1.9%	-0.7%	0.0%
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	0.0%	0.1%	0.1%	0.1%
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	-0.3%	2.2%	5.0%	5.7%
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	-2.7%	-2.8%	0.4%	9.7%
REORGANIZATION ITEMS, net	0.0%	0.0%	-0.1%	117.8%
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	-2.7%	-2.8%	0.3%	127.5%
INCOME TAX BENEFIT (EXPENSE)	-0.1%	1.2%	2.6%	-1.1%
INCOME (LOSS) FROM CONTINUING OPERATIONS	-2.8%	-1.5%	2.9%	126.4%
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	0.0%	-1.5%	-1.1%	4.8%
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	-0.5%	0.4%	0.0%	0.1%
NET INCOME (LOSS)	-3.4%	-2.6%	1.8%	131.2%

72

Table of Contents

The following information reflects net revenue by product line for the years ended December 31, 2011, 2010 and 2009 (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,					
	2011		2010		2009	
	Net Revenue	% of Total	Net Revenue	% of Total	Net Revenue	% of Total
Retail voice	$ 359,331	36.3%	$ 354,147	48.0%	$ 345,859	46.2%
International carrier services	411,411	41.6%	178,631	24.2%	212,962	28.5%
Data/Internet	185,938	18.8%	172,485	23.4%	156,168	20.9%
Retail VoIP	32,579	3.3%	31,999	4.4%	33,082	4.4%
Total	$ 989,259	100.0%	$ 737,262	100.0%	$ 748,071	100.0%

Results of operations for the year ended December 31, 2011 as compared to the year ended December 31, 2010

Net revenue: Net revenue, exclusive of the currency effect, increased $199.2 million, or 27.0%, to $936.5 million for the year ended December 31, 2011 from $737.3 million for the year ended December 31, 2010. Inclusive of the currency effect which accounted for an increase of $52.8 million, net revenue increased $252.0 million to $989.3 million for the year ended December 31, 2011 from $737.3 million for the year ended December 31, 2010.

	Exclusive of Currency Effect Year Ended							Inclusive of Currency Effect Year Ended	
	December 31, 2011		December 31, 2010		Year-over-Year			December 31, 2011	
(in thousands)	Net Revenue	% of Total	Net Revenue	% of Total	Variance	Variance %	Currency Effect	Net Revenue	% of Total
Canada	236,437	25.2%	231,185	31.4%	5,252	2.3%	10,175	246,612	24.9%
Australia	254,946	27.2%	276,614	37.5%	(21,668)	-7.8%	31,516	286,462	28.9%
International Carrier Services	400,322	42.8%	178,631	24.2%	221,691	124.1%	11,089	411,411	41.6%
United States	44,202	4.7%	50,724	6.9%	(6,522)	-12.9%		44,202	4.5%
Other	564	0.1%	108	0.0%	456	422.2%	8	572	0.1%
Total Revenue	936,471	100.0%	737,262	100.0%	199,209	27.0%	52,788	989,259	100.0%

Canada: Canada net revenue, exclusive of the currency effect, increased $5.2 million, or 2.3%, to $236.4 million for the year ended December 31, 2011 from $231.2 million for the year ended December 31, 2010. The net revenue increase is primarily attributable to an increase of $9.3 million in retail voice services, an increase of $2.3 million in data and hosting services, an increase of $1.8 million in VoIP services, and an increase of $1.6 million in Internet services offset, in part, by a decrease of $6.9 million in prepaid voice services, a decrease of $2.1 million in local services and a decrease of $0.8 million in wireless and other services. Inclusive of the currency effect which accounted for a $10.2 million increase, net revenue increased $15.4 million to $246.6 million for the year ended December 31, 2011 from $231.2 million for the year ended December 31, 2010.

Australia: Australia net revenue, exclusive of the currency effect, decreased $21.7 million, or 7.8%, to $254.9 million for the year ended December 31, 2011 from $276.6 million for the year ended December 31, 2010. The net revenue decrease is primarily attributable to a decreases of $9.2 million in business voice services, a decrease of $7.9 million in residential voice, a decrease of $5.0 million in Internet services and a decrease of $1.7 million in DSL and other services offset, in part, by, an increase of $1.7 million in wireless services, and increase of $0.4 million in prepaid and VoIP services. Inclusive of the currency effect which accounted for a $31.5 million increase, net revenue increased $9.8 million to $286.4 million for the year ended December 31, 2011 from $276.6 million for the year ended December 31, 2010.

Table of Contents

International Carrier Services: International Carrier Services net revenue, exclusive of the currency effect, increased $221.7 million, or 124.1%, to $400.3 million for the year ended December 31, 2011 from $178.6 million for the year ended December 31, 2010. The net revenue increase is primarily attributable to the acquisition of Arbinet, which provided net revenue of $204.3 million, an increase of $23.8 million in U.S. carrier services offset, in part, by a decrease of $6.4 million in Europe carrier services. Inclusive of the currency effect which accounted for an $11.1 million increase, net revenue increased $232.8 million to $411.4 million for the year ended December 31, 2011, from $178.6 million for the year ended December 31, 2010.

United States: United States net revenue decreased $6.5 million, or 12.9%, to $44.2 million for the year ended December 31, 2011 from $50.7 million for the year ended December 31, 2010. The decrease is primarily attributable to a decrease of $4.0 million in retail voice services (for residential and small businesses), a decrease of $2.1 million in VoIP services and a decrease of $0.4 million in Internet services.

Cost of revenue: Cost of revenue, exclusive of the currency effect, increased $195.2 million to $661.2 million, or 70.6% of net revenue, for the year ended December 31, 2011 from $466.0 million, or 63.2% of net revenue, for the year ended December 31, 2010. Inclusive of the currency effect, which accounted for a $34.5 million increase, cost of revenue increased $229.7 million to $695.7 million for the year ended December 31, 2011 from $466.0 million for the year ended December 31, 2010.

	Exclusive of Currency Effect Year Ended							Inclusive of Currency Effect Year Ended	
	December 31, 2011		December 31, 2010		Year-over-Year			December 31, 2011	
(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	110,723	46.8%	106,512	46.1%	4,211	4.0%	4,855	115,578	46.9%
Australia	151,122	59.3%	168,831	61.0%	(17,709)	-10.5%	18,886	170,008	59.3%
International Carrier Services	378,651	94.6%	168,698	94.4%	209,953	124.5%	10,760	389,411	94.7%
United States	20,741	46.9%	22,004	43.4%	(1,263)	-5.7%		20,741	46.9%
Other		0.0%		0.0%		0.0%			0.0%
Total Cost of Revenue	661,237	70.6%	466,045	63.2%	195,192	41.9%	34,501	695,738	70.3%

Canada: Canada cost of revenue, exclusive of the currency effect, increased $4.2 million to $110.7 million, or 46.8% of net revenue, for the year ended December 31, 2011 from $106.5 million, or 46.1% of net revenue, for the year ended December 31, 2010. The decrease is primarily attributable to an increase in net revenue of $5.2 million. Inclusive of the currency effect, which accounted for a $4.9 million increase, cost of revenue increased $9.1 million to $115.6 million for the year ended December 31, 2011 from $106.5 million for the year ended December 31, 2010.

Australia: Australia cost of revenue, exclusive of the currency effect, decreased $17.7 million to $151.1 million, or 59.3% of net revenue, for the year ended December 31, 2011 from $168.8 million, or 61.0% of net revenue, for the year ended December 31, 2010. The decrease is primarily attributable to a $21.7 million decrease in net revenue. Inclusive of the currency effect, which accounted for an $18.9 million increase, cost of revenue increased $1.2 million to $170.0 million for the year ended December 31, 2011 from $168.8 million for the year ended December 31, 2010.

International Carrier Services: International Carrier Services cost of revenue, exclusive of the currency effect, increased $210.0 million to $378.7 million, or 94.6% of net revenue, for the year ended December 31, 2011 from $168.7 million, or 94.4% of net revenue, for the year ended December 31, 2010. The increase is primarily attributable to the acquisition of Arbinet, which provided cost of revenue of $192.3 million. Inclusive

Table of Contents

of the currency effect, which accounted for a $10.7 million increase, cost of revenues increased $220.7 million to $389.4 million for the year ended December 31, 2011 from $168.7 million for the year ended December 31, 2010.

United States: United States cost of revenue decreased $1.3 million to $20.7 million, or 46.9% of net revenue, for the year ended December 31, 2011 from $22.0 million, or 43.4% of net revenue, for the year ended December 31, 2010. The decrease is attributable to a decrease in net revenue of $6.5 million.

Selling, general and administrative expenses: Selling, general and administrative expenses (SG&A), exclusive of the currency effect, increased $7.7 million to $202.6 million, or 21.6% of net revenue, for the year ended December 31, 2011 from $194.9 million, or 26.4% of net revenue, for the year ended December 31, 2010. Inclusive of the currency effect, which accounted for a $12.0 million increase, selling, general and administrative expenses increased $19.7 million to $214.6 million for the year ended December 31, 2011 from $194.9 million for the year ended December 31, 2010.

	Exclusive of Currency Effect Year Ended							Inclusive of Currency Effect Year Ended	
	December 31, 2011		December 31, 2010		Year-over-Year			December 31, 2011	
(in thousands)	SG&A	% of Net Revenue	SG&A	% of Net Revenue	Variance	Variance %	Currency Effect	SG&A	% of Net Revenue
Canada	75,218	31.8%	78,008	33.7%	(2,790)	-3.6%	3,244	78,462	31.8%
Australia	66,963	26.3%	69,119	25.0%	(2,156)	-3.1%	8,608	75,571	26.4%
International Carrier Services	21,103	5.3%	6,384	3.6%	14,719	230.6%	172	21,275	5.2%
United States	18,253	41.3%	22,203	43.8%	(3,950)	-17.8%		18,253	41.3%
Other	877	155.5%	1,594	1475.9%	(717)	-45.0%	13	890	155.6%
Corporate	20,134		17,579		2,555	14.5%		20,134	
Total SG&A	202,548	21.6%	194,887	26.4%	7,661	3.9%	12,037	214,585	21.7%

Canada: Canada selling, general and administrative expense, exclusive of the currency effect, decreased $2.8 million to $75.2 million, or 31.8% of net revenue, for the year ended December 31, 2011 from $78.0 million, or 33.7% of net revenue, for the year ended December 31, 2010. The decrease is attributable to a decrease of $2.4 million in sales and marketing expenses, a decrease of $0.7 million in professional fees, a decrease of $0.4 million in salaries and benefits and a decrease of $0.1 million in occupancy expenses offset, in part, by an increase of $0.5 million in general and administrative expenses and an increase of $0.3 million in advertising expenses. Inclusive of the currency effect, which accounted for a $3.2 million increase, selling, general and administrative expenses increased $0.4 million to $78.4 million for the year ended December 31, 2011 from $78.0 million for the year ended December 31, 2010.

Australia: Australia selling, general and administrative expense, exclusive of the currency effect, decreased $2.1 million to $67.0 million, or 26.3% of net revenue, for the year ended December 31, 2011 from $69.1 million, or 25.0% of net revenue, for the year ended December 31, 2010. The decrease is attributable to a decrease of $0.5 million in general and administrative expenses, a decrease of $0.5 million in professional fees, a decrease of $0.4 million in advertising expenses, a decrease of $0.4 million in salaries and benefits, a decrease of $0.3 million in sales and marketing expenses and a decrease of $0.1 million in occupancy expense offset, in part, by an increase of $0.1 million travel and entertainment expense. Inclusive of the currency effect, which accounted for an $8.6 million increase, selling, general and administrative expense increased $6.5 million to $75.6 million for the year ended December 31, 2011 from $69.1 million for the year ended December 31, 2010.

Table of Contents

International Carrier Services: International Carrier Services selling, general and administrative expense increased $14.7 million to $21.1 million, or 5.3% of net revenue, for the year ended December 31, 2011 from $6.4 million, or 3.6% of net revenue, for the year ended December 31, 2010. The increase is primarily due to the acquisition of Arbinet, which provided selling, general and administrative expenses of $13.1 million, and an increase of $1.7 million in US Carrier Services offset, in part, by a decrease of $0.1 million in Europe Carrier Services. Inclusive of the currency effect, which accounted for a $0.2 million increase, selling, general and administrative expense increased $14.9 million to $21.3 million for the year ended December 31, 2011 from $6.4 million for the year ended December 31, 2010.

United States: United States selling, general and administrative expense decreased $3.9 million to $18.3 million, or 41.3% of net revenue, for the year ended December 31, 2011 from $22.2 million, or 43.8% of net revenue, for the year ended December 31, 2010. The decrease is attributable to a decrease of $2.8 million in general and administrative expenses, a decrease of $1.2 million in salaries and benefits, a decrease of $0.3 million in occupancy expense and a decrease of $0.1 million in travel and entertainment offset, in part, by an increase of $0.4 million in advertising expenses and an increase of $0.1 million in sales and marketing expense and professional fees.

Corporate: Corporate selling, general and administrative expense increased $2.5 million to $20.1 million for the year ended December 31, 2011 from $17.6 million for the year ended December 31, 2010. The increase is attributable to an increase of $0.7 million in general and administrative expenses, an increase of $0.6 million in salaries and benefits, an increase of $0.5 million in professional fees, an increase of $0.5 million in travel and entertainment expenses and an increase of $0.2 million in occupancy expense.

Depreciation and amortization expense: Depreciation and amortization expense increased $0.1 million to $64.5 million for the year ended December 31, 2011 from $64.4 million for the year ended December 31, 2010. The increase was primarily the result of certain assets revalued at the time of fresh-start accounting and depreciated over a one year life which ended on June 30, 2010, offset in part, by additional depreciation and amortization from Arbinet.

Goodwill impairment expense: The Company expensed $14.7 million of goodwill in the first quarter of 2011 due to the acquisition price of Arbinet Corporation. See Note 5 Acquisitions and Note 7 Goodwill and Other Intangible Assets to the notes to our consolidated financial statements included elsewhere in this report.

Interest expense and accretion (amortization) on debt discount/premium: Interest expense and accretion (amortization) on debt discount/premium, net decreased $2.9 million to $32.7 million for the year ended December 31, 2011 from $35.6 million for the year ended December 31, 2010. The decrease was due to the $24.0 million principal payment of the 14 $^{1}/_{4}$% Senior Subordinated Secured Notes in April 2011, partially offset by an increase in our overall debt balance.

Gain (loss) on early extinguishment or restructuring of debt: Gain (loss) on early extinguishment or restructuring of debt was a loss of $7.3 million for the year ended December 31, 2011, primarily due to professional fees incurred as a result of the Exchange Offers and Consent Solicitation, as compared to a gain of $0.2 million for the year ended December 31, 2010.

Gain (loss) from contingent value rights valuation: The gain from the change in fair value of the contingent value rights increased $16.6 million to a $2.9 million gain for the year ended December 31, 2011 from a $13.7 million loss for the year ended December 31, 2010. 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

Table of Contents

substantially greater than the initial recorded liability balance). The change in fair value of the liability is reflected in our consolidated statements of operations as other income (expense). Estimates of fair value represent the Company s best estimates based on a Black-Scholes pricing model.

Interest income and other income (expense): Interest income and other income (expense) decreased $0.8 million to an expense of $0.1 million for the year ended December 31, 2011 from $0.7 million income for the year ended December 31, 2010.

Foreign currency transaction gain (loss): Foreign currency transaction loss decreased $19.1 million to a loss of $2.7 million for the year ended December 31, 2011 from a gain of $16.4 million for the year ended December 31, 2010. The gains and losses are attributable to the impact of foreign currency exchange rate changes on intercompany debt balances and on receivables and payables denominated in a currency other than the subsidiaries functional currency.

Income tax benefit (expense): Income tax benefit (expense) is a $0.9 million expense for the year ended December 31, 2011 compared to a $9.1 million benefit for the year ended December 31, 2010. 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 9 Income Taxes, to our consolidated audited financial statements for further detail.

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 $69.9 million, or 9.3% to $678.2 million for the year ended December 31, 2010 from $748.1 million for the year ended December 31, 2009. Inclusive of the currency effect, which accounted for an increase of $59.1 million, net revenue decreased $10.8 million to $737.3 million for the year ended December 31, 2010 from $748.1 million for the year ended December 31, 2009.

	Exclusive of Currency Effect Year Ended							Inclusive of Currency Effect 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	30.9%	224,397	30.0%	(15,028)	-6.7%	21,816	231,185	31.4%
Australia	237,524	35.0%	243,158	32.5%	(5,634)	-2.3%	39,093	276,614	37.5%
International Carrier Services	180,442	26.6%	212,962	28.5%	(32,520)	-15.3%	(1,811)	178,631	24.2%
United States	50,724	7.5%	67,554	9.0%	(16,830)	-24.9%		50,724	6.9%
Other	105	0.0%		0.0%	105	0.0%	3	108	0.0%
Total Revenue	678,164	100.0%	748,071	100.0%	(69,907)	-9.3%	59,101	737,262	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.

Table of Contents

Australia: Australia net revenue, exclusive of the currency effect, decreased $5.7 million, or 2.3%, to $237.5 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 an increase of $2.6 million in business voice services, an increase of $1.3 million in DSL, VoIP and other services and an increase of $0.9 million in wireless services. Inclusive of the currency effect which accounted for a $39.1 million increase, net revenue increased $33.4 million to $276.6 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.

Cost of revenue: Cost of revenue, exclusive of the currency effect, decreased $51.6 million to $434.1 million, or 64.0% of net revenue, for the year ended December 31, 2010 from $485.7 million, or 64.9% of net revenue, for the year ended December 31, 2009. Inclusive of the currency effect, which accounted for a $31.9 million increase, cost of revenue decreased $19.7 million to $466.0 million for the year ended December 31, 2010 from $485.7 million for the year ended December 31, 2009.

	Exclusive of Currency Effect Year Ended							Inclusive of Currency Effect 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%	30,358	44.9%	(8,354)	-27.5%		22,004	43.4%
Other		0.0%		0.0%		0.0%			0.0%
Total Cost of Revenue	434,144	64.0%	485,735	64.9%	(51,591)	-10.6%	31,901	466,045	63.2%

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.

Table of Contents

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 $5.7 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 $16.9 million.

Selling, general and administrative expenses: Selling, general and administrative expenses, exclusive of the currency effect, decreased $2.9 million to $177.8 million, or 26.2% of net revenue, for the year ended December 31, 2010 from $180.7 million, or 24.2% of net revenue, for the year ended December 31, 2009. Inclusive of the currency effect, which accounted for a $17.1 million increase, selling, general and administrative expenses increased $14.2 million to $194.9 million for the year ended December 31, 2010 from $180.7 million for the year ended December 31, 2009.

	Exclusive of Currency Effect Year Ended							Inclusive of Currency Effect 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	59,497	25.0%	58,561	24.1%	936	1.6%	9,622	69,119	25.0%
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%
Other	1,501	1429.5%	(316)	0.0%	1,817	-575.0%	93	1,594	1475.9%
Corporate	17,579		10,761		6,818	63.4%		17,579	
Total SG&A	177,827	26.2%	180,675	24.2%	(2,848)	-1.6%	17,060	194,887	26.4%

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.

Table of Contents

Australia: Australia selling, general and administrative expense, exclusive of the currency effect, increased $0.9 million to $59.5 million, or 25.0% of net revenue, for the year ended December 31, 2010 from $58.6 million, or 24.1% 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 $0.3 million in occupancy expense, and an increase of $0.3 million in professional fees offset, in part by a decrease of $0.5 million in salaries and benefits, a decrease of $0.1 million in general and administrative and a decrease of $0.1 million in sales and marketing. Inclusive of the currency effect, which accounted for a $9.6 million increase, selling, general and administrative expense increased $10.5 million to $69.1 million for the year ended December 31, 2010 from $58.6 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 a decrease of $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 a decrease of $1.8 million in salaries and benefits, a $0.7 million decrease in professional fees, a $0.5 million decrease in sales and marketing expense, a $0.3 million decrease in advertising expenses, and a $0.2 million decrease in travel and entertainment offset, in part, by a $0.1 million increase in general and administrative expenses.

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 $16.7 million to $64.4 million for the year ended December 31, 2010 from $47.7 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 $35.6 million for the year ended December 31, 2010 from $31.1 million for the year ended December 31, 2009. During the 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 a $13.7 million loss for the year ended December 31, 2010 from a $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 consolidated statements of operations as other income (expense). Estimates of fair value represent the Company s best estimates based on a Black-Scholes pricing model.

Table of Contents

Interest income and other income (expense): Interest income and other income (expense) decreased $0.1 million to $0.7 million income for the year ended December 31, 2010 from $0.8 million income 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 and losses are attributable to the impact of foreign currency exchange rate changes on intercompany debt balances and on receivables and payables denominated in a currency other than the subsidiaries functional currency.

Reorganization items, net: Reorganization items, exclusive of discontinued operations reflect the favorable impact of $422.5 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 9 Income Taxes, to our consolidated audited financial statements for further detail.

Liquidity and Capital Resources

Important Long-Term Capital Structure Developments:

Exchange Offers. On July 7, 2011, in connection with the consummation of the private (i) exchange offers (the Exchange Offers) for any and all outstanding Units representing the 13% Senior Secured Notes due 2016 (the 13% Notes) issued by Primus Telecommunications Holding Inc. (Holding) and Primus Telecommunications Canada Inc. (Primus Canada), and the 14 1/4% Senior Subordinated Secured Notes due 2013 (the 14 1/4% Notes) issued by Primus Telecommunications IHC, Inc. (IHC), (ii) consent solicitation (the Consent Solicitation) to amend the indenture governing the 13% Notes and release the collateral securing the 13% Notes, and (iii) related transactions, Holding issued $240.2 million aggregate principal amount of 10% Senior Secured Notes due 2017 (the 10% Notes). An aggregate of $228.6 million principal amount of 10% Notes was issued pursuant to the Exchange Offers, and Holding issued an additional $11.6 million aggregate principal amount of 10% Notes for cash, the proceeds of which were used to redeem all 14 1/4% Notes that were not exchanged pursuant to the Exchange Offers and thereby discharge all of our obligations with respect to the 14 1/4% Notes. In connection with the Exchange Offers, the Company also incurred $6.9 million of third party costs which are included in gain (loss) on early extinguishment or restructuring of debt on the consolidated statement of operations. See Recent Developments Recent Developments Involving Existing Notes That May Impact Future Results and Liquidity, above for further detail concerning the 10% Notes and the 10% Notes Indenture.

14 1/4% Notes Redemption and Discharge. On April 15, 2011, IHC redeemed approximately $24.0 million principal amount of 14 1/4% Notes. There was $90.0 million aggregate principal amount of the 14 1/4% Notes remaining outstanding after this redemption. Upon consummation of the Exchange Offers, $78.4 million principal of 14 1/4% Notes was exchanged for $79.4 million principal amount of 10% Notes. In connection with the consummation of the Exchange Offers and as discussed above, on August 7, 2011, IHC redeemed all 14 1/4% Notes that were not exchanged pursuant to the Exchange Offers and thereby discharged all of our obligations with respect to the 14 1/4% Notes.

Table of Contents

13% Notes. On April 19, 2011, Holding and Primus Canada commenced an offer to purchase (the Offer to Purchase) up to 5,200 Units, each such unit consisting of $1,000 principal amount of the 13% Notes issued by Holding and Primus Canada, at a purchase price in cash equal to 100% of the principal amount of 13% Notes validly tendered (and not validly withdrawn) prior to the expiration time, plus accrued but unpaid interest thereon to the settlement date for the Offer to Purchase. The Offer to Purchase was made pursuant to the excess cash flow covenant in the terms of the indenture governing the 13% Notes. The Offer to Purchase expired on May 17, 2011 and $32,000 principal amount of 13% Notes was tendered and repurchased pursuant to the Offer to Purchase. Upon consummation of the Exchange Offers and Consent Solicitation, $127.6 million aggregate principal amount of 13% Notes was exchanged for $149.3 million aggregate principal amount of 10% Notes, leaving $2.4 million aggregate principal amount of 13% Notes outstanding.

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 $42.9 million for the year ended December 31, 2011 as compared to net cash provided by operating activities of $36.5 million for the year ended December 31, 2010. For the year ended December 31, 2011, net income, net of non-cash operating activity, provided $56.0 million of cash. In addition, cash was increased by increases in accrued interest of $3.7 million and accrued income taxes of $3.3 million, as well as increases in other assets of $3.6 million. For the year ended December 31, 2011, we used $9.7 million to reduce our accounts payable, $4.3 million to reduce our accrued interconnection costs and $9.8 million to reduce our accrued expenses, deferred revenue, other current liabilities and other liabilities, net.

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. The cash effect of reorganization items was $0.1 million.

Net cash used in investing activities was $2.3 million for the year ended December 31, 2011 compared to $21.2 million for the year ended December 31, 2010. Net cash used in investing activities during the year ended December 31, 2011 included $31.5 million of capital expenditures and was primarily offset by $14.2 million from the sale of fixed wireless spectrum licenses by Globility, a company in which we directly and indirectly own a 45.6% interest. In addition, net cash used in investing activities was offset by $9.5 million provided by the acquisition of businesses, $1.5 million from the sale of a business and $4.1 million from the sale of marketable securities.

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.

Table of Contents

Net cash used in financing activities was $38.8 million for the year ended December 31, 2011 compared to $13.9 million for the year ended December 31, 2010. During the year ended December 31, 2011, $33.3 million was used to reduce the principal amounts outstanding on capital leases, leased fiber capacity, financing facilities and other long-term obligations, $4.9 million was used to pay fees related to the Exchange Offers and Consent Solicitation, $1.2 million was paid to a noncontrolling interest and $0.4 million was used to buy treasury stock. In addition, $1.1 million was provided by the sale of common stock.

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.

Short- and Long-Term Liquidity Considerations and Risks

As of December 31, 2011, we had $41.1 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, 2011, we have $15.4 million in future minimum purchase obligations, $88.1 million in future operating lease payments and $249.3 million of indebtedness.

The obligations reflected in the table below reflect the contractual payments of principal and interest that existed as of December 31, 2011:

Year Ending December 31,	Capital Leases and Other	13% Senior Secured Notes due 2016	10% Senior Secured Notes due 2017	Purchase Obligations	Operating Leases	Total
2012	$ 2,928	$ 312	$ 23,523	$ 8,061	$ 20,312	$ 55,136
2013	3,218	312	23,523	3,950	16,422	47,425
2014	3,020	312	23,523	3,313	12,067	42,235
2015	3,000	312	23,523	54	9,799	36,688
2016	3,000	2,716	23,523		6,725	35,964
Thereafter			242,092		22,809	264,901
Total minimum principal & interest payments	15,166	3,964	359,707	15,378	88,134	482,349
Less: Amount representing interest	(3,470)	(1,561)	(124,476)			(129,507)
Total long-term obligations	$ 11,696	$ 2,403	$ 235,231	$ 15,378	$ 88,134	$ 352,842

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

In October 2009, an update was issued to the Revenue Recognition Topic, ASC 605, ASU 2009-13, Revenue Recognition Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force. The update requires the establishment of a selling price hierarchy for determining the selling price of a deliverable. The hierarchy is: vendor specific objective evidence if available, third party evidence if vendor-specific objective evidence is not available or estimated selling price if neither of the aforementioned is

83

Table of Contents

available. The residual method of revenue allocation is no longer permissible. On January 1, 2011 the Company adopted this update, which did not have a material impact on the consolidated financial statements.

In January 2010, an update was issued to the Fair Value Measurements and Disclosures Topic, ASC 820, ASU 2010-06, Improving Disclosures about Fair Value Measurements, which requires new disclosures for fair value measurements and provides clarification for existing disclosures requirements. More specifically, this update requires (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e., present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. This update was effective for the Company on January 1, 2010, except for Level 3 reconciliation disclosures which went into effect on January 1, 2011. The adoption of this update did not have a material impact on the consolidated financial statements.

In December 2010, an update was issued to the Intangibles Goodwill and Other Topic, ASC 350, ASU 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts, 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. On January 1, 2011 the Company adopted this update, which did not have a material impact on the consolidated financial statements.

In December 2010, an update was issued to the Business Combinations Topic, ASC 805, ASU 2010-29, Business Combinations Disclosure of Supplementary Pro-Forma Information for Business Combinations , a consensus of the FASB Emerging Issues Task Force. These changes clarify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination, that occurred during the current year, had occurred as of the beginning of the comparable prior annual reporting period only. For the Company, this would be as of January 1, 2010. See Note 5 Acquisitions. Also, the existing supplemental pro forma disclosures were expanded to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings, if any. On February 28, 2011 the Company adopted this update, and the required disclosures related to Arbinet are included in Note 5.

In April 2011, an update was issued to the Receivables Topic, ASC 310, ASU 2011-02, A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring, which provides guidance to all creditors, both public and nonpublic, that restructure receivables that fall within the scope of Subtopic 310-40, Receivables Troubled Debt Restructurings by Creditors. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (1) the restructuring constitutes a concession and (2) the debtor is experiencing financial difficulties. The amendments to Topic 310 clarify the guidance on a creditor s evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. On July 1, 2011 the Company adopted this update, which did not have a material impact on the consolidated financial statements.

Table of Contents

New Accounting Pronouncements

In May 2011, an update was issued to the Fair Value Measurement Topic ASC 820, ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which provides guidance on how to measure fair value and on what disclosures to provide about fair value measurements. It seeks to develop a single, converged fair value framework between the FASB and International Financial Reporting Standards (IFRS) Board. The Company s effective date for adoption is January 1, 2012 and it does not foresee this accounting update having a material effect on its consolidated financials in future periods, although that could change.

In June 2011, an update was issued to the Comprehensive Income Topic ASC 220, ASU 2011-05, Presentation of Comprehensive Income, which provides guidance to all entities that report items of other comprehensive income, in any period presented. Under the amendments in this update, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. In a single continuous statement, the entity is required to present the components of net income and total net income, the components of other comprehensive income and a total for other comprehensive income, along with the total of comprehensive income in that statement. In the two-statement approach, an entity is required to present components of net income and total net income in the statement of net income. The statement of other comprehensive income should immediately follow the statement of net income and include the components of other comprehensive income and a total for other comprehensive income, along with a total for comprehensive income. ASU 2011-05 also contains a provision that requires the entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. In December 2011, an update was issued to the Comprehensive Income Topic ASC 220, ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, which indefinitely deferred the requirement to present the reclassification adjustments out of other comprehensive income. The Company s effective date for adoption is January 1, 2012 and it does not foresee this accounting update having a material effect on its consolidated financials in future periods, although that could change.

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

In December 2011, an update was issued to the Balance Sheet Topic ASC 210, ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, which contains new disclosure requirements regarding the nature of an

Table of Contents

entity s right of setoff and related arrangements associated with its financial instruments and derivative instruments. The new disclosures are designed to make financial statements that are prepared under U.S. GAAP more comparable to those prepared under IFRSs. Generally, it is more difficult to qualify for offsetting under IFRSs than it is under U.S. GAAP because under U.S. GAAP certain derivative and repurchase agreement arrangements are granted exceptions from the general offsetting model. As a result, entities with significant financial instrument and derivative portfolios that report under IFRSs typically present positions on their balance sheets that are significantly larger than those of entities with similarly sized portfolios whose financial statements are prepared in accordance with U.S. GAAP. To facilitate comparison between financial statements prepared under U.S. GAAP and IFRSs, the new disclosures will give financial statement users information about both gross and net exposures. The Company s effective date for adoption is January 1, 2014 and it does not foresee this accounting update having a material effect on its consolidated financials in future periods, although that could change.

Special Note Regarding Forward-Looking Statements

This Report on Form 10-K contains or incorporates a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based on current expectations, and are not strictly historical statements. In some cases, you can identify forward-looking statements by terminology such as if, may, should, believe, anticipate, future, forward, potential, estimate, opportunity, goal, objective, growth, outcome, strategy, provide, commitment, result, seek, pursue, ongoing, include or in the negative of such terms or comparable terminology. T forward-looking statements inherently involve certain risks and uncertainties and are not guarantees of performance or results, as well as creation of shareholder value, although they are based on our current plans or assessments which are believed to be reasonable as of the date hereof.

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

continuing uncertain global economic conditions;

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

uncertainties from our announcement of our exploration and evaluation of strategic alternatives that may enhance shareholder value;

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

our ability to attract and retain customers;

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

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

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

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

86

Table of Contents

- our compliance with complex laws and regulations in the U.S. and internationally;
- further changes in the telecommunications or Internet industry, including rapid technological, regulatory and pricing changes in our principal markets;
- our liquidity and possible inability to service our substantial indebtedness or an occurrence of a default or event of default under our indentures;
- our expectations regarding the timing, extent and effectiveness of our cost reduction initiatives and management s ability to moderate or control discretionary spending;
- management s plans, goals, expectations, guidance, objectives, strategies, and timing for future operations, acquisitions, synergies, asset dispositions, fixed asset and goodwill impairment charges, tax and withholding expense, selling, general and administrative expenses, product plans, performance and results;
- management s assessment of market factors and competitive developments, including pricing actions and regulatory rulings;
- our possible inability to raise additional capital when needed, on attractive terms, or at all; and
- our possible inability to hire and retain qualified executive management, sales, technical and other personnel.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign currency exchange rates Foreign currency can have a major impact on our financial results. As of December 31, 2011, about 82% 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, USD/AUD, USD/GBP, and USD/EUR. Due to the large percentage of our revenue derived outside of the U.S., changes in the USD relative to one or more of the foregoing currencies could have an adverse impact on our future results of operations. 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 of our international subsidiaries and may distort comparisons from year to year. By way of example, when the USD strengthens compared to the CAD, there could be a negative or positive effect on the reported results for our Canadian operating segment, depending upon whether the business in our Canadian operating segment is operating profitably or at a loss. It takes more profits in CAD to generate the same amount of profits in USD and a greater loss in CAD to generate the same amount of loss in USD. The opposite is also true. For instance, when the USD weakens against the CAD, there is a positive effect on reported profits and a negative effect on the reported losses for our Canadian operating segment.

In the year ended December 31, 2011, as compared to the year ended December 31, 2010, the USD was weaker on average as compared to the CAD, AUD, GBP and EUR. As a result, the revenue of our subsidiaries whose local currency is CAD, AUD, GBP and EUR increased (decreased) 2.3%, (7.9)%, 180.6% and (99.9)%, respectively, in their local currencies compared to the year ended December 31, 2010, and increased (decreased) 6.7%, 3.6%, 192.2% and (99.9)% in USD, respectively.

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 GBP and EUR. As a result, the revenue of our subsidiaries whose local currency is CAD, AUD, GBP and EUR increased (decreased) (6.8)%, (2.2)%, 1.2% and (28.6)%, respectively, in their local currencies compared to the year ended December 31, 2009, and increased (decreased) 3.0%, 13.8%, 0.4% and (32.1)% in USD, respectively.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

	Page
Management s Report on Internal Control Over Financial Reporting	F-2
Reports of Independent Registered Public Accounting Firms	F-3
Consolidated Financial Statements:	
Consolidated Statements of Operations for the years ended December 31, 2011 and 2010, and the six months ended December 31, 2009, and July 1, 2009	F-6
Consolidated Balance Sheets as of December 31, 2011 and 2010	F-7
Consolidated Statements of Stockholders Equity (Deficit) for the years ended December 31, 2011 and 2010, and the six months ended December 31, 2009, and July 1, 2009	F-8
Consolidated Statements of Cash Flows for the years ended December 31, 2011 and 2010, and the six months ended December 31, 2009, and July 1, 2009	F-9
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2011 and 2010, and the six months ended December 31, 2009, and July 1, 2009	F-10
Notes to Consolidated Financial Statements	F-11
Schedule II Valuation and Qualifying Accounts	S-1

Table of Contents

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, our principal executive officer and our principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective. Disclosure controls and procedures mean our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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

Evaluation of Internal Control Over Financial Reporting.

Management s report on internal control over financial reporting as of December 31, 2011 appears on page F-2 and is incorporated herein by reference. The report of BDO on management s assessment and the effectiveness of internal control over financial reporting are set forth in Part IV, Item 15 of this annual report.

Changes in Internal Control.

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 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 legacy procedures. The Company also hired third party tax consultants to evaluate, document and make recommendations to improve the tax reporting process and documentation of tax positions. Based on the third party consultant recommendations and Management s review, controls have been fully documented, knowledge transfer has been completed, and our Corporate Tax Director has implemented revised income tax controls. These controls were tested by Management in the fourth quarter of 2011 as part of the overall assessment of internal control over financial reporting, and it was determined that the prior year material weakness had been mitigated and that the controls were operating effectively. Notwithstanding the existence of a material weakness in our internal controls over accounting for income taxes as of December 31, 2010, 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.

Table of Contents

Other than the changes in accounting for income taxes 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 during the year ended December 31, 2011, that have materially affected, or is reasonably likely to affect materially, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

Table of Contents

PART III

Certain of the information required by Part III will be provided in our definitive proxy statement for our 2012 annual meeting of stockholders, which definitive proxy statement will be filed pursuant to Regulation 14A not later than April 30, 2012 (2012 Proxy Statement), and is incorporated herein by this reference.

We currently anticipate that our 2012 annual meeting of stockholders will be held on June 12, 2012, which date is more than thirty (30) days prior to the one-year anniversary of our 2011 annual meeting of stockholders, which was held on August 10, 2011. As such, as disclosed in the proxy statement for our 2011 annual meeting of stockholders and as required under applicable SEC regulations, the deadline for submitting a proposal for inclusion in the 2012 Proxy Statement is a reasonable time before we begin to print and mail our proxy materials for our 2012 annual meeting of stockholders.

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 2012 Proxy Statement and is incorporated herein by reference. Information relating to our executive officers is set forth in our 2012 Proxy Statement under the caption Executive Officers, Directors and Key Employees and is incorporated herein by reference. Information relating to beneficial ownership reporting compliance is set forth in our 2012 Proxy Statement under the caption Section 16(a) Beneficial Ownership Reporting Compliance and is incorporated herein by reference. Information relating to our Audit Committee and Audit Committee Financial Expert is set forth in our 2012 Proxy Statement under the Caption Board Committees and is incorporated herein by reference.

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 NYSE 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 2012 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 2012 Proxy Statement and is incorporated herein by reference.

Table of Contents

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 2012 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 2012 Proxy Statement and is incorporated herein by reference.

Table of Contents

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

The following is a list of exhibits filed as part of this Annual Report on Form 10-K.

Exhibit Number	**Description**
2.1	Agreement and Plan of Merger, dated November 10, 2010 by and among Primus Telecommunications Group, Incorporated, a Delaware corporation (PTGi), PTG Investments, Inc., a Delaware corporation and a direct wholly owned subsidiary of PTGi (Merger Sub), and Arbinet Corporation, a Delaware corporation (Arbinet) (incorporated by reference to Exhibit 2.1 to PTGi s Current Report on Form 8-K, filed 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 PTGi, Merger Sub and Arbinet (incorporated by reference to Exhibit 2.1 to PTGi s Current Report on Form 8-K, filed on 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 PTGi s Form 8-A, filed on June 20, 2011) (File No. 001-35210).
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 PTGi s Current Report on Form 8-K, filed on November 10, 2010) (File No. 000-29092).
4.1	Specimen of Common Stock (incorporated by reference to Exhibit 3.3 to PTGI s Form 8-A, filed on June 20, 2011) (File No. 001-35210).
4.2	Class A Warrant Agreement, dated as of July 1, 2009, by and between PTGi and StockTrans, Inc. (incorporated by reference to Exhibit 4.1 to PTGi s Current Report on Form 8-K, filed on July 1, 2009) (File No. 000-29092).
4.3	Class B Warrant Agreement, dated as of July 1, 2009, by and between PTGi and StockTrans, Inc. (incorporated by reference to Exhibit 4.2 to PTGi s Current Report on Form 8-K, filed on July 1, 2009) (File No. 000-29092).
4.4	Contingent Value Rights Distribution Agreement of Primus Telecommunications Group, Incorporated (incorporated by reference to Exhibit 4.1 to PTGi s Form 8-A, filed on July 1, 2009) (File No. 000-29092).

Table of Contents

Exhibit Number	Description
4.5.1	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. and $346.15 principal amount of 13% Senior Secured Notes due 2016 issued by Primus Telecommunications Canada Inc. (13% Notes) (incorporated by reference to Exhibit 4.1 to PTGi s Current Report on Form 8-K, filed on December 24, 2009) (File No. 000-29092).
4.5.2	Form of Unit comprised of $653.85 principal amount of 13% Notes issued by Primus Telecommunications Holding, Inc. and $346.15 principal amount of 13% Notes issued by Primus Telecommunications Canada Inc. (included in Exhibit 4.5.1).
4.5.2	Form of 13% Note issued by Primus Telecommunications Holding, Inc. (included in Exhibit 4.5.1).
4.5.3	Form of 13% Note issued by Primus Telecommunications Canada Inc. (included in Exhibit 4.5.1).
4.5.4	Supplemental Indenture, dated as of July 5, 2011, by and among Primus Telecommunications Holding, Inc., Primus Telecommunications Canada Inc., the guarantors named therein, 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, supplementing the 13% Notes Indenture (incorporated by reference to Exhibit 4.3 to PTGi s Current Report on Form 8-K, filed on July 8, 2011) (File No. 001-35210).
4.6.1	Indenture, dated as of July 7, 2011, by and among Primus Telecommunications Holding, Inc., as Issuer, the guarantors named therein, and U.S. Bank National Association, as Trustee and Collateral Trustee, relating to the 10% Senior Secured Notes due 2017 (10% Notes) (incorporated by reference to Exhibit 4.1 to PTGi s Current Report on Form 8-K, filed on July 8, 2011) (File No. 001-35210).
4.6.2	Form of 10% Note issued by Primus Telecommunications Holding, Inc. (included in Exhibit 4.6.1).
10.1^	Primus Telecommunications Group, Incorporated Management Compensation Plan, as amended (incorporated by reference to Exhibit 10.1 to PTGi s Annual Report on Form 10-K, filed on March 25, 2011) (File No. 000-29092).
10.2^	Executive Employment Agreement, dated as of October 12, 2010, by and between Peter D. Aquino and PTGi (incorporated by reference to Exhibit 10.1 to PTGi s Current Report on Form 8-K, filed on October 13, 2010) (File No. 000-29092).
10.3^	Restricted Stock Agreement, dated as of October 12, 2010, by and between Peter D. Aquino and PTGi (incorporated by reference to Exhibit 10.2 to PTGi s Current Report on Form 8-K, filed on October 13, 2010) (File No. 000-29092).
10.4^	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 on July 9, 2004) (File No. 333-117278).
10.5^	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 on November 29, 2004) (File No. 333-117278).
10.6^	Certificate of Amendment to the Arbinet-thexchange, Inc. 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.6 to Arbinet Corporation s Quarterly Report on Form 10-Q, filed on November 9, 2006).

Table of Contents

Exhibit Number	Description
10.7	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 on February 17, 2011) (File No. 000-51063).
10.7^	Offer Letter between PTGi and Kenneth D. Schwarz dated June 17, 2011 (incorporated by reference to Exhibit 10.1 of PTGi s Current Report on Form 8-K, filed on June 23, 2011) (File No. 001-35210).
10.8^	Offer Letter between PTGi and Christie A. Hill dated February 11, 2011 (incorporated by reference to Exhibit 10.2 on PTGi s Quarterly Report on Form 10-Q, filed on May 20, 2011) (File No. 000-29092).
10.9^	Form of Indemnification Agreement between PTGi and its Directors and Executive Officers (incorporated by reference to Exhibit 10.3 on PTGi s Quarterly Report on Form 10-Q, filed on August 15, 2011) (File No. 001-35210).
10.10^	Form of Time-Based Restricted Stock Unit Agreement under the Primus Telecommunications Group, Incorporated Management Compensation Plan, as amended (incorporated by reference to Exhibit 10.1 on PTGi s Quarterly Report on Form 10-Q, filed on November 14, 2011) (File No. 001-35210).
10.11^	Form of Performance-Based Restricted Stock Unit Agreement under the Primus Telecommunications Group, Incorporated Management Compensation Plan, as amended (incorporated by reference to Exhibit 10.2 on PTGi s Quarterly Report on Form 10-Q, filed on November 14, 2011) (File No. 001-35210).
10.12^	Form of Nonqualified Stock Option Agreement under the Primus Telecommunications Group, Incorporated Management Compensation Plan, as amended (incorporated by reference to Exhibit 10.3 on PTGi s Quarterly Report on Form 10-Q, filed on November 14, 2011) (File No. 001-35210).
10.13^	Form of Nonqualified Stock Option Agreement for Non-Employee Director Grants under the Primus Telecommunications Group, Incorporated Management Compensation Plan, as amended (incorporated by reference to Exhibit 10.4 on PTGi s Quarterly Report on Form 10-Q, filed on November 14, 2011) (File No. 001-35210).
10.14^	Separation and Release Agreement dated March 25, 2011 by and between Thomas D. Hickey and Primus Telecommunications, Inc. (incorporated by reference to Exhibit 10.1 on PTGi s Quarterly Report on Form 10-Q, filed on May 20, 2011) (File No. 001-29092).
10.15^	Omnibus Amendment to Restricted Stock Agreements for Peter D. Aquino, dated November 1, 2011, by and between Peter D. Aquino and PTGi (filed herewith).
12.1	Ratio of Earnings to Fixed Charges (filed herewith).
16.1	Letter from Deloitte & Touche LLP to the Securities and Exchange Commission dated April 26, 2011 (incorporated by reference to Exhibit 16.1 of PTGi s Current Report on Form 8-K, filed on April 26, 2011) (File No. 001-29092).
21.1	Subsidiaries of the Registrant (filed herewith).
23.1	Consent of Independent Registered Public Accounting Firm (filed herewith).
23.2	Consent of Independent Registered Public Accounting Firm (filed herewith).
24.1	Powers of Attorney of directors of the Company (included on signature page).
31	Certifications (filed herewith).

Table of Contents

Exhibit Number	Description
32*	Certification (filed herewith).
101**	The following materials from the registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, formatted in extensible business reporting language (XBRL); (i) Consolidated Balance Sheets at December 31, 2011 and 2010, (ii) Consolidated Statements of Operations for the years ended December 31, 2011 and 2010 and for the six months ended December 31, 2009 and July 1, 2009, (iii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2011 and 2010 and for the six months ended December 31, 2009 and July 1, 2009, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2011 and 2010 and for the six months ended December 31, 2009 and July 1, 2009, and (v) Notes to Consolidated Financial Statements. (filed herewith).

* These certifications are being furnished and will not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

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

^ Indicates management contract or compensatory plan or arrangement.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 15, 2012.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

By: /s/ PETER D. AQUINO
Peter D. Aquino

Chairman, President, Chief Executive Officer, and Director (Principal Executive Officer)

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Peter D. Aquino and Kenneth D. Schwarz, or 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 the Company s Form 10-K for the fiscal year ended December 31, 2011, and to file the same, with all exhibits thereto, and any other documents in connection therewith, with the Securities and Exchange Commission, granting to unto said attorneys-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith as fully to all intents and purposes as he 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, as amended, 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**	Chairman, President, Chief Executive Officer, and Director (Principal Executive Officer)	March 15, 2012
/s/ KENNETH D. SCHWARZ **Kenneth D. Schwarz**	Chief Financial Officer and Senior Vice President, Information Technology (Principal Financial Officer)	March 15, 2012
/s/ STEVEN D. SCHEIWE **Steven D. Scheiwe**	Director	March 15, 2012
/s/ ROBERT M. PONS **Robert M. Pons**	Director	March 15, 2012
/s/ NEIL S. SUBIN **Neil S. Subin**	Director	March 15, 2012
/s/ MARK E. HOLLIDAY **Mark E. Holliday**	Director	March 15, 2012

98

Table of Contents

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

	Page
Management s Report on Internal Control Over Financial Reporting	F-2
Reports of Independent Registered Public Accounting Firms	F-3
Consolidated Financial Statements:	
Consolidated Statements of Operations for the year ended December 31, 2011 and 2010, and the six months ended December 31, 2009, and July 1, 2009	F-6
Consolidated Balance Sheets as of December 31, 2011 and 2010	F-7
Consolidated Statements of Stockholders Equity (Deficit) for the year ended December 31, 2011 and 2010, and the six months ended December 31, 2009, and July 1, 2009	F-8
Consolidated Statements of Cash Flows for the year ended December 31, 2011 and 2010, and the six months ended December 31, 2009, and July 1, 2009	F-9
Consolidated Statements of Comprehensive Income (Loss) for the year ended December 31, 2011 and 2010, and the six months ended December 31, 2009, and July 1, 2009	F-10
Notes to Consolidated Financial Statements	F-11
Schedule II Valuation and Qualifying Accounts	S-1

Table of Contents

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, 2011. 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 maintained effective internal control over financial reporting as of December 31, 2011. Management s evaluation did not include assessing the effectiveness of internal controls over financial reporting at Arbinet, which was acquired during 2011 (see Item 9A, Controls and Procedures, of the Company s Annual Report on Form 10-K for the period ended December 31, 2011 for further detail).

/s/ Peter D. Aquino **Peter D. Aquino** **Chairman, President, and Chief Executive Officer (Principal Executive Officer)**	March 15, 2012
/s/ Kenneth D. Schwarz **Kenneth D. Schwarz** **Chief Financial Officer and Senior Vice President, Information Technology (Principal Financial Officer)**	March 15, 2012

F-2

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Primus Telecommunications Group, Incorporated

McLean, Virginia

We have audited the accompanying consolidated balance sheet of Primus Telecommunications Group, Incorporated and Subsidiaries as of December 31, 2011 and the related consolidated statements of operations, stockholders equity (deficit), cash flows, and comprehensive income (loss) for the year then ended. In connection with our audit of the consolidated financial statements, we have also audited the financial statement schedule listed in the accompanying index. These consolidated financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audit.

We conducted our audit 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. An audit 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 presentation of the financial statements and schedule. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Primus Telecommunications Group, Incorporated and Subsidiaries at December 31, 2011, and the results of its operations and its cash flows for the year then ended**,** in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Primus Telecommunications Group, Incorporated and Subsidiaries internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2012 expressed an unqualified opinion thereon.

We also have audited the retrospective adjustments to the 2009 and 2010 consolidated financial statements for the discontinued operations of Brazil, as described in Note 20. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2009 and 2010 consolidated financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2009 and 2010 consolidated financial statements taken as a whole.

/s/ BDO USA, LLP

Bethesda, Maryland

March 15, 2012

Table of Contents

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, before the effects of the retrospective adjustments for the discontinued operations of Brazil discussed in Note 20 to the consolidated financial statements, the accompanying consolidated balance sheets of Primus Telecommunications Group, Incorporated and subsidiaries (the Company and Successor) as of December 31, 2010, 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 (the 2010 and 2009 consolidated financial statements before the effects of the retrospective adjustments discussed in Note 20 to the consolidated financial statements are not presented herein). 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 of Primus Telecommunications Group, Incorporated and subsidiaries (the Predecessor) (the 2009 consolidated financial statements before the effects of the retrospective adjustments discussed in Note 20 to the consolidated financial statements are not presented herein). Our audits also included the financial statement schedule for the year ended December 31, 2010, the six months ended December 31, 2009, and the six months ended July 1, 2009, 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, before the effects of the retrospective adjustments for the discontinued operations of Brazil discussed in Note 20 to the consolidated financial statements, present fairly, in all material respects, the financial position of the Successor as of December 31, 2010 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, 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*.

We were not engaged to audit, review, or apply any procedures to the retrospective adjustments for the discontinued operations of Brazil discussed in Note 20 to the consolidated financial statements and, accordingly, we do not express an opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

/s/ Deloitte & Touche LLP

McLean, Virginia

March 25, 2011

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Primus Telecommunications Group, Incorporated and subsidiaries

McLean, Virginia

We have audited Primus Telecommunications Group, Incorporated and Subsidiaries internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Primus Telecommunications Group, Incorporated and Subsidiaries management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Controls and Procedures . Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process 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. A 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 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Item 9A, Controls and Procedures , management s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Arbinet Corporation, which was acquired on February 28, 2011, and which is included in the consolidated balance sheet of Primus Telecommunications Group, Incorporated and Subsidiaries as of December 31, 2011, and the related consolidated statements of operations, stockholders equity (deficit), cash flows, and comprehensive income for the year then ended. Arbinet Corporation constituted 8% of total assets as of December 31, 2011, and 21% and 54% of revenues and net loss, respectively, for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of Arbinet Corporation because of the timing of the acquisition which was completed on February 28, 2011. Our audit of internal control over financial reporting of Primus Telecommunications Group, Incorporated and Subsidiaries also did not include an evaluation of the internal control over financial reporting of Arbinet Corporation.

In our opinion, Primus Telecommunications Group, Incorporated and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Primus Telecommunications Group, Incorporated and Subsidiaries as of December 31, 2011 and the related consolidated statements of operations, stockholders equity (deficit), cash flows, and comprehensive income (loss) for the year then ended and our report dated March 15, 2012 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Bethesda, Maryland

March 15, 2012

F-5

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

		Successor		Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009
NET REVENUE	$ 989,259	$ 737,262	$ 389,072	$ 358,999
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)	695,738	466,045	253,299	232,436
Selling, general and administrative	214,585	194,887	93,541	87,134
Depreciation and amortization	64,450	64,427	36,284	11,470
(Gain) loss on sale or disposal of assets	(12,944)	196	102	(43)
Goodwill impairment	14,679			
Total operating expenses	976,508	725,555	383,226	330,997
INCOME (LOSS) FROM OPERATIONS	12,751	11,707	5,846	28,002
INTEREST EXPENSE	(32,506)	(35,441)	(17,255)	(14,072)
ACCRETION (AMORTIZATION) ON DEBT PREMIUM/DISCOUNT, net	(213)	(183)	(3)	189
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	(7,346)	164	(4,146)	
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	2,902	(13,737)	(2,804)	
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	(127)	674	476	363
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	(2,661)	16,413	19,566	20,332
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	(27,200)	(20,403)	1,680	34,814
REORGANIZATION ITEMS, net		1	(421)	422,947
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(27,200)	(20,402)	1,259	457,761
INCOME TAX BENEFIT (EXPENSE)	(869)	9,085	10,180	(4,074)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(28,069)	(11,317)	11,439	453,687
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(419)	(10,801)	(4,264)	17,184
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	(4,781)	2,926	(110)	251
NET INCOME (LOSS)	(33,269)	(19,192)	7,065	471,122
Less: Net (income) loss attributable to the noncontrolling interest	(5,461)	105	(333)	32
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (38,730)	$ (19,087)	$ 6,732	$ 471,154
BASIC INCOME (LOSS) PER COMMON SHARE:				
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (2.58)	$ (1.15)	$ 1.15	$ 3.18
Income (loss) from discontinued operations	(0.03)	(1.11)	(0.44)	0.12
Gain (loss) from sale of discontinued operations	(0.37)	0.30	(0.01)	
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (2.98)	$ (1.96)	$ 0.70	$ 3.30
DILUTED INCOME (LOSS) PER COMMON SHARE:				

Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (2.58)	$ (1.15)	$ 1.14	$ 2.62
Income (loss) from discontinued operations	(0.03)	(1.11)	(0.44)	0.10
Gain (loss) from sale of discontinued operations	(0.37)	0.30	(0.01)	
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (2.98)	$ (1.96)	$ 0.69	$ 2.72
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	12,994	9,721	9,600	142,695
Diluted	12,994	9,721	9,800	173,117
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED				
Income (loss) from continuing operations, net of tax	$ (33,530)	$ (11,212)	$ 11,106	$ 453,719
Income (loss) from discontinued operations	(419)	(10,801)	(4,264)	17,184
Gain (loss) from sale of discontinued operations	(4,781)	2,926	(110)	251
Net income (loss)	$ (38,730)	$ (19,087)	$ 6,732	$ 471,154

See notes to consolidated financial statements.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	December 31, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 41,052	$ 41,534
Accounts receivable (net of allowance for doubtful accounts receivable of $7,552 and $6,854 at December 31, 2011 and December 31, 2010, respectively)	81,609	76,828
Prepaid expenses and other current assets	15,539	19,439
Total current assets	138,200	137,801
RESTRICTED CASH	11,891	12,117
PROPERTY AND EQUIPMENT Net	152,180	138,488
GOODWILL	71,902	63,731
OTHER INTANGIBLE ASSETS Net	135,677	147,749
OTHER ASSETS	33,974	14,573
TOTAL ASSETS	$ 543,824	$ 514,459
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$ 46,627	$ 36,942
Accrued interconnection costs	24,103	29,571
Deferred revenue	12,258	12,891
Accrued expenses and other current liabilities	44,384	46,491
Accrued income taxes	10,617	7,678
Accrued interest	5,889	2,152
Current portion of long-term obligations	1,948	1,143
Total current liabilities	145,826	136,868
LONG-TERM OBLIGATIONS	245,814	242,748
DEFERRED TAX LIABILITY	31,311	32,208
CONTINGENT VALUE RIGHTS	16,196	19,098
OTHER LIABILITIES	2,971	503
Total liabilities	442,118	431,425
COMMITMENTS AND CONTINGENCIES (See Note 11)		
STOCKHOLDERS EQUITY (DEFICIT):		
Preferred stock, $0.001 par value 20,000,000 shares authorized; none issued and outstanding		
Common stock, $0.001 par value 80,000,000 shares authorized; 13,772,646 and 9,801,463 shares issued and 13,741,020 and 9,801,463 shares outstanding at December 31, 2011 and December 31, 2010, respectively	14	10
Additional paid-in capital	142,796	86,984
Accumulated deficit	(51,085)	(12,355)
Treasury stock, at cost 31,626 and zero shares outstanding at December 31, 2011 and December 31, 2010, respectively	(378)	
Accumulated other comprehensive income	2,416	4,751
Total stockholders equity before noncontrolling interest	93,763	79,390

Noncontrolling interest		7,943		3,644
Total stockholders equity		101,706		83,034
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$	543,824	$	514,459

See notes to consolidated financial statements.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

(in thousands)

	PREDECESSOR							
		Common Stock						
	Total	**Shares**	**Amount**	**Additional Paid-In Capital**	**Treasury Stock**	**Accumulated Earnings (Deficit)**	**Accumulated Other Comprehensive Income (Loss)**	**Noncontrolling Interest**
BALANCE AS OF JANUARY 1, 2009	$ (458,725)	142,695	$ 1,427	$ 718,956	$	$ (1,099,809)	$ (82,113)	$ 2,814
Share based compensation expense	27			27				
Comprehensive income (loss)								
Net income (loss)	39,325					39,357		(32)
Foreign currency translation adjustment	(6,954)						(7,103)	149
Comprehensive income (loss)	32,371							
BALANCE AS OF JUNE 30, 2009	(426,327)	142,695	1,427	718,983		(1,060,452)	(89,216)	2,931
Plan of Reorganization and fresh-start adjustments	513,650	(133,095)	(1,417)	(634,601)		1,060,452	89,216	
BALANCE AS OF JULY 1, 2009	$ 87,323	9,600	$ 10	$ 84,382	$	$	$	$ 2,931

	SUCCESSOR							
		Common Stock						
	Total	**Shares**	**Amount**	**Additional Paid-In Capital**	**Treasury Stock**	**Accumulated Earnings (Deficit)**	**Accumulated Other Comprehensive Income (Loss)**	**Noncontrolling Interest**
BALANCE AS OF JULY 1, 2009	$ 87,323	9,600	$ 10	$ 84,382	$	$	$	$ 2,931
Share based compensation expense	1,151			1,151				
Comprehensive income (loss)								
Net income (loss)	7,065					6,732		333
Foreign currency translation adjustment	4,370						4,064	306
Comprehensive income (loss)	11,435							
BALANCE AS OF DECEMBER 31, 2009	$ 99,909	9,600	$ 10	$ 85,533	$	$ 6,732	$ 4,064	$ 3,570
Share based compensation expense	1,795			1,795				
Proceeds from sale of common stock, net	(344)	201		(344)				
Comprehensive income (loss)								
Net income (loss)	(19,192)					(19,087)		(105)
Foreign currency translation adjustment	866						687	179
Comprehensive income (loss)	(18,326)							
BALANCE AS OF DECEMBER 31, 2010	$ 83,034	9,801	$ 10	$ 86,984	$	$ (12,355)	$ 4,751	$ 3,644

Share based compensation expense	5,218			5,218				
Proceeds from sale of common stock, net	1,110	739	1	1,109				
Transaction costs of merger	(1,121)			(1,121)				
Stock consideration issued for merger	50,609	3,233	3	50,606				
Purchase of treasury stock	(378)	(32)			(378)			
Dividend to noncontrolling interest	(1,205)							(1,205)
Comprehensive income (loss)								
Net income (loss)	(33,269)					(38,730)		5,461
Foreign currency translation adjustment	(2,292)						(2,335)	43
Comprehensive income (loss)	(35,561)							
BALANCE AS OF DECEMBER 31, 2011	$ 101,706	13,741	$ 14	$ 142,796	$ (378)	$ (51,085)	$ 2,416	$ 7,943

See notes to consolidated financial statements.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

		Successor		Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ (33,269)	$ (19,192)	$ 7,065	$ 471,122
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	7,621	8,392	5,014	5,140
Share based compensation expense	5,218	1,635	1,151	27
Depreciation and amortization	65,148	68,220	39,530	12,346
(Gain) loss on sale or disposal of assets	(8,163)	(2,542)	291	(294)
Impairment of goodwill and long-lived assets	14,679	6,161		
Accretion (amortization) of debt premium/discount, net	213	183	3	(189)
Change in fair value of Contingent Value Rights	(2,902)	13,737	2,804	
Deferred income taxes	(1,763)	(6,321)	(3,891)	
(Gain) loss on early extinguishment or restructuring of debt	7,346	(164)	2,189	
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	1,898	(15,734)	(20,476)	(20,702)
Changes in assets and liabilities, net of acquisitions:				
(Increase) decrease in accounts receivable	(540)	3,405	4,721	7,798
(Increase) decrease in prepaid expenses and other current assets	720	(1,176)	1,880	461
(Increase) decrease in other assets	3,550	(2,545)	1,801	2,454
Increase (decrease) in accounts payable	(9,747)	(8,476)	(7,680)	(12,794)
Increase (decrease) in accrued interconnection costs	(4,309)	(6,167)	(2,478)	(5,361)
Increase (decrease) in accrued expenses, deferred revenue, other current liabilities and other liabilities, net	(9,840)	(331)	(3,921)	1,313
Increase (decrease) in accrued income taxes	3,332	(2,581)	(11,080)	2,113
Increase (decrease) in accrued interest	3,740	118	1,965	(1,600)
Net cash provided by operating activities before cash reorganization items	42,932	36,621	19,450	21,740
Cash effect of reorganization items		(137)	(7,615)	(4,595)
Net cash provided by operating activities	42,932	36,484	11,835	17,145
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property and equipment	(31,533)	(26,421)	(9,396)	(5,660)
Sale of property and equipment and intangible assets	14,227	5,598	12	179
Cash from disposition of business, net of cash disposed	1,464	123	(110)	232
Cash acquired from business acquisitions, net of cash paid	9,501			(199)
Sales of marketable securities	4,087			
Increase in restricted cash	(78)	(521)	(19)	(146)
Net cash provided by (used in) investing activities	(2,332)	(21,221)	(9,513)	(5,594)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from long-term obligations	11,625		128,063	
Deferred financing costs			(4,569)	
Principal payments on long-term obligations	(44,970)	(13,866)	(127,871)	(8,292)
Payment of fees on restructuring of debt	(4,940)			
Payment to noncontrolling interest	(1,205)			
Proceeds from sale of common stock, net	1,110			
Purchase of treasury stock	(378)			

Net cash used in financing activities	(38,758)	(13,866)	(4,377)	(8,292)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(2,324)	(2,401)	3,132	1,202
NET CHANGE IN CASH AND CASH EQUIVALENTS	(482)	(1,004)	1,077	4,461
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	41,534	42,538	41,461	37,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 41,052	$ 41,534	$ 42,538	$ 41,461
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest	$ 26,729	$ 35,576	$ 14,609	$ 14,909
Cash paid for taxes	$ 1,594	$ 2,996	$ 3,018	$ 962
Non-cash investing and financing activities:				
Capital lease additions	$ 14,874	$ 51	$ 409	$ 1,882
Accrued deferred financing costs	$	$	$ 1,741	$
Acquisition purchase consideration recorded in working-capital and long-term liabilities	$ 2,507	$	$	$
Business disposition proceeds in note receivable	$	$ 3,380	$	$
Business acquisition purchased with Company common stock	$ 50,609	$	$	$
Prepayment premium associated with debt restructuring converted into new debt	$ 22,666	$	$	$

See notes to consolidated financial statements.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

		Successor		Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009
NET INCOME (LOSS)	$ (33,269)	$ (19,192)	$ 7,065	$ 471,122
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustment	(2,292)	866	4,370	(6,954)
Fresh-start adjustment				89,216
COMPREHENSIVE INCOME (LOSS)	(35,561)	(18,326)	11,435	553,384
Less: Comprehensive (income) loss attributable to the noncontrolling interest	(5,504)	(74)	(639)	(117)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (41,065)	$ (18,400)	$ 10,796	$ 553,267

See notes to consolidated financial statements.

F-10

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BUSINESS

Primus Telecommunications Group, Incorporated, (Primus or the Company) is an integrated facilities-based communications services provider offering a portfolio of international and domestic voice, wireless, Internet, VoIP, data, colocation and data center services to customers located primarily in Australia, Canada, and the United States. The Company s primary markets are Australia and Canada, where it has deployed significant network infrastructure. The Company classifies its services into three categories: Growth Services, Traditional Services and International Carrier Services.

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

11 data centers in 7 cities in Canada and Australia (this includes 1 data center under construction in Toronto)

19 carrier-grade international gateway and domestic switching systems (the hardware/software devices that direct voice traffic across the network), Internet routers and media gateways in the U.S., Canada, western Europe and the Asia-Pacific region;

approximately 500 interconnection points to our network, or points of presence (POPs), which includes digital subscriber line access multiplexers (DSLAMs), which is equipment that allows digital traffic to flow over copper wiring, within our service regions and other markets;

undersea and land-based fiber optic transmission line systems that we own or lease and that carry voice and data traffic across the network;

a global network that uses a high-bandwidth network standard ATM+IP; and

a global VoIP network based on routers and gateways with an open network architecture which connects our partners in over 150 countries.

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

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

2. 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

Table of Contents

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; 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, 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.

Table of Contents

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

As of the Effective Date, 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,

Table of Contents

Group entered into a warrant agreement, dated as of the Effective Date (the Class B Warrant Agreement), with Broadridge Corporate Issuer Solutions, Inc., as warrant agent. Subject to the terms of the Class B Warrant Agreement, Class B warrant holders are entitled to purchase 1,500,000 shares of New Common Stock at an initial exercise price of $26.01 per share. The Class B warrants have a five-year term and will expire on July 1, 2014. A holder may exercise Class B warrants by paying the applicable exercise price in cash. In addition, a holder may exercise Class B warrants on a cashless basis in connection with a change of control (as defined in the Class B Warrant Agreement), in connection with a transaction pursuant to an effective registration statement covering the sale of New Common Stock underlying such Class B warrants, or if the exercise occurs on a date when the daily volume-weighted average price of the New Common Stock for the immediately preceding 10 trading days exceeds 150% of the exercise price applicable to the Class B warrants. The Class B warrants are freely transferrable by the holder thereof.

The number of shares of New Common Stock issuable upon exercise of the Class A warrants and Class B warrants (together, the Warrants) and the exercise prices of the Warrants will be adjusted in connection with any dividend or distribution of New Common Stock, assets or cash (other than any regular cash dividend not to exceed in any fiscal year 45% of the consolidated net income of Group), or any subdivision or combination of the New Common Stock. In addition, the number of shares of New Common Stock issuable upon exercise of the Warrants and the exercise prices of the Warrants are also subject to adjustment in connection with any issuance, grant or sale to any person of (A) rights, warrants, options, exchangeable securities or convertible securities entitling such person to subscribe for, purchase or otherwise acquire shares of New Common Stock at a price per share less than the fair market value of the New Common Stock on the trading day immediately prior to such issuance, sale or grant, subject to certain exceptions, or (B) shares of New Common Stock at a price per share less than the fair market value of the New Common Stock on the trading day immediately prior to such issuance, sale or grant. Additionally, if any transaction or event occurs in which all or substantially all of the outstanding New Common Stock is converted into, exchanged for, or the holders thereof are otherwise entitled to receive on 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 if certain conditions are satisfied. A distribution of CVR Shares is required to be made by Group if, as of any determination date (as described in the paragraph below), Group s equity value (assuming cash exercise in full on such date of in-the-money warrants and options of Group) divided by the sum of the number of shares of New Common Stock then issued and outstanding plus the number of shares of New Common Stock underlying warrants, options and similar securities of Group (other than CVRs) that are then in-the-money exceeds $35.95. The aggregate number of such shares of New Common Stock is referred to as the Applicable Shares; the price per share of $35.95, subject to adjustment as described below, is referred to as the CVR Strike Price; and the per share amount of any such excess over the CVR Strike Price is referred to as the Excess Equity Value Per Share. If such a distribution is required, the number of CVR Shares to be distributed by Group equals the

Table of Contents

product of Excess Equity Value Per Share multiplied by the number of Applicable Shares divided by the CVR Strike Price. Such product of Excess Equity Value Per Share and the number of Applicable Shares is referred to as the Excess Equity Value.

Group will determine if and to the extent a distribution of CVR Shares is required (i) on January 1 and July 1 of each year, commencing on the first such date (but in no event later than July 1, 2013) on which data is available to confirm that Group s adjusted EBITDA for the immediately preceding four fiscal quarters is equal to at least $100 million, and (ii) upon the occurrence of certain change of control transactions involving Group. Distributions of CVR Shares (if any) will be made within 45 calendar days of a determination by Group that a distribution is required.

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

The maximum number of CVR Shares and the CVR Strike Price will be adjusted from time to time in connection with any stock dividend or distribution, or subdivision, split, combination, reclassification or recapitalization of the New Common Stock. In addition, if Group distributes to holders of New Common Stock any of its assets (including but not limited to cash), securities or rights to purchase securities of Group (other than any regular cash dividend not to exceed in any fiscal year 45% of the consolidated net income of Group for the immediately preceding fiscal year), then the number of CVR Shares will be increased and the CVR Strike Price will be decreased, in each case pursuant to the terms of the CVR Agreement. Additionally, in case of any reclassification, merger, consolidation, capital reorganization or other change in the capital stock of Group (other than in connection with certain change of control transactions involving Group) in which all or substantially all of the outstanding shares of New Common Stock are converted into or exchanged for stock, other securities or other property, Group shall make appropriate provision so that the holders of Contingent Value Rights shall thereafter be entitled to receive, at such time such holder would have otherwise been entitled to receive a distribution under the CVR Agreement, the kind and amount of stock and other securities and property having a value substantially equivalent to the value of New Common Stock that the holders of Contingent Value Rights would have been entitled to receive in connection with a distribution of CVR Shares immediately prior to such reclassification, merger, consolidation, reorganization or other change in the capital stock of Group at a CVR 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 certain change of control transactions (subject to any potential distribution of CVR Shares as a result thereof), and (3) July 1, 2019.

Due to the nature of the CVRs, the Company accounted for the instrument in accordance with ASC No. 815, Derivatives and Hedging , as well as related interpretations of 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 10 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 Corporation (Globility) through direct and indirect ownership structures. Globility paid a dividend in April 2011, of which $1.2 million was attributable to the noncontrolling interest shareholder. The results of Globility and its subsidiary are consolidated with the Company s results based

Table of Contents

on guidance from the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 810, Consolidation (ASC 810). All intercompany profits, transactions and balances have been eliminated in consolidation. ASC No. 810 changed the presentation of outstanding noncontrolling interests in one or more subsidiaries or the deconsolidation of those subsidiaries.

Discontinued Operations During 2011, the Company sold its Brazilian segment. The Company has applied retrospective adjustments for 2010 and 2009 to reflect the effects of the discontinued operations that occurred subsequent to December 31, 2010. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. See Note 20, Discontinued Operations, for further information.

During 2010, the Company classified its European retail operations as discontinued operations. The Company has applied retrospective adjustments for 2009 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. See Note 20, Discontinued Operations, for further information.

During 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.

Reorganization Costs In accordance with 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 years ended December 31, 2011 and 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.

In the United States, we charge customers Federal Universal Service Fund (USF) fees. We recognize revenue on a gross basis for USF and related fees. We record these fees as revenue when billed.

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. 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. Cost of revenue also includes fees such as Federal USF fees. Such costs are recognized when incurred in connection with the provision of telecommunications services.

Foreign Currency Transactions 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 agreements in place with certain subsidiaries in foreign countries regarding intercompany transactions. The Company anticipates repayment of these transactions 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. Income and expenses are translated at the average exchange rate during the period. 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.

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.

Table of Contents

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

Accounts Receivable Accounts receivable are stated at amounts due from customers net of an allowance for doubtful accounts. Our allowance for doubtful accounts considers historical experience, the age of certain receivable balances, current economic conditions and other factors that may affect the counterparty s ability to pay.

Advertising Costs In accordance with ASC No. 720-35, Other Expenses Advertising, costs for advertising are expensed as incurred. Advertising expense for the years ended December 31, 2011 and 2010 and the six months ended December 31, 2009 and July 1, 2009 was $12.9 million, $11.9 million, $8.2 million and $5.2 million, respectively.

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

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.

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

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

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

Table of Contents

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

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

The Company s reporting units are the same as its operating segments, except as discussed in Note 7 related to Arbinet, as each segment s components have been aggregated and deemed a single reporting unit because they have similar economic characteristics. Each component is similar in that each provides telecommunications services for which all of the resources and costs are drawn from the same pool, and are evaluated using the same business factors by management.

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

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

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

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.

Table of Contents

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 Company s 2009 bankruptcy reorganization (the Reorganization Plan), the Company issued to holders of the Company s pre-Reorganization Plan common stock contingent value rights (CVRs) to receive up to an aggregate of 2,665,000 shares (the CVR Shares) of the Company s common stock. In connection with the issuance of the CVRs, the Company entered into a Contingent Value Rights Distribution Agreement (the CVR Agreement), in favor of holders of CVRs thereunder, dated as of July 1, 2009.

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

Table of Contents

also decreases and as a result the Company would recognize a change in value of the CVRs as gain from contingent value rights valuation. See Note 10 Fair Value of Financial Instruments and Derivatives .

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 records stock-based compensation expense 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. 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. Stock-based compensation is recorded net of expected forfeitures.

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. Significant estimates include allowance for doubtful accounts receivable, accrued interconnection cost disputes, the fair value of derivatives, market assumptions used in estimating the fair values of certain assets and liabilities, the calculation used in determining the fair value of the Company s stock options required by ASC No. 718, Stock Compensation , income taxes and various tax contingencies.

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

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.

Table of Contents

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 the Company s discontinued operations.

Newly Adopted Accounting Principles

In October 2009, an update was issued to the Revenue Recognition Topic, ASC 605, ASU 2009-13, Revenue Recognition Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force. The update requires the establishment of a selling price hierarchy for determining the selling price of a deliverable. The hierarchy is: vendor specific objective evidence if available, third party evidence if vendor-specific objective evidence is not available or estimated selling price if neither of the aforementioned is available. The residual method of revenue allocation is no longer permissible. On January 1, 2011 the Company adopted this update, which did not have a material impact on the consolidated financial statements.

In January 2010, an update was issued to the Fair Value Measurements and Disclosures Topic, ASC 820, ASU 2010-06, Improving Disclosures about Fair Value Measurements, which requires new disclosures for fair value measurements and provides clarification for existing disclosures requirements. More specifically, this update requires (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e., present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. This update was effective for the Company on January 1, 2010, except for Level 3 reconciliation disclosures which went into effect on January 1, 2011. The adoption of this update did not have a material impact on the consolidated financial statements.

In December 2010, an update was issued to the Intangibles Goodwill and Other Topic, ASC 350, ASU 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts, 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. On January 1, 2011 the Company adopted this update, which did not have a material impact on the consolidated financial statements.

In December 2010, an update was issued to the Business Combinations Topic, ASC 805, ASU 2010-29, Business Combinations Disclosure of Supplementary Pro-Forma Information for Business Combinations , a consensus of the FASB Emerging Issues Task Force. These changes clarify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination, that occurred during the current year, had occurred as of the beginning of the comparable prior annual reporting period only. For the Company, this would be as of January 1, 2010. See

Note 5 Acquisitions. Also, the existing supplemental pro forma disclosures were expanded to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings, if any. On February 28, 2011, the Company adopted this update, and the required disclosures related to Arbinet are included in Note 5.

In April 2011, an update was issued to the Receivables Topic, ASC 310, ASU 2011-02, A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring, which provides guidance to all creditors, both public and nonpublic, that restructure receivables that fall within the scope of Subtopic 310-40, Receivables Troubled Debt Restructurings by Creditors. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (1) the restructuring constitutes a concession and (2) the debtor is experiencing financial difficulties. The amendments to Topic 310 clarify the guidance on a creditor s evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. On July 1, 2011, the Company adopted this update, which did not have a material impact on the consolidated financial statements.

New Accounting Pronouncements

In May 2011, an update was issued to the Fair Value Measurement Topic ASC 820, ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which provides guidance on how to measure fair value and on what disclosures to provide about fair value measurements. It seeks to develop a single, converged fair value framework between the FASB and International Financial Reporting Standards (IFRS) Board. The Company s effective date for adoption is January 1, 2012 and it does not foresee this accounting update having a material effect on its consolidated financials in future periods, although that could change.

In June 2011, an update was issued to the Comprehensive Income Topic ASC 220, ASU 2011-05, Presentation of Comprehensive Income, which provides guidance to all entities that report items of other comprehensive income, in any period presented. Under the amendments in this update, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. In a single continuous statement, the entity is required to present the components of net income and total net income, the components of other comprehensive income and a total for other comprehensive income, along with the total of comprehensive income in that statement. In the two-statement approach, an entity is required to present components of net income and total net income in the statement of net income. The statement of other comprehensive income should immediately follow the statement of net income and include the components of other comprehensive income and a total for other comprehensive income, along with a total for comprehensive income. ASU 2011-05 also contains a provision that requires the entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. In December 2011, an update was issued to the Comprehensive Income Topic ASC 220, ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, which indefinitely deferred the requirement to present the reclassification adjustments out of other comprehensive income. The Company s effective date for adoption is January 1, 2012 and it does not foresee this accounting update having a material effect on its consolidated financials in future periods, although that could change.

In September 2011, an update was issued to the Intangibles Goodwill and Other Topic ASC 350, ASU 2011-08, Testing Goodwill for Impairment, which provides guidance to all entities, both public and nonpublic, that have goodwill reported in their financial statements. Under the amendments in this update, an entity has the

option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss. An entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The Company s effective date for adoption is January 1, 2012 and it does not foresee this accounting update having a material effect on its consolidated financials in future periods, although that could change.

In December 2011, an update was issued to the Balance Sheet Topic ASC 210, ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, which contains new disclosure requirements regarding the nature of an entity s right of setoff and related arrangements associated with its financial instruments and derivative instruments. The new disclosures are designed to make financial statements that are prepared under U.S. GAAP more comparable to those prepared under IFRSs. Generally, it is more difficult to qualify for offsetting under IFRSs than it is under U.S. GAAP because under U.S. GAAP certain derivative and repurchase agreement arrangements are granted exceptions from the general offsetting model. As a result, entities with significant financial instrument and derivative portfolios that report under IFRSs typically present positions on their balance sheets that are significantly larger than those of entities with similarly sized portfolios whose financial statements are prepared in accordance with U.S. GAAP. To facilitate comparison between financial statements prepared under U.S. GAAP and IFRSs, the new disclosures will give financial statement users information about both gross and net exposures. The Company s effective date for adoption is January 1, 2014 and it does not foresee this accounting update having a material effect on its consolidated financials in future periods, although that could change.

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.

Table of Contents

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 Voluntary Reorganization Under Chapter 11 of the Bankruptcy Code.

Table of Contents

The effects of the Plan and fresh-start reporting on the Company s consolidated 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			184,318d	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 Telecommunications 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)			89,216f	
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

Table of Contents

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), 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. ACQUISITIONS

Arbinet Corporation Acquisition

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

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

F-27

Table of Contents

The components of the consideration transferred follow (in thousands):

Consideration attributable to stock issued (1)	$ 50,432
Consideration attributable to earned replaced equity awards (2)	177
Total consideration transferred	$ 50,609

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

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

On February 11, 2011, prior to the Company s acquisition of Arbinet, 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.

Preliminary Recording of Assets Acquired and Liabilities Assumed

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

Estimates of fair value included in the financial statements, in conformity with ASC No. 820, Fair Value Measurements and Disclosures (ASC 820), represent the Company s best estimates and valuations developed with the assistance of independent appraisers and, where the following have not yet been completed or are not available, industry data and trends and by reference to relevant market rates and transactions. The following estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond the control of the Company. Accordingly, the Company cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially. In accordance with ASC No. 805, Business Combinations (ASC 805), the allocation of the consideration value is subject to additional adjustment until the Company has completed its analysis. The Company s analysis and any additional adjustments are required to be made by February 28, 2012, the one year anniversary of the date of the acquisition, to provide the Company with the time to complete the valuation of its assets and liabilities.

Table of Contents

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed (in thousands):

Cash and cash equivalents	$ 12,415
Marketable securities	4,044
Accounts receivable	16,205
Other current assets	884
Property and equipment (1)	17,297
Intercompany receivable	309
Goodwill (2)	21,865
Customer list (3)	900
Exchange license (3)	2,800
Other intangible assets (3)	700
Other assets	1,738
Total assets acquired	$ 79,157
Trade payables	$ 18,280
Accrued interconnection costs	105
Accrued liabilities	3,146
Other current liabilities	3,182
Current portion of long-term obligations	68
Long-term obligations	99
Other long-term liabilities	3,668
Total liabilities assumed	$ 28,548
Net assets acquired	$ 50,609

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

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

(3) Identifiable intangible assets and other assets were measured using a combination of an income approach and a market approach (Level 3). Identifiable intangible assets are subject to amortization and the customer list and exchange license will be amortized over 15 years and 10 years, respectively.

Arbinet Results and Pro Forma Impact of Merger

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

	Year Ended December 31, 2011	Acquisition Date through December 31, 2011

Net revenue	$	263,930	$	211,023

Table of Contents

The Company incurred a total of $2.0 million in transaction costs related to the merger. Transaction-related costs were expensed as incurred except for $1.1 million of costs incurred to issue common stock to effect the merger which were recorded as an offset to additional paid in capital. The transaction-related costs recognized in the line item Selling, general, and administrative expenses in the consolidated statement of operations during the years ended December 31, 2011 and 2010 were $0.2 million and $0.7 million, respectively. The fair value of the total consideration paid for the assets acquired and liabilities assumed increased significantly from the date of the merger agreement, November 10, 2010, to the closing date February 28, 2011. This event triggered the Company to perform a Step 1 impairment test as related to the goodwill which arose from this acquisition. See Note 7 Goodwill and Other Intangible Assets for more details on the testing. The results of the Step 1 and Step 2 tests required the Company to recognize $14.7 million of impairment expense during the three months ended March 31, 2011. The following table presents pro forma information for the Company as if the merger of Arbinet had occurred at the beginning of each period presented (in thousands, except for per share amounts):

	Successor	
	Year Ended December 31, 2011	Year Ended December 31, 2010
Net revenue	$ 1,041,291	$ 1,067,489
Net income (loss) attributable to continuing operations for Primus	(32,267)	(28,231)
Net income (loss) attributable to discontinued operations for Primus	(5,200)	(7,875)
Income (loss) per common share for continuing operations net of tax	$ (2.39)	$ (2.18)
Income (loss) per common share for discontinued operations	(0.38)	(0.61)

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

Incentive Program

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

Unlimitel Inc. and HMNET Technologies, Inc. Acquisitions

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

Table of Contents

The table below sets forth the final Unlimitel and HMNet purchase price allocation (in thousands). The purchase price allocation resulted in goodwill of $1.8 million. The valuation of intangible assets was evaluated using Level 3 inputs.

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

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

Goodwill from the Company s Unlimitel and HMNet acquisitions was the excess of the consideration transferred over the net assets recognized, which represents the value of acquired employees along with the expected synergies from the combination of Unlimitel Inc. and HMNet Technologies Inc. and the Company s operations. Goodwill resulting from the acquisition of Unlimitel Inc. and HMNet Technologies Inc. is not deductible for tax purposes.

Hyperlink Australia Pty Ltd. Acquisition

During the first quarter of 2011 one of the Company s Australian subsidiaries completed the acquisition of the customer relationships and fixed assets of Hyperlink Australia Pty Ltd. (Hyperlink), a managed data center services provider. The total consideration transferred to complete the acquisition of Hyperlink totaled $1.5 million which included cash paid of $0.8 million and routine working capital adjustments of $0.7 million.

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

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

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

Table of Contents

6. PROPERTY AND EQUIPMENT

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

	December 31, 2011	December 31, 2010
Network equipment	$ 246,889	$ 193,321
Furniture and equipment	4,453	6,220
Leasehold improvements	11,299	9,592
Construction in progress	4,800	3,132
Subtotal	267,441	212,265
Less: accumulated depreciation	(115,261)	(73,777)
Total property and equipment, net	$ 152,180	$ 138,488

At December 31, 2011 and 2010, total equipment under capital lease and vendor financing obligations consisted of $18.3 million and $3.9 million of network and peripheral equipment, respectively, with accumulated depreciation of $2.8 million and $1.1 million, respectively.

Successor

Depreciation and amortization expense for property and equipment for the years ended December 31, 2011 and 2010 and six months ended December 31, 2009, including equipment under capital leases and vendor financing obligations, was $45.3 million, $42.6 million and $23.4 million, respectively.

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 was $11.0 million.

7. 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.

As of the most recent annual test conducted on October 1, 2011, the Company concluded that the fair value of each of the reporting units exceeded its carrying value of invested capital and therefore, no potential goodwill impairment existed. For one of the reporting units for which the goodwill balance was $37 million as of December 31, 2011, the fair value exceeded the carrying value by approximately 6%. The Company performed a sensitivity test at October 1, 2011 that showed a 100 basis point increase and decrease in its discount rate or a 50 basis point increase and decrease in the terminal growth rate for each reporting unit and concluded that no potential goodwill impairment existed at October 1, 2011.

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 20, 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.

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 consolidated 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 consolidated statement of operations.

On February 28, 2011 the Company acquired Arbinet for stock consideration of $50.6 million in a stock for stock transaction. See Note 5 Acquisitions. Because the Company s stock price rose significantly between the signing of the merger agreement on November 10, 2010 and the close of the merger on February 28, 2011 from a closing price of $9.57 per share to $15.60 per share, the fixed-share consideration fair value also rose. Because Arbinet s enterprise value may not have increased within similar levels over that time period, the Company determined that a goodwill impairment assessment was immediately necessary post-merger. On the day of the merger, Arbinet was a stand-alone business with its own cash flows and management structure, and the Company evaluated it as a separate reporting unit. The Company determined the preliminary enterprise value of Arbinet to be $36.2 million, which was less than the carrying value of $50.6 million. For Step 2 of the testing, the fair value of the assets acquired and liabilities assumed was deemed to be equal to that which was used for the purchase price allocation. Based on an enterprise value of $36.2 million and the fair value of the assets

Table of Contents

acquired and liabilities assumed at purchase, the company calculated $4.7 million of implied goodwill. Because the carrying value of goodwill was greater than the implied goodwill, $14.7 million was recorded as Goodwill impairment on the Company s consolidated statements of operations. Post acquisition, Arbinet was integrated into the Company s International Carrier Services (ICS) segment, see Note 16 Operating Segment and Related Information.

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

	December 31, 2011	December 31, 2010
Trade names	$ 76,900	$ 76,200
Goodwill	$ 71,902	$ 63,731

The changes in the carrying amount of goodwill and trade names by reporting unit for the years ended December 31, 2011 and 2010 are as follows (in thousands):

Goodwill

	United States	Canada	Australia	Europe	Brazil	Total
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
Effect of change in foreign currency exchange rates		(798)	(13)		(4)	(815)
Acquisition (disposition) of business	21,865	1,842			(42)	23,665
Accumulated impairment loss	(14,679)					(14,679)
Balance as of December 31, 2011	$ 37,146	$ 32,819	$ 1,937	$	$	$ 71,902

Trade Names

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

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

	December 31, 2011			December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trade names	$ 3,500	$ (790)	$ 2,710	$ 4,083	$ (593)	$ 3,490
License	2,800	(233)	2,567			
Customer relationships	106,199	(52,699)	53,500	104,553	(36,494)	68,059
Total	$ 112,499	$ (53,722)	$ 58,777	$ 108,636	$ (37,087)	$ 71,549

Successor

Amortization expense for trade names and customer relationships for the years ended December 31, 2011 and 2010 and six months ended December 31, 2009 was $19.1 million, $21.9 million and $12.8 million, respectively.

Predecessor

Amortization expense for trade names and customer relationships for the six months ended July 1, 2009 was $0.5 million.

The Company expects amortization expense for trade names and customer relationships for the years ending December 31, 2012, 2013, 2014, 2015, 2016 and thereafter to be approximately $15.0 million, $10.1 million, $7.2 million, $5.5 million, $4.3 million, and $16.7 million respectively.

8. LONG-TERM OBLIGATIONS

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

	December 31, 2011	December 31, 2010
Obligations under capital leases and other	$ 11,696	$ 1,667
13% Senior Secured Notes due 2016	2,403	130,000
10% Senior Secured Notes due 2017	235,231	
14 1/4% Senior Subordinated Secured Notes due 2013		114,015
Subtotal	$ 249,330	$ 245,682
Original issue discount on Senior Secured Notes	(1,568)	(1,791)
Subtotal	$ 247,762	$ 243,891
Less: Current portion of long-term obligations	(1,948)	(1,143)
Total long-term obligations	$ 245,814	$ 242,748

Table of Contents

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

Year Ending December 31,	Capital Leases and Other	10% Senior Secured Notes due 2017	13% Senior Secured Notes due 2016	Total
2012	$ 2,928	$ 23,523	$ 312	$ 26,763
2013	3,218	23,523	312	27,053
2014	3,020	23,523	312	26,855
2015	3,000	23,523	312	26,835
2016	3,000	23,523	2,716	29,239
Thereafter		242,092		242,092
Total minimum principal & interest payments	15,166	359,707	3,964	378,837
Less: Amount representing interest	(3,470)	(124,476)	(1,561)	(129,507)
Total long-term obligations	$ 11,696	$ 235,231	$ 2,403	$ 249,330

Exchange Offers

On July 7, 2011, in connection with the consummation of the private (i) exchange offers (the Exchange Offers) for any and all outstanding Units representing the 13% Senior Secured Notes due 2016 (the 13% Notes) issued by Primus Telecommunications Holding Inc. (Holding) and Primus Telecommunications Canada Inc. (Primus Canada), and the 14 1/4% Senior Subordinated Secured Notes due 2013 (the 14 1/4% Notes) issued by Primus Telecommunications IHC, Inc. (IHC), (ii) consent solicitation (the Consent Solicitation) to amend the indenture governing the 13% Notes and release the collateral securing the 13% Notes, and (iii) related transactions, Holding issued $240.2 million aggregate principal amount of 10% Senior Secured Notes due 2017 (the 10% Notes). An aggregate of $228.6 million principal amount of 10% Notes was issued pursuant to the Exchange Offers, and Holding issued an additional $11.6 million aggregate principal amount of 10% Notes for cash, the proceeds of which were used to redeem all 14 1/4% Notes that were not exchanged pursuant to the Exchange Offers and thereby discharge all of the Company s obligations with respect to the 14 1/4% Notes. In connection with the Exchange Offers, the Company also incurred $6.9 million of third party costs which are included in gain (loss) on early extinguishment or restructuring of debt on the consolidated statement of operations.

10% Senior Secured Notes due 2017

As of December 31, 2011, there was $235.2 million principal amount of the 10% Notes outstanding. The 10% Notes bear interest at a rate of 10.00% per annum, payable semi-annually in arrears in cash on April 15 and October 15 of each year, commencing October 15, 2011. The 10% Notes will mature on April 15, 2017. In December 2011, the Company repurchased $5.0 million in aggregate principal amount of the 10% Notes at 99% of face value.

The 10% Notes are governed by an indenture, dated as of July 7, 2011 (the 10% Notes Indenture), by and among Holding, the guarantors of the 10% Notes named therein, including Group (the Guarantors), and U.S. Bank National Association, as trustee and collateral trustee. The 10% Notes and related guarantees are secured by a pledge of and first lien security interest in (subject to certain exceptions) substantially all of the assets of Holding and the Guarantors, including a first-priority pledge of all of the capital stock held by Holding, the Guarantors and each subsidiary of Group that is a foreign subsidiary holding company (which pledge, in the case of the capital stock of each non-U.S. subsidiary and each subsidiary of Group that is a foreign subsidiary holding company is limited to 65% of the capital stock of such subsidiary).

The 10% Notes rank senior in right of payment to existing and future subordinated indebtedness of Holding and the Guarantors. The 10% Notes rank equal in right of payment with all existing and future senior

Table of Contents

indebtedness of Holding and the Guarantors. The 10% Notes rank junior to any priority lien obligations entered into by Holding or the Guarantors in accordance with the 10% Notes Indenture.

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

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

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

Under the 10% Notes Indenture, either Holding or any Guarantor may incur additional senior secured debt, equal in right of payment to the 10% Notes, in the future that is subject to security interests in the same collateral as the 10% Notes and the related guarantees, in an aggregate principal amount outstanding (including the aggregate principal amount outstanding under the 10% Notes) equal to 2.25 times consolidated EBITDA Group for the prior four fiscal quarters. Holding has no obligation or intention to register the 10% Notes for resale under the Securities Act or the securities laws of any other jurisdiction or to offer to exchange the 10% Notes for securities registered under the Securities Act or the securities laws of any other jurisdiction.

13% Senior Secured Notes due 2016

As of December 31, 2011, there was $2.4 million principal amount of the 13% Notes outstanding. The 13% Notes bear interest at a rate of 13.00% per annum, payable semi-annually in arrears in cash on June 15 and December 15 of each year. The 13% Notes will mature on December 16, 2016.

On April 19, 2011, Holding and Primus Canada commenced an offer to purchase (the Offer to Purchase) up to 5,200 Units, each such Unit consisting of $1,000 principal amount of 13% Notes issued by Holding and Primus Canada, at a purchase price in cash equal to 100% of the principal amount of 13% Notes validly tendered (and not validly withdrawn) prior to the expiration time, plus accrued but unpaid interest thereon to the settlement date for the Offer to Purchase. The Offer to Purchase was made pursuant to the excess cash flow covenant in the terms of the indenture governing the 13% Notes. The Offer to Purchase expired on May 17, 2011 and $32,000 principal amount of 13% Notes were tendered and repurchased pursuant to the Offer to Purchase.

Upon consummation of the Exchange Offers, $127.6 million principal amount of 13% Notes was exchanged for $149.3 million principal amount of 10% Notes. The Company evaluated the application of ASC 470-50,

Table of Contents

Modifications and Extinguishments and concluded that the Exchange Offers constituted a debt modification with respect to the 13% Notes. Under ASC 470-60, the prepayment premium of $21.7 million paid to the exchanging holders of 13% Notes, was capitalized and will be amortized over the life of the 10% Notes. It is included in other assets in the consolidated balance sheets. Following the completion of the Exchange Offers and Consent Solicitation, the indenture governing the 13% Notes has been amended to eliminate most restrictive covenants and certain events of default and to release the collateral securing the 13% Notes.

14 1/4% Senior Subordinated Secured Notes due 2013

On April 15, 2011, IHC redeemed approximately $24.0 million principal amount of 14 1/4% Notes. Accrued interest to, but excluding the redemption date, of approximately $1.3 million on the redeemed portion of the 14 1/4% Notes was also paid on the redemption date. There was $90.0 million principal amount of the 14 1/4% Notes remaining outstanding after this redemption.

Upon consummation of the Exchange Offers, $78.4 million principal of 14 1/4% Notes was exchanged for $79.4 million principal amount of 10% Notes. The Company evaluated the application of ASC 470-50, Modifications and Extinguishments and concluded that the Exchange Offers constituted a debt modification with respect to the 14 1/4% Notes. Under ASC 470-60, the prepayment premium of $1.0 million paid to the exchanging holders of 14 1/4% Notes, was capitalized and will be amortized over the life of the 10% Notes. It is included in other assets in the consolidated balance sheets. Holding issued an additional $11.6 million aggregate principal amount of 10% Notes for cash, the proceeds of which were used to redeem all 14 1/4% Notes that were not exchanged pursuant to the Exchange Offers and thereby discharge all of the Company s obligations with respect to the 14 1/4% Notes.

9. INCOME TAXES

The provisions (benefits) for income taxes for the years ended December 31, 2011 and 2010, and the six months ended December 31 and July 1, 2009 are as follows (in thousands):

		Successor		Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009
Current: Federal	$ 1,401	$ 994	$	$
State	133		287	56
Foreign	1,709	(1,233)	(3,830)	2,365
Subtotal Current	3,243	(239)	(3,543)	2,421
Deferred: Federal				
State				
Foreign	(2,374)	(8,846)	(6,637)	1,653
Subtotal Deferred	(2,374)	(8,846)	(6,637)	1,653
Income tax (benefit) expense	$ 869	$ (9,085)	$ (10,180)	$ 4,074

F-38

Table of Contents

The US and foreign components of income from continuing operations before income taxes for the years ended December 31, 2011 and 2010, and the six months ended December 31 and July 1, 2009 are as follows (in thousands):

	Year Ended December 31, 2011	Successor Year Ended December 31, 2010	Six Months Ended December 31, 2009	Predecessor Six Months Ended July 1, 2009
US	$ (46,495)	$ (25,883)	$ 3,423	$ 359,427
Foreign	19,295	5,481	(2,164)	98,334
Income from continuing operations before income taxes	$ (27,200)	$ (20,402)	$ 1,259	$ 457,761

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 years ended December 31, 2011 and 2010, and the six months ended December 31 and July 1, 2009 (in thousands):

	Year Ended December 31, 2011	Successor Year Ended December 31, 2010	Six Months Ended December 31, 2009	Predecessor Six Months Ended July 1, 2009
Tax provision (benefit) at federal statutory rate	$ (9,520)	$ (6,801)	$ (366)	$ 160,952
Permanent differences	(1,326)	1,003	3,534	1,531
State tax (net of federal benefit)	133	(1,099)	(178)	8,887
Effect of statutory tax rate change		644	106	(5,320)
Effect of foreign tax rate change				
Foreign withholding taxes	1,137	933	(3,554)	774
Uncertain tax positions		(1,396)	(1,324)	3,608
Foreign taxes				
Increase (decrease) in valuation allowance	10,420	(3,089)	(7,661)	(67,587)
Tax-book fresh-start valuation difference				13,673
Capital loss on disposal of subsidiary				(13,283)
Foreign rate differential	(430)			
Reorganization				4,415
Cancellation of debt allocated to foreign basis				(58,005)
Goodwill				10,227
Taxes charged to goodwill				(54,512)
Other	455	720	(737)	(1,286)
Income tax (benefit) expense	$ 869	$ (9,085)	$ (10,180)	$ 4,074

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, 2011 and 2010 (in thousands):

	Successor As of December 31,

	2011	2010
Deferred tax assets	$ 195,569	$ 123,365
Valuation allowance	(144,611)	(94,284)
Deferred tax liabilities	(79,305)	(58,152)
Net deferred taxes	$ (28,347)	$ (29,071)

Table of Contents

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 Fresh-Start Accounting), which resulted in a substantial decrease to our deferred tax asset, net operating loss carryforwards, 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, 2011 and 2010 (in thousands):

	Successor As of December 31,	
	2011	**2010**
Current		
Allowance for bad debt	$ 2,411	$ 1,432
Basis difference in intangibles		
Other	7,589	5,950
Valuation allowance	(8,624)	(5,236)
Total Current	$ 1,376	$ 2,146
Non-current		
Basis difference in intangibles	$ (38,547)	$ (40,591)
Bond related adjustments	(4,498)	8,850
Capital loss carryforwards	24,306	23,386
Net operating loss carryforwards	106,283	54,085
Basis difference in fixed assets	29,952	28,371
Unrealized foreign exchange gains	(2,995)	(3,578)
Basis difference in foreign accounts receivable	(12,718)	(13,983)
Other	4,480	1,291
Valuation allowance	(135,986)	(89,048)
Total Non-current	$ (29,723)	$ (31,217)

As of December 31, 2011, the Company had foreign operating loss carryforwards of approximately $164 million of which $56.1 million expire periodically from 2012 through 2031, and the remainder of which carryforward without expiration.

At December 31, 2011, the Company projects United States operating loss carryforwards available to reduce future United States taxable income in the amount of $198.3 million, of which $143.6 million is subject to limitation under Section 382, and of which $54.7 million is not subject to the Section 382 limit. Net operating losses which survived attribute reduction as a result of fresh-start accounting will expire periodically between 2014 through 2031, are subject to limitations in accordance with Section 382 of the Internal Revenue Code.

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 as a result of fresh-start accounting) 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 of February 28, 2011, and the completion of the merger of PTG Investments, a wholly-owned subsidiary of the Company with and into Arbinet Corporation, the Company believes that an ownership change for tax purposes took place with respect to both Primus and Arbinet. This conclusion is based on Schedule 13D and

Table of Contents

Schedule 13G filings concerning Company securities, as filed with the United States Securities and Exchange Commission. As a result of the ownership change an annual limitation of $7.0 million is required under section 382 of the Company s then-existing NOLs. This limitation is in addition to the NOL utilization limitation of approximately $1.6 million due to the July 1, 2009, ownership change. The annual limitation under section 382 of Arbinet then-existing NOLs is approximately $2.2 million.

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 estimated 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 were subject to the Section 382 limitation. A 2011 review of tax basis demonstrated that at the emergence date in 2009 the Company was in a NUBIG, as a result certain depreciation and loss deductions that were previously limited are available. The amount of the previously limited losses is $8.0 million.

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 $(1.0) million, $(0.9) million and $(2.8) million of expense in 2011, 2010 and 2009, 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 was made in 2011 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.

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.

Table of Contents

Reconciliations of the successor period July 2, 2009 to December 31, 2009, January 1, 2010 to December 31, 2010, and January 1, 2011 to December 31, 2011 and predecessor periods of January 1, 2009 to July 1, 2009 balances of unrecognized tax benefits are as follows (in thousands):

		Successor		Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009
Balance at January 1, (July 2, for Successor period)	$ 88,299	$ 89,716	$ 88,953	$ 90,413
Foreign currency adjustments	(152)	1,372	1,138	3,492
Statute expiration		(6,270)	(4,514)	
Gross increases (decreases) of tax positions in prior period	(2,112)	(3,452)	1,622	(6,479)
Audit resolution		(1,609)		
Gross increases of tax positions in current period	171	8,304	2,301	1,069
Penalties and interest		238	216	458
Balance at December 31, (July 1, for 2009 Predecessor period)	$ 86,206	$ 88,299	$ 89,716	$ 88,953

The total unrecognized tax benefits as of December 31 2011 were $86.2 million. Total unrecognized tax benefits of $5.2 million, if recognized, would affect the effective tax rate. The Company does not expect its unrecognized tax benefits to significantly increase or decrease over the next 12 months.

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

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

Jurisdiction	Open Tax Years
United States Federal	2002-2011
Australia	2002-2011
Canada	2004-2011
United Kingdom	2004-2011
Netherlands	2007-2011

The Company has closed certain federal and provincial income tax examinations in Canada for the years through 2005 (federal) and 2001 through 2005 (provincial) with all assessments being received. The Company has concluded an examination in the Netherlands for tax years through 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. The IRS concluded its audit of Arbinet for tax years 2007, 2008 and 2009.

10. 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 debt, based on quoted market prices, was $235.4 million and $247.8 million at December 31, 2011 and 2010, respectively. The aggregate carrying value of the Company s debt was $236.1 million and $242.2 million at December 31, 2011 and 2010, respectively.

Table of Contents

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

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

		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 (CVRs)	$ 19,098		19,098	
Total	$ 19,098		19,098	

Successor

The CVRs are marked to fair value at each balance sheet date. The change in value is reflected in our consolidated statements of operations. Estimates of fair value represent the Company s best estimates based on a Black-Scholes pricing model using the following assumptions: (1) expected life of 7.5 years; (2) risk-free rate of 1.44%; (3) expected volatility of 48.17%; (4) dividend yield of 0%; (5) exercise price of $35.95; (6) stock price of $12.66. During the years ended December 31, 2011 and 2010 and the six months ended December 31, 2009, $2.9 million, ($13.7) million and ($2.8) million, respectively, of income (expense) was recognized as a result of marking the CVRs to their fair value.

11. COMMITMENTS AND CONTINGENCIES

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

Year Ending December 31,	Capital Leases and Other	Purchase Obligations	Operating Leases
2012	$ 2,928	$ 8,061	$ 20,312
2013	3,218	3,950	16,422
2014	3,020	3,313	12,067
2015	3,000	54	9,799
2016	3,000		6,725
Thereafter			22,809

Total minimum principal & interest payments	15,166	15,378	88,134
Less: Amount representing interest	(3,470)		
Total long-term obligations	$ 11,696	$ 15,378	$ 88,134

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

Table of Contents

be used within the contract term or at rates below or above market value. The Company made payments under purchase commitments of $35.2 million $31.3 million and $26.5 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Successor

The Company s rent expense under operating leases was $17.0 million, $14.7 million and $6.9 million for the years ended December 31, 2011 and 2010 and six months ended December 31, 2009, respectively.

Predecessor

The Company s rent expense under operating leases was $6.0 million for the six months ended July 1, 2009.

Litigation

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

12. STOCKHOLDERS EQUITY (DEFICIT)

As of December 31, 2011 there are 13,741,020 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 14¼% Senior Secured Notes and the Holding Senior Notes received 9,600,000 shares of New Common Stock. In addition, the Company recorded $1.0 million of equity related to the issuance of the warrants.

On February 28, 2011, the Company completed its previously announced acquisition of Arbinet. Upon the closing of the merger, each share of Arbinet common stock was cancelled and converted into the right to receive 0.5817 shares of Primus common stock. Arbinet stockholders received cash in lieu of any fractional shares of Primus common stock that they were otherwise entitled to receive in the merger. In connection with the merger, Primus issued 3,232,812 shares of its common stock to former Arbinet stockholders in exchange for their shares of Arbinet common stock, and reserved for issuance approximately 95,000 additional shares of its common stock in connection with its assumption of Arbinet s outstanding options, warrants, stock appreciation rights and restricted stock units. See Note 5 Acquisitions, for further detail concerning the transaction.

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

Table of Contents

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

	Year Ended December 31, 2011	Successor Year Ended December 31, 2010	Six Months Ended December 31, 2009	Predecessor Six Months Ended July 1, 2009
Common Shares:				
Beginning balance	9,801	9,600	9,600	142,695
Plan of Reorganization and fresh-start adjustments				(133,095)
Stock consideration issued for Merger	3,233			
Purchase of treasury stock	(32)			
Restricted stock award	165			
Common shares issued for the exercise of stock options	125			
Common shares withheld to settle tax liability stock options	(10)			
Common shares issued for restricted stock units	477	260		
Common shares withheld to settle tax liability restricted stock units	(18)	(59)		
Ending balance	13,741	9,801	9,600	9,600

13. SHARE-BASED COMPENSATION

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).

The Company follows guidance which addresses the accounting for stock-based payment transactions whereby an entity receives employee services in exchange for either equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise s equity instruments or that may be settled by the issuance of such equity instruments. The guidance generally requires that such transactions be accounted for using a fair-value based method and share-based compensation expense be recorded, based on the grant date fair

value, estimated in accordance with the guidance, for all new and unvested stock awards that are ultimately expected to vest as the requisite service is rendered.

The Company s equity incentive plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, and other share-based or cash-based performance awards. The Company typically issues new shares of common stock upon the exercise of stock options, as opposed to using treasury shares.

There were 41,666 and 40,000 options granted during the year ended December 31, 2011 and 2010, respectively. The weighted average fair value at date of grant for options granted during the years ended December 31, 2011 and 2010 and six months ended December 31, 2009 was $5.11, $3.07, and $4.00, respectively, per option. 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 shown as a weighted average for the year:

	Successor			Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009
Expected option life	6 Years	4 Years	4 Years	4 Years
Risk-free interest rate	1.12 - 1.91%	1.20%	2.00%	2.00%
Expected volatility	41.25 - 43.32%	47.00%	42.00%	42.00%
Dividend yield	0%	0%	0%	0%

Successor

Total share-based compensation expense recognized by the Company in the years ended December 31, 2011 and 2010, and six months ended December 31, 2009 was $5.2 million, $1.6 million and $1.2 million, respectively. Most of the Company s stock awards vest ratably during the vesting period. The Company recognizes compensation expense for equity awards, reduced by estimated forfeitures, using the straight-line basis.

Predecessor

Total share-based compensation expense recognized by the Company in the six months ended July 1, 2009 was $27 thousand.

At the closing of the acquisition of Arbinet on February 28, 2011, the Company reserved approximately 95,000 additional shares of its common stock for issuance in connection with its assumption of Arbinet s outstanding options, warrants, stock appreciation rights and restricted stock units.

Table of Contents

Restricted Stock Units (RSUs)

A summary of the Company s restricted stock units activity during the year ended December 31, 2011 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested January 1, 2011	474,851	$ 8.14
Granted	679,598	$ 14.26
Vested	(467,186)	$ 9.93
Forfeitures	(35,869)	$ 13.18
Unvested December 31, 2011	651,394	$ 12.96

As of December 31, 2011, the Company had 0.7 million unvested RSUs outstanding with respect to $3.9 million of compensation expense that is expected to be recognized over the weighted average remaining vesting period of 2.0 years. The number of unvested RSUs expected to vest is 0.6 million.

Stock Options and Stock Appreciation Rights

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

	Shares	Weighted Average Exercise Price
Outstanding January 1, 2011	185,300	$ 11.34
Granted	41,666	$ 11.92
Exercised	(109,626)	$ 12.48
Forfeitures	(75,455)	$ 14.22
Arbinet merger	87,195	$ 14.99
Outstanding December 31, 2011	129,080	$ 11.34
Eligible for exercise	90,713	$ 11.49

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

	Intrinsic Value	Weighted Average Remaining Life in Years
Options outstanding December 31, 2011	$ 192,360	8.4
Options exercisable December 31, 2011	125,751	8.0

During the year ended December 31, 2011, 0.1 million options were exercised with an intrinsic value of $0.3 million. As of December 31, 2011, the Company had approximately 38,000 unvested stock options and stock appreciation rights outstanding of which $0.1 million of compensation expense is expected to be recognized over the weighted average remaining period of 1.4 years. The number of unvested stock options and stock appreciation rights expected to vest is approximately 35,000 shares, with a weighted average remaining life of 8.4 years, a weighted average exercise price of $11.34, and an intrinsic value of approximately $0.1 million.

Table of Contents

14. 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 years ended December 31, 2011 and 2010 and the six months ended December 31, 2009 was $385 thousand, $206 thousand and $87 thousand.

Predecessor

The matching contribution made for the six months ended July 1, 2009 was $94 thousand.

15. RELATED PARTIES

There were no material related party transactions during the years ended December 31, 2011, 2010, or 2009.

16. OPERATING SEGMENT AND RELATED INFORMATION

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

Table of Contents

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

		Successor		Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009
Net Revenue by Geographic Region				
United States	$ 182,278	$ 112,669	$ 71,315	$ 78,060
Canada	246,612	231,185	116,091	108,306
Asia-Pacific	287,142	276,722	132,656	110,502
Europe	273,227	116,686	69,010	62,131
Total	$ 989,259	$ 737,262	$ 389,072	$ 358,999
Net Revenue by Segment				
United States	$ 44,202	$ 50,724	$ 31,845	$ 35,709
Canada	246,612	231,185	116,091	108,306
Australia	286,462	276,614	132,656	110,502
International Carrier Services	411,411	178,631	108,480	104,482
Other	572	108		
Total	$ 989,259	$ 737,262	$ 389,072	$ 358,999
Provision for Doubtful Accounts Receivable				
United States	$ 1,253	$ 1,789	$ 1,066	$ 1,470
Canada	2,935	2,565	1,077	1,106
Australia	1,903	2,974	1,837	1,738
International Carrier Services	1,012	(422)	441	516
Other				
Total	$ 7,103	$ 6,906	$ 4,421	$ 4,830
Income (Loss) from Operations				
United States	$ (52)	$ 819	$ 2,764	$ 4,439
Canada	34,523	12,366	3,127	18,738
Australia	18,388	14,416	2,938	9,995
International Carrier Services	(20,544)	3,154	971	1,372
Other	(331)	(1,472)	136	128
Total From Operating Segments	31,984	29,283	9,936	34,672
Corporate	(19,233)	(17,576)	(4,090)	(6,670)
Total	$ 12,751	$ 11,707	$ 5,846	$ 28,002
Capital Expenditures				
United States	$ 1,287	$ 1,146	$ 43	$ 73
Canada	15,398	10,747	5,261	3,127
Europe		535	40	174
Australia	12,658	13,044	3,795	1,997
International Carrier Services	1,545			
Other	645	949	257	289

Total	$ 31,533	$ 26,421	$ 9,396	$ 5,660

Table of Contents

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

	December 31, 2011	December 31, 2010
Property and Equipment Net		
United States	$ 17,139	$ 8,039
Canada	54,674	56,476
Europe	3,074	1,650
Asia-Pacific	77,293	70,357
Other		1,966
Total	$ 152,180	$ 138,488

	December 31, 2011	December 31, 2010
Assets		
United States	$ 133,364	$ 107,309
Canada	194,531	206,310
Europe	54,998	52,278
Asia-Pacific	160,931	137,717
Other		10,845
Total	$ 543,824	$ 514,459

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

	Successor			Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009
Retail voice	$ 359,331	$ 354,147	$ 179,606	$ 166,253
International carrier services	411,411	178,631	108,480	104,482
Data/Internet	185,938	172,485	86,101	70,067
Retail VoIP	32,579	31,999	14,885	18,197
Total	$ 989,259	$ 737,262	$ 389,072	$ 358,999

Table of Contents

17. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a tabulation of the unaudited quarterly results of operations for the years ended December 31, 2011 and 2010.

	For the Quarter Ended (in thousands, except per share amounts)			
	March 31, 2011 (1)	**June 30, 2011**	**September 30, 2011**	**December 31, 2011 (2)**
Net revenue	$ 216,952	$ 275,204	$ 247,519	$ 249,584
Cost of revenue (exclusive of depreciation)	146,847	199,660	173,239	175,992
Income (loss) from operations	(12,662)	385	4,938	20,090
Income (loss) from continuing operations, net of tax	(19,615)	(6,347)	(9,845)	2,277
Income (loss) from discontinued operations, net of tax	360	5	(165)	(619)
Gain (loss) from sale of discontinued operations, net of tax				(4,781)
Net income (loss)	$ (19,255)	$ (6,342)	$ (10,010)	$ (3,123)
Basic income (loss) per common share:				
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (1.76)	$ (0.47)	$ (0.72)	$ 0.17
Income (loss) from discontinued operations	0.03		(0.01)	(0.05)
Gain (loss) from sale of discontinued operations				(0.35)
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (1.73)	$ (0.47)	$ (0.73)	$ (0.23)
Diluted income (loss) per common share:				
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (1.76)	$ (0.47)	$ (0.72)	$ 0.17
Income (loss) from discontinued operations	0.03		(0.01)	(0.05)
Gain (loss) from sale of discontinued operations				(0.35)
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (1.73)	$ (0.47)	$ (0.73)	$ (0.23)

1 Includes a goodwill impairment charge in the amount of $14.7 million related to the acquisition of Arbinet.

2 Includes a gain on the sale of assets in the amount of $13.1 million related to Globility s sale of fixed wireless spectrum licenses.

Table of Contents

	For the Quarter Ended (in thousands, except per share amounts)			
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
Net revenue	$ 187,747	$ 187,544	$ 179,178	$ 182,793
Cost of revenue (exclusive of depreciation)	117,882	118,163	113,102	116,898
Income (loss) from operations	2,707	4,595	1,939	2,466
Income (loss) from continuing operations, net of tax	(639)	(11,887)	10,746	(9,432)
Income (loss) from discontinued operations, net of tax	(360)	(1,344)	(5,277)	(3,820)
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 attributable to Primus Telecommunications Group, Incorporated	$ (0.06)	$ (1.22)	$ 1.10	$ (0.97)
Income (loss) from discontinued operations	(0.04)	(0.14)	(0.54)	(0.39)
Gain (loss) from sale of discontinued operations		0.02	(0.04)	0.32
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (0.10)	$ (1.34)	$ 0.52	$ (1.04)
Diluted income (loss) per common share:				
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (0.06)	$ (1.22)	$ 1.10	$ (0.97)
Income (loss) from discontinued operations	(0.04)	(0.14)	(0.54)	(0.39)
Gain (loss) from sale of discontinued operations		0.02	(0.04)	0.32
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (0.10)	$ (1.34)	$ 0.52	$ (1.04)

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.

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

Successor

During the year ended December 31, 2011, Globility sold its fixed wireless spectrum licenses in 29 rural and urban markets which resulted in a gain of $13.1 million. In addition, 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 improvements, switch and peripheral and other network equipment.

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 improvements, 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 $43,000 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.

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

In December 2011, the Company paid $4.95 million in cash and retired $5.0 million in principal of its 10% Notes. As a result, the Company recognized a $0.4 million net loss on the early extinguishment of debt in the consolidated statement of operations which included the write-off of related deferred financing costs and original issue discount, partially offset by the gain on repurchase.

In July 2011, the Company issued $240.2 million aggregate principal amount of 10% Notes for any, and all outstanding Units representing the 13% Notes and the 14 $^{1}/4$% Notes. In connection with the Exchange Offers, the Company also incurred a loss of $6.9 million on the early extinguishment of debt in the consolidated statement of operations.

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 on the early extinguishment of debt in the consolidated statement of operations.

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 in the consolidated statement of operations which included the write-off of related deferred financing costs, a prepayment premium and professional fees.

20. DISCONTINUED OPERATIONS

Discontinued Operations year ended December 31, 2011

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

Discontinued Operations year ended December 31, 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. The Company sold its Belgian operations, to Webcetra BVBA, for a sale price of approximately $1.3 million during the third quarter of 2010 and as a result, recorded a $40,000 gain from the sale. In October 2010 the Company completed the sale of its United Kingdom retail operations customer base and certain of its assets to NewCall Telecom Ltd., for a sale price of approximately $6.8 million, including a note receivable of $2.1 million, and completed the sale of its Italian retail operations customer base for approximately $0.2 million; as a result the Company recorded a gain of $2.4 million and a 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.

In the second quarter of 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 of 2010.

Table of Contents

Discontinued Operations year ended December 31, 2009

In the first quarter of 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.

As a result of these events, the Company s consolidated financial statements reflect the Brazil operations, European retail operations and Japan retail operations as discontinued operations for the years ended December 31, 2011 and 2010 and six months ended December 31, 2009 and July 1, 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 (where applicable) from discontinued operations.

Summarized operating results of the discontinued operations for the years ended December 31, 2011 and 2010 and six months ended December 31, 2009 and July 1, 2009 are as follows (in thousands):

		Successor		Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009
Net revenue	$ 25,370	$ 65,192	$ 35,261	$ 32,518
Operating expenses	25,856	77,340	37,976	33,423
Income (loss) from operations	(486)	(12,148)	(2,715)	(905)
Interest expense	(77)	(59)	(68)	(63)
Interest income and other income (expense)	485	(328)	(144)	53
Foreign currency transaction gain (loss)	(101)	(135)	(1,185)	787
Reorganization items			(14)	17,146
Income (loss) before income tax	(179)	(12,670)	(4,126)	17,018
Income tax (expense) benefit	(240)	1,869	(138)	166
Income (loss) from discontinued operations	$ (419)	$ (10,801)	$ (4,264)	$ 17,184

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

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

Potentially dilutive common shares for 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).

Successor

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

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

Table of Contents

- 4.5 million shares issuable upon exercise of stock warrants; and
- 2.7 million shares issuable upon exercise of CVRs.

The Company had no dilutive common share equivalents during the 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.

Table of Contents

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

	Successor			Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009
Income (loss) from continuing operations	$ (33,530)	$ (11,212)	$ 11,106	$ 453,719
Loss from discontinued operations, net of tax	(419)	(10,801)	(4,264)	17,184
Gain from sale of discontinued operations, net of tax	(4,781)	2,926	(110)	251
Net income (loss) attributable to common stockholders-basic	(38,730)	(19,087)	6,732	471,154
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	$ (38,730)	$ (19,087)	$ 6,732	$ 471,696
Weighted average common shares outstanding-basic	12,994	9,721	9,600	142,695
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 plan				
Weighted average common shares outstanding-diluted	12,994	9,721	9,800	173,117
Basic income (loss) per common share:				
Income (loss) from continuing operations attributable to common stockholders	$ (2.58)	$ (1.15)	$ 1.15	$ 3.18
Income (loss) from discontinued operations	(0.03)	(1.11)	(0.44)	0.12
Gain (loss) from sale of discontinued operations	(0.37)	0.30	(0.01)	
Net income (loss) attributable to common stockholders	$ (2.98)	$ (1.96)	$ 0.70	$ 3.30
Diluted income (loss) per common share:				
Income (loss) from continuing operations attributable to common stockholders	$ (2.58)	$ (1.15)	$ 1.14	$ 2.62
Income (loss) from discontinued operations	(0.03)	(1.11)	(0.44)	0.10
Gain (loss) from sale of discontinued operations	(0.37)	0.30	(0.01)	
Net income (loss) attributable to common stockholders	$ (2.98)	$ (1.96)	$ 0.69	$ 2.72

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

Table of Contents

22. 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			Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009
Professional Fees	$	$ 1	$ (421)	$ (12,067)
Gain on Extinguishment of debt				243,185
Revaluation of assets and liabilities				171,465
Debt Premium, Discount and Deferred Financing Costs Write-off				(91)
Reversal of Future Interest Payments Recorded as Long Term Obligations				20,453
Interest Income				2
Reorganization Items, net	$	$ 1	$ (421)	$ 422,947

Professional fees include financial, legal and other services directly associated with the reorganization process. Payments for reorganization expense for the six months ended December 31, 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.

23. SUBSEQUENT EVENTS

In accordance with ASC 855-50, Subsequent Events, the Company has reviewed subsequent events through the date of the filing and have determined there are no subsequent events that require disclosure.

Table of Contents

SCHEDULE II

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

VALUATION AND QUALIFYING ACCOUNTS

Activity in the Company s allowance accounts for the years ended December 31, 2011 and 2010, and the six month periods ending December 31 and July 1, 2009 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:		
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
2011	$ 6,854	$ 7,621	$ (6,923)	$ 7,552

	Deferred Tax Asset Valuation			
Period	**Balance at Beginning of Period**	**Charged to Costs and Expenses**	**Deductions**	**Balance at End of Period**
		Predecessor:		
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
2011	$ 94,284	$ 50,327	$	$ 144,611