PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-K
March 25, 2011
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File No. 0-29092

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**54-1708481**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**Identification No.)**
7901 Jones Branch Drive, Suite 900, McLean, VA	**22102**
(Address of principal executive offices)	**(Zip Code)**

(703) 902-2800

(Registrant s telephone number, including area code)

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

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

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

Common Stock, par value $0.001 per share

Contingent Value Rights

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

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

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

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

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

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

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

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

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

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

As of March 15, 2011, 13,118,083 shares of Common Stock, par value $.001, were outstanding.

Documents Incorporated by Reference:

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

Table of Contents

TABLE OF CONTENTS

PART I

Introductory Note

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

On February 28, 2011, the Company completed the previously announced merger of PTG Investments, Inc. (Merger Sub), a Delaware corporation and a wholly-owned subsidiary of the Company with and into Arbinet Corporation (Arbinet) (the Merger), pursuant to the Agreement and Plan of Merger dated November 10, 2010, as amended by Amendment No. 1 dated December 14, 2010 (collectively, the Merger Agreement) by and among the Company, Merger Sub and Arbinet. As a result of the Merger, Arbinet became a wholly-owned subsidiary of the Company. In connection with the Merger, each share of Arbinet s common stock, par value $0.0001 per share, issued and outstanding immediately prior to the effective time of the Merger was canceled and converted into the right to receive 0.5817 of a share of Company common stock. The Company intends to integrate Arbinet s operations into the Company s International Carrier Services segment.

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

ITEM 1. BUSINESS

General

We are an integrated facilities-based communications services provider offering a portfolio of international and domestic voice, wireless, Internet, VoIP, data, colocation and data center services to customers located primarily in the Australia, Canada, the United States and Brazil. Our primary markets are Australia and Canada where we have deployed significant network infrastructure. We classify our services into three categories: Growth Services, Traditional Services and International Carrier Services. Our focus is on expanding our Growth Services, which includes our broadband, IP-based voice, local, wireless, data and data center services, to fulfill the demand for high quality, competitively priced communications services. This demand is being driven, in part, by the globalization of the world s economies, the global trend toward telecommunications deregulation and the migration of communication traffic to the Internet. We manage our Traditional Services, which includes our domestic and international long-distance voice, prepaid cards, dial-up Internet services and Australian off-network local services for cash flow generation that we reinvest to develop and market our Growth Services, particularly in our primary markets of Australia and Canada. We provide our international carrier services voice termination services to other telecommunications carriers and resellers requiring IP or time-division multiplexing access. We were formed as a corporation under the laws of Delaware in 1994.

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

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

- 10 data centers in 8 cities in Canada, Australia, and Brazil
- 18 carrier-grade international gateway and domestic switching systems (the hardware/software devices that direct voice traffic across the network), Internet routers and media gateways in the U.S., Canada, western Europe and the Asia-Pacific region;
- approximately 500 interconnection points to our network, or points of presence (POPs), which includes digital subscriber line access multiplexers (DSLAMs), which is equipment that allows digital traffic to flow over copper wiring, within our service regions and other markets;
- undersea and land-based fiber optic transmission line systems that we own or lease and that carry voice and data traffic across the network;
- a global network that uses a high-bandwidth network standard ATM+IP; and
- a global VoIP network based on routers and gateways with an open network architecture which connects our partners in over 150 countries.

Our Services

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

Growth Services:

- data center services (colocation and managed services);
- Internet, including business and residential broadband services;
- residential and business VoIP services through SIP and hosted IP-PBX;
- local services;

- wireless Mobile Virtual Network Operator (MVNO) services; and
- data, including frame relay.

Traditional Services:

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

International Carrier Services:

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

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

Table of Contents

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

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

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

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

Strategy

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

- *Capitalize on our competitive position in our primary markets to expand Growth Services revenue*. We have refocused efforts to transition away from our traditional businesses of domestic and international long-distance voice, prepaid cards and dial-up Internet services to an integrated provider of broadband, VoIP, local, wireless, data and data center services. We believe there is strong demand for high quality, competitively priced communications services that is being driven by the globalization of the world s economies, the global trend toward telecommunications deregulation and the migration of communication traffic to the Internet. We believe that we can capitalize on this demand given our competitive position by offering bundled communications services at attractive prices, particularly where we have a competitive cost structure as a result of our facilities-based network. We are leveraging our brand recognition, network infrastructure and existing customer base in Australia and Canada where we have competitive operations by virtue of our scale to bundle Growth Services and capture new customers.

- *Focus on our primary markets of Australia and Canada where we have established brand-recognition*. We are focused on our primary markets of Australia and Canada where we believe we have the scalability and service offerings to effectively compete. For the year ended December 31, 2010, net revenues from our Australia and Canada operations, collectively, generated approximately 66.4% of our total net revenues and 86.6% of our total retail net revenue. We are focused on making prudent and effective investments in Australia and Canada where we believe that these markets present us with the highest potential for future growth. Supporting our strategy, during the year ended December 31, 2010 we spent in excess of 90% of our total capital expenditures in our primary markets of Australia and Canada. Our target customer base consists of SMEs, multinational corporations and residential customers.

- *Bundle traditional voice services with growth products to increase margins and create customer loyalty*. By bundling our traditional long-distance voice services with one or more of our local, broadband, wireless, data and data center services, combined with a prudent increase in sales and marketing investment, we seek to increase net revenue per customer and improve our competitive ability to attract and retain additional new business and residential customers.

- *Leverage our global facilities-based network infrastructure*. We have a significant amount of capital already invested in our global, voice and data network and our product capabilities and we are making additional investments in support of our Growth Services. By increasing the volume of voice and data traffic that we carry over our network, we are able to reduce transmission costs and other operating

5

Table of Contents

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

Retail portfolio optimization. Given our retail focus in our primary markets of Australia and Canada where we have extensive operations, we believe there should be opportunities to optimize our remaining retail portfolio to accomplish our strategic objective of positioning us in Growth Services. We will opportunistically assess our alternatives to optimize the economic return from such on-going portfolio restructuring efforts.

Manage Traditional Services for cash flow which we will reinvest into our Growth Services and use to reduce our debt. The overall market for domestic and international long-distance voice, prepaid cards and dial-up Internet services continues to decline in favor of Internet-based, wireless and broadband communications. To mitigate this revenue decline and preserve cash flow, we focus on customer retention by bundling services, enhancing the customer service experience, and by prudently investing in effective marketing campaigns. For the year ended December 31, 2010, Traditional Services comprised 43% of total net revenue. To further manage cash flow from Traditional Services, we will continue to explore and implement outsourcing or off-shoring options for our non-sales and marketing operations in order to lower costs, improve coordination among our business units to deliver synergy savings and run an aggressive cost management program. We seek to redeploy associated savings and resulting available cash flow into sales and marketing activities for our Growth Services.

2009 Voluntary Reorganization under Chapter 11

On March 16, 2009, Primus Telecommunications Group, Incorporated (Group or PTGI) and three of its non-operating holding company subsidiaries, Primus Telecommunications Holding, Inc. (Holding or PTHI), Primus Telecommunications International, Inc. (PTII) and Primus Telecommunications IHC, Inc., (IHC and together with Group, Holding and PTII, collectively, the Holding Companies) each filed a voluntary petition in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court) for reorganization relief (Reorganization) under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101 et seq., as amended (the Bankruptcy Code). None of Group s operating companies in the United States, Australia, Canada, India, Europe and Brazil were included in the Bankruptcy Court filing. These operating units continued to manage and to operate their businesses normally during the financial reorganization of the Holding Companies.

The consensual plan of reorganization (the Plan or Plan of Reorganization) was confirmed by the Bankruptcy Court on June 12, 2009 (the Confirmation Date). On July 1, 2009 (the Effective Date), the Holding Companies consummated their reorganization under the Bankruptcy Code and the Plan became effective. Upon our emergence under the Plan of Reorganization on July 1, the Holding Companies principal debt was reduced by $316 million, over 50%, interest payments were reduced by over 50% and certain debt maturities were extended. For additional detail concerning the effects of the Plan of Reorganization, see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Emergence from Voluntary Reorganization under Chapter 11 Proceedings.

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

Table of Contents

Operating Segments

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

Australia. Our Australian operations represented 36.2% of our net revenue for the year ended December 31, 2010. We believe we are the fourth largest full-service provider in Australia, based upon net revenue and the full suite of services provided. Our Australian operations offers a comprehensive range of international and domestic long-distance voice, broadband and dial-up Internet, wireless, local, VoIP, data and data hosting center products, servicing residential and business sectors. Our network employs Nortel DMS-100 telephone exchanges in Sydney, Melbourne, Brisbane, Perth and Adelaide operating through 66 POPs to provide national coverage for voice services. We operate a prepaid calling platform as well as a platform for delivery of enhanced toll-free service. The voice network supports direct access integrated services digital network (ISDN) and telephone line services across Sydney, Melbourne, Brisbane, Perth and Adelaide and some select regional areas of the country. VoIP services are offered to business and consumer customers using softswitch platforms operating in Sydney and Melbourne. Primus Australia owns a national IP network for delivery of business and consumer Internet service. Dial-up Internet is available nationally under a single access code. DSL service is provided on-net through 281 Primus DSLAMs and via international carrier services DSLAM access providing reach to more than 400 exchanges nationally. The DSLAMs are capable of delivering a full suite of telecommunication products including asymmetric and symmetric IP services, telephone line, ISDN, frame relay and ATM. Primus Australia offers ATM, frame relay, IP virtual private networking (VPN) with quality of service (QoS) and managed routers. Metropolitan fiber networks exist in Sydney, Melbourne, Brisbane, Perth and Adelaide to provide high capacity backhaul for domestic carrier interconnects, DSLAM backhaul and fiber connectivity to select customer premises.

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

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

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

Canada. Our Canadian operations represented 30.2% of net revenue for year ended December 31, 2010. We believe we are one of the largest alternative consumer service providers in Canada based on net revenue. We provide international and domestic long-distance voice, local, broadband and dial-up Internet, data and data center services, VoIP and wireless services to SMEs, residential customers and government agencies. We have sales and customer service offices in key cities throughout Canada, including Vancouver, Toronto, Ottawa, Calgary and Edmonton. We operate international gateway switching, infrastructure in Toronto, Montreal, Ottawa, London, Edomnton and Vancouver and a nationwide SS7 network with signal transfer points (STPs) in Vancouver and Toronto. We maintain POPs in all major cities in Canada, and have use of a nationwide integrated network backbone for our voice, data, Internet and private line services. Each of the 24 nodes on the backbone is equipped with synchronous optical networking (SONET) add/drop, ATM, and IP equipment to provide a complete spectrum of voice and data communications products to our customers. In September 2009, we signed a new contract with Rogers Wireless Partnership which will significantly expand our coverage area and provide increased wireless data functionality to customers. Additionally, we operate next generation IP voice switches in Toronto, Vancouver, Montreal, Ottawa, London and Edmonton which provide on-net equal access coverage to an estimated 90% of the population of Canada. Together with and through a competitive local exchange carrier (CLEC) partner, we are co-located at 70 incumbent local exchange carriers (ILECs) central offices to provide DSL services, T1 access, network interconnection and local dial-tone. We operate a voice dial access network which consists of 70 POPs across the country.

We also own and operate a total of seven data centers in five major cities in Canada: two data centers in Ottawa (totaling 30,000 square feet), two data centers in Toronto (totaling 18,000 square feet), a 52,000 square foot data center in London, Ontario, a 17,000 square foot data center in Edmonton, Alberta and a 2,500 square foot data center in Vancouver through which we offer colocation, managed hosting, storage and other value added services. We have an extensive Internet network and we believe that we provide dial-up and ISDN Internet coverage to over 700 communities across Canada through a network of 51 POPs.

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

International Carrier Services. Our International Carrier Services operations represented 23.3% of our net revenue for the year ended December 31, 2010. Our International Carrier Services business segment provides domestic and international minute transport and termination services and targets a diverse customer base including Tier 1 international carriers, multi-national carriers, wireless providers, VoIP providers, cable companies and Internet service providers (ISPs).

United States. Our U.S. operations represented 6.6% of our net revenue for the year ended December 31, 2010. In the U.S., we provide international and domestic voice, data, business-class broadband, hosted IP-PBX, SIP trunking and VoIP services to SMEs and residential customers. We operate international gateway telephone switches in the New York City area, Los Angeles, and Miami which are connected with Canada and countries in Europe, Latin America and the Asia-Pacific region through owned and leased international fiber cable systems. We have deployed intelligent softswitch architecture to our gateways in New York, Los Angeles and Miami. We lease and own domestic fiber in the U.S. to interconnect our switches, data centers, and POPs. We use a direct sales organization to sell to business customers. Our direct sales personnel offer business customers voice and hosted IP-PBX services. See Sales and Marketing; Direct Sales Force. To reach residential customers, we have advertised in national and regional newspapers, other publications, and television channels whose market targets are expatriates, to offer competitive rates for international and domestic telephone calls, data, Internet and VoIP services. We have telemarketing centers in Florida and Iowa. We also sell retail VoIP services through Web-based on-line interactive marketing. We utilize independent agents to reach and enhance sales to both business and residential customers. We maintain customer service centers in Florida, Virginia and Iowa and also outsource selected customer service functions. We operate a 24-hour global network management control center in India which monitors our global voice, Internet and data traffic. Additionally, we offer local and long-distance voice, and DSL services to SMEs in Puerto Rico.

Europe. During the third quarter of 2010 the Company discontinued its Europe segment, which is also known as European retail operations and has presented the results of the Europe segment as discontinued operations and held for sale as of September 30, 2010. As a result, the Company has applied retrospective adjustments for 2009, 2008 and 2007 to reflect the effects of the discontinued operations that occurred subsequent to December 31, 2009. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. The Company did not retrospectively adjust its 2009 or 2008 Consolidated Balance Sheet as held for sale criteria was not met until the third quarter of 2010, as such, financial information for the Europe segment will appear, as applicable, where balance sheet information is presented, see Note 19, Discontinued Operations, for further information.

Our European International Carrier Services operations are headquartered in London.

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

Table of Contents

Network

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

Switching Systems. Our network makes use of 13 carrier-grade domestic and international gateway switch systems, Internet routers and media gateways throughout the North America, Europe, and Asia-Pacific regions.

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

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

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

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

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

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

Network Management and Control. We own and operate network management control centers in Toronto, Canada; London, England; New Delhi, India; and Sydney, Australia, which are used to monitor and control our switching systems, global data network, and other digital transmission equipment used in our network. These network management control centers operate seven days per week, 24 hours per day, 365 days per year.

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

Data Centers. We offer world-class data center facilities with advanced 24 hours per day, 365 days per year customer access, onsite engineering support and help desk services; dedicated HVAC and environmental control systems; multi-stage fire suppression systems; uninterruptible power supply and backup generator; redundant data connections and services; routing and switching; shared and secure rack space; physical access technologies and practices; closed-circuit television and video security systems; and 24 x 7 building system and network monitoring. Our Australian data center facilities in Melbourne and Sydney occupy approximately 15,000 square feet. Canada offers national data center coverage with locations in Toronto, Vancouver, Edmonton, London, and Ottawa, with a total combined square footage of 73,000 square feet. Additionally, we own a data center facility in Brazil.

Customers

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

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

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

No single customer accounted for greater than 10% of net revenue for the year ended December 31, 2010 or for the year ended December 31, 2009.

Sales and Marketing

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

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

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

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

Table of Contents

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

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

Third Party Distribution Agreements and Affinity Channels. Through use of the Primus brand, we have been able to establish relationships to market our services through external retailers, manufacturers, affinity and preferred partnerships and programs. These relationships allow us to increase awareness of our services among customers and reduce the cost of customer acquisition.

Management Information and Billing Systems

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

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

Competition

Voice

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

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

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

United States. In the U.S., which is among the most competitive and deregulated long-distance markets in the world, competition is based on pricing, customer service, network quality and the ability to provide value-added services and the bundling of services. AT&T, Inc. and Verizon Communications, Inc. are the largest

Table of Contents

suppliers of long-distance services. Wireless carriers have gained significant ground particularly in the domestic long-distance markets, and VoIP cable-based service providers present a growing source of competition.

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

Canada. The Canadian communications market is highly competitive and is dominated by a few established carriers whose marketing and pricing decisions have a significant impact on the other industry participants, including us. In residential markets, we compete with each of the incumbent telecommunication companies (of which the largest are those owned by BCE, Inc. (Bell Canada) in eastern Canada, and TELUS Corporation (TELUS)and MTS Allstream, Inc. in western Canada) in their respective territories and the large cable companies, including Rogers and Shaw Communications Inc., who have launched their telecom service portfolio. We also compete against smaller resellers. In the highly competitive business market, we compete with Bell Canada and TELUS, who are both expanding beyond their traditional territories and competing with each other across the country, and with the national division of MTS Allstream, Inc., Rogers Communications, Inc. (Rogers), Shaw Communications, Inc. and other smaller carriers, including Bragg Communications Inc., COGECO Inc. and Quebecor Inc. Major wireless carriers are also a significant source of competition. In 2008 the Canadian Radio-television and Telecommunications Commission (CRTC) conducted a review of the regulatory framework for international carrier services and the definition of essential services.

Internet and Data

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

Government Regulation

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

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

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

United States

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

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

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

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

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

Table of Contents

Normally our long-distance customers, and the recipients of calls from our customers, do not connect directly to our network but, instead, are connected to our network by means of the local facilities of LECs, which impose regulated charges on us, called switched access charges, to originate and terminate calls over their local facilities. In some cases, FCC rules cap these charges, and, in the case of incumbent LECs, impose additional restrictions on their ability to change their charges. The FCC may modify its rules regarding LEC access charges, including both the caps and the restrictions on incumbent LECs, which could result in an increase in our termination and origination costs over time.

Interstate telecommunications carriers and VoIP providers are required to contribute to the federal Universal Service Fund (USF). The FCC is considering revising its USF mechanisms and the services considered when calculating the USF contribution. We cannot predict the outcome of these proceedings or their potential effect on our USF contributions. Some changes to the USF under consideration by the FCC may affect different entities more than others, and we may be disadvantaged as compared to our competitors as a result of FCC decisions regarding USF. In addition, the FCC may extend the obligation to contribute to the USF to certain services that we offer but that are not currently assessed USF contributions.

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

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

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

With respect to our VoIP-related 911 obligations, we have contracted with a third-party provider that is a market leader in emergency 911 service solutions to provide these services. Our ability to expand our VoIP services in the future may depend on the ability of that provider to provide E911 access or on any additional 911-related obligations the FCC may impose. At present, and similar to many other VoIP providers, for some of our customers we cannot offer VoIP E911 services that route emergency calls in a manner fully consistent with the FCC rules. We are addressing this issue with our VoIP E911 solutions provider. The FCC may determine that our VoIP E911 solution for some of our customers

Table of Contents

does not satisfy the FCC s requirements, in which case the FCC could require us to disconnect a significant number of our VoIP subscribers, which could have a material adverse effect on the Company s financial position, results of operations and cash flows. In addition, the FCC is considering whether it should impose additional VoIP E911 obligations on interconnected VoIP providers including consideration of a requirement that interconnected VoIP providers automatically determine the physical location of their customer rather than allowing customers to manually register their location. We cannot predict the outcome of this proceeding, nor its impact on us, at this time.

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

Section 255 of the Communications Act and associated FCC rulings require traditional phone providers and manufacturers of associated equipment to ensure that their equipment and services meet certain obligations regarding access by persons with disabilities. The FCC has extended those requirement to providers of interconnected VoIP services and to manufacturers of specially designed equipment used to provide those services. While we believe that we are in compliance with these requirements, we can have no assurance that the FCC might not find us not to be in compliance, which could subject us to sanctions including fines.

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

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

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

Table