PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-K
March 14, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the fiscal year ended December 31, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
Commission File No. 001-35210

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

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

(703) 902-2800

(Registrant s telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.001 per share	**New York Stock Exchange**

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

Contingent Value Rights

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨	Smaller reporting company ¨

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

The fair market value of the stock held by non-affiliates is $216,195,834 based on the sale price of the shares on June 30, 2012.

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

As of March 14, 2013, 13,942,676 shares of Common Stock, par value $0.001, were outstanding.

Documents Incorporated by Reference:

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

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PART I

Introductory Note

We are an integrated facilities-based communications services provider offering a portfolio of international and domestic voice, wireless, Internet, Voice over Internet Protocol (VoIP), data, colocation and data center services to customers located primarily in Canada and the United States. Our primary market is Canada, where we have deployed significant network infrastructure. We classify our services into three categories: Growth Services, Traditional Services and International Carrier Services (ICS). We provide these services from our three business units: North America Telecom, BLACKIRON Data (previously known as Data Center) and ICS. Our two primary reportable operational segments are North America Telecom and BLACKIRON Data.

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

PTGi was formed as a corporation under the laws of Delaware in 1994.

Unless the context otherwise requires, in this Annual Report on Form 10-K, PTGi, means Primus Telecommunications Group, Incorporated and Primus, the Company, we and our mean PTGi together with 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 Canada and the United States. Our primary market is Canada, where we have deployed significant network infrastructure. We currently classify our services into three categories: Growth Services, Traditional Services and ICS. We provide these services from our three business units: North America Telecom, BLACKIRON Data and ICS. Our two primary reportable operational segments are North America Telecom and BLACKIRON Data.

Our focus is on expanding our Growth Services in our North America Telecom and BLACKIRON Data business units. Within the North America Telecom unit, Growth Services include our broadband, VoIP and on-net Ethernet services. For our BLACKIRON Data unit, we are heavily focused on expansion of our colocation facilities, cloud computing and managed services. Both units fulfill the demand for high quality, competitively priced communications and data center services. This demand is being driven, in part, by the explosion of data being generated on a daily basis, the globalization of the world s economies, the global trend toward telecommunications deregulation and the migration of communications traffic to the Internet. We manage our Traditional Services, which includes our domestic and international long-distance voice, local landline, wireless, prepaid cards, and dial-up Internet services, for cash flow generation that we reinvest to develop and market our Growth Services, particularly in our primary market of Canada. We also provide our ICS voice termination services to other telecommunications carriers and resellers requiring IP or time-division multiplexing access. However, as discussed below under Our Business Units ICS Pursuit of Divestiture of ICS Business Unit,

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the Company is currently pursuing a sale or other disposition or disposal of its ICS business unit, which no longer is a separate reportable business segment and has been classified as a discontinued operation as a result of being held for sale.

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

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

- 8 data centers in 5 cities in Canada (Toronto, Ottawa, London, Edmonton, and Vancouver);
- 13 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 120 interconnection points to our network, or points of presence (POPs), 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 high-bandwidth IP networking; and
- a global VoIP network based on routers and gateways with an open network architecture which connects our partners in over 150 countries.

Our Business Units

Within our three business units, North America Telecom, BLACKIRON Data, and ICS, we offer our customers a wide range of products categorized, with respect to our North America Telecom and BLACKIRON Data business units, by Growth Services and Traditional Services:

North America Telecom:

Growth Services:

- VoIP services Hosted IP-PBX, SIP Trunking, Residential Home Phone;
- Carrier Grade Ethernet services over fiber and copper; and
- Internet, including residential and business broadband services.

Traditional Services:

domestic and international long-distance voice services;

local landline services;

prepaid phone card services;

wireless Mobile Virtual Network Operator (MVNO) services; and

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dial-up Internet services.

BLACKIRON Data:

Growth Services:

- Colocation;
- Cloud Computing Public, Hybrid, Private;
- Managed Services System Admin, Storage, Security; and
- Managed Networks.

Traditional Services:

- Shared and dedicated server hosting.

ICS:

- Internet-based protocol and time-division multiplexing ICS access and transport.

More specifically, our current ICS offerings combine products of Arbinet Corporation (Arbinet), which we acquired in February 2011, with our pre-existing international wholesale operations. Our ICS business unit 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). We, through our ICS offerings, are now the only major global provider to offer ICS customers the option to either acquire direct international connections through traditional interconnect arrangements or manage their access needs through the world s leading online voice trading exchange thexchange (the Exchange).

Pursuit of Divestiture of ICS Business Unit

During the second quarter of 2012, the Board of Directors of PTGi committed to dispose of the Company s ICS business unit. As a result, ICS is no longer a separate reportable business segment and has been classified as a discontinued operation. The Company continues to actively solicit a sale or other disposition of its ICS business unit. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Recent Developments Pursuit of Divestiture of ICS Business Unit.

Growth Opportunities

We continue to selectively target growth opportunities in areas of growing demand for telecommunications, including broadband, VoIP, 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 data center and network infrastructure to service new customers and to migrate existing customers onto our network;

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.

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Strategy

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

Manage Traditional Services for Cash Flow and Reinvest in Growth Services. As the overall market shifts towards IP-based, wireless and broadband communications, the Company actively manages its profitable base of Traditional Services, such as long-distance voice and prepaid cards, to maximize free cash flow. This cash flow is then reinvested into the expansion of higher margin, on-network and high-ROI projects and services such as data centers, VoIP, data, and metro fiber services. Specifically, the Company is expanding its base of 8 data centers to meet the ongoing demand in Canada for high quality, competitively priced services; and is lighting metro fiber rings to position the company to leverage the 40,000 commercial customers it has with state-of-the-art high-capacity enterprise services. This overall strategy is enabling the Company to expand operating margins while funding substantial new growth initiatives that, in combination with strategic tuck-in acquisitions, should over time exceed the anticipated decline in revenue from Traditional Services.

Focus on Primary Market of Canada, Where the Company is an Established Alternative Telecom Provider. The Company is focused on investing in its primary market of Canada where the Company has the scalability, network and service offerings to effectively compete. The Company is also leveraging its scale in Canada to take advantage of the large market opportunity in the U.S. for next generation business voice and Residential VoIP services. The Primus brand name is well recognized nationally in Canada.

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

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

Use excess cash to opportunistically buy down debt. In September 2012, we repurchased $119.0 million in aggregate principal amount of our 10% Senior Secured Notes due 2017, which will result in reduced interest expense. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Recent Developments Repurchase of a Majority of 10% Notes and Subsequent Note Exchanges for Newly Issued 10% Exchange Notes.

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

2009 Voluntary Reorganization under Chapter 11

On March 16, 2009, PTGi and three of its non-operating holding company subsidiaries, Primus Telecommunications Holding, Inc. (PTHI), Primus Telecommunications International, Inc. (PTII) and Primus Telecommunications IHC, Inc., (IHC and together with PTGi, PTHI 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 PTGi s operating companies, which at the time included operating companies in the United States, Australia, Canada, India, Europe and Brazil, were included in the Bankruptcy Court filing. During the financial Reorganization of the Holding Companies, these operating units continued to manage and to operate their businesses normally.

A consensual plan of reorganization (the Plan or Plan of Reorganization) was confirmed by the Bankruptcy Court on June 12, 2009 (the Confirmation Date). On July 1, 2009 (the Effective Date), the Holding Companies consummated their Reorganization under the Bankruptcy Code and the Plan became effective.

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.

Divestiture of Primus Australia

PTGi and PTII, an indirect wholly owned subsidiary of PTGi, entered into a definitive Equity Purchase Agreement, dated April 15, 2012 (the Purchase Agreement), with M2 Telecommunications Group Ltd. (M2), an Australian telecommunications company, pursuant to which PTII agreed to sell to M2 100% of the outstanding equity of Primus Telecom Holdings Pty Ltd. (Primus Australia), a direct wholly owned subsidiary of PTII. On May 31, 2012, we completed this transaction.

The purchase price before adjustment was approximately $AUD 192.4 million (or approximately $USD 195.7 million giving effect to a currency hedge that the Company put in place in connection with the transaction). In connection with the closing of the transaction, approximately $USD 9.8 million (the Retention Amount) was retained from the purchase price and placed in escrow for a period of twelve months following the closing date of the transaction for purposes of satisfying potential indemnification claims asserted by M2 for breaches of PTII s warranties in the Purchase Agreement. Subject to limited exceptions, PTII s liability to M2 for indemnification for breaches of PTII s warranties is subject to a survival period of twelve months after the closing date and is limited to the Retention Amount. The Purchase Agreement contains customary warranties and covenants for a transaction of this nature. PTGi also provided M2 with a guarantee of the performance of PTII s obligations under the Purchase Agreement. The purchase price was also subject to a customary post-closing working capital adjustment. During the fourth quarter of 2012, the Company paid to M2 $USD 4.4 million upon finalization of the working capital adjustment. See Note 18 Discontinued Operations, for further information.

For additional detail regarding the impact of the divestiture of Primus Australia and related transactions on our liquidity and capital resources, see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Important Long-Term Liquidity and Capital Structure Developments Divestiture of Primus Australia and Subsequent Asset Sale Tender Offer.

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Operating Segments

As a result of the sale of Primus Australia and the classification of our ICS business unit as held for sale, in 2012, we reorganized our remaining operating segments to better reflect our continuing operations. We currently have two reportable geographic segments, the United States and Canada, and three reportable operating segments, North America Telecom, BLACKIRON Data and Other. See Note 14 Operating Segment and Related Information for an illustrative view of selected financial information with respect to these reportable segments for each of the fiscal years ended December 31, 2012, 2011 and 2010. We have restated such reportable segment data for the prior periods presented to reflect the current organization of our reportable segments.

We operate our business segments through a corporate shared services model and through segment managers responsible for their respective business segments. We assess performance of and allocate resources to our segments, which are discussed in greater detail below.

North America Telecom

Our North America Telecom segment combines the retail telecom businesses in Canada and the United States.

Canadian Operations: Our Canadian operations represented 72.8% of our net revenue for the year ended December 31, 2012. 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, Ethernet, hosted-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, London, and Edmonton. We operate international gateway switching, infrastructure in Toronto, Montreal, Ottawa, London, Edmonton and Vancouver and a nationwide SS7 network with signal transfer points (STPs) in Vancouver and Toronto. We maintain POPs in all major cities in Canada, and have use of a nationwide integrated network backbone for our voice, data, Internet and private line services. Each of the 25 nodes on the backbone is equipped with synchronous optical networking (SONET) add/drop and IP equipment to provide a complete spectrum of voice and data communications products to our customers. Additionally, we operate next generation IP voice switches in Toronto, Vancouver, Montreal, Ottawa, London and Edmonton which provide on-net equal access coverage to an estimated 90% of the population of Canada. Together with and through a competitive local exchange carrier (CLEC) partner, we are co-located at 70 incumbent local exchange carriers (ILECs) central offices to provide DSL services, T1 access, network interconnection and local dial-tone. We operate a voice access network which consists of 99 POPs across the country, and we have built an on-net fiber network in downtown Ottawa that could reach more than 50 multi-tenant commercial buildings in the core. We market our services primarily through direct sales representatives to corporate and SME customers and Internet-based marketing, telemarketing, media advertising and independent agents targeting residential customers.

U.S. Operations: Our U.S. operations represented 14.3% of our net revenue for the year ended December 31, 2012. 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. Our sales personnel offer business customers voice, data 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 which target expatriates to offer competitive rates for international and domestic telephone calls, and VoIP services. We also sell retail VoIP services through Web-based on-line interactive marketing. We utilize independent agents to reach and enhance sales to both business and residential customers. We maintain customer service centers in Florida, and also outsource selected customer service functions. We outsource our 24-hour global network management to a third party control center in India which monitors our global voice, Internet and data traffic. Additionally, we offer local and long-distance voice, and DSL services to SMEs in Puerto Rico. The focus continues to be on increased revenue, free cash flow and EBITDA, as well as customer service and customer growth.

BLACKIRON Data

Our BLACKIRON Data segment contains the pure data center operations in Canada and operates as BLACKIRON Data ULC (BLACKIRON), a wholly owned subsidiary of Primus Telecommunications Canada Inc., a Canadian corporation and wholly owned subsidiary of PTGi (Primus Canada). Our BLACKIRON Data operations represented 12.9% of our net revenue for the year ended December 31, 2012. BLACKIRON owns and operates a total of eight data centers in five major cities in Canada: two data centers in Ottawa, Ontario (totaling 14,800 potential max raised square feet), three data centers in Toronto, Ontario (totaling 36,400 potential max raised square feet), one data center in London, Ontario (totaling 30,000 potential max raised square feet), one data center in Edmonton, Alberta (totaling 8,400 potential max raised square feet), and one data center in Vancouver, British Columbia (totaling 2,200 potential max raised square feet), through which we offer colocation, cloud computing, managed services, storage, backup, and other value added services. We have an extensive relationship with carriers across Canada to provide fully managed connectivity for all of our customers to our state-of-the-art data centers. Our most recent build in Toronto is the first and only Uptime Institute certified for design and construction Tier 3 data center in Canada. We market our services primarily through a combination of direct sales and partner channel to mid-market, enterprise and government organizations.

Other

ICS. During the second quarter of 2012, the Board of Directors of PTGi committed to dispose of the Company s ICS business unit and as a result classified ICS as a discontinued operation. As a result, the Company has applied retrospective adjustments for 2011, 2010, 2009 and 2008 to reflect the effects of the discontinued operations that occurred during 2012. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the 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 continues to actively solicit a sale or other disposition of its ICS business unit. Our ICS operations represented 41.6% of our net revenue for the year ended December 31, 2011. Our ICS 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 ISPs.

Our European ICS operations are headquartered in London.

Australia. During the second quarter of 2012, the Company sold its Australian segment. As a result, the Company has applied retrospective adjustments for 2011, 2010, 2009 and 2008 to reflect the effects of the discontinued operations that occurred during 2012. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as income, or loss, as applicable, from discontinued operations. See Note 18 Discontinued Operations, for further information.

Brazil. During the fourth quarter of 2011, the Company sold its Brazilian segment. As a result, the Company has applied retrospective adjustments for 2010, 2009 and 2008 to reflect the effects of the discontinued operations that occurred subsequent to December 31, 2010. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as income, or loss, as applicable, from discontinued operations. See Note 18 Discontinued Operations, for further information.

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Europe. During the third quarter of 2010, the Company discontinued its Europe segment, which was also known as European retail operations and has presented the results of the Europe segment as discontinued operations and held for sale as of September 30, 2010. As a result, the Company has applied retrospective adjustments for 2009 and 2008 to reflect the effects of the discontinued operations that occurred subsequent to December 31, 2009. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as income, or loss, as applicable, from discontinued operations. See Note 18 Discontinued Operations, for further information.

Network

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

Switching Systems. Our network makes use of 13 carrier-grade international gateway and domestic switch systems, Internet routers and media gateways in the U.S., Canada, Western Europe, and the Asia-Pacific region.

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; Herndon, Virginia; and London, England, which are used to monitor and control our switching systems, global data network, and other digital transmission equipment used in our network. Additional network monitoring, network management, and traffic management services are supported from our contingent Network Management Center located in Gurgaon, India. These network management control centers operate seven days per week and 24 hours per day.

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 and VoIP.

Data Centers. We offer world-class data center facilities with seven days per week and 24 hours per day 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 generators; 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. We have built the first and only Uptime Institute design and construction certified Tier 3 Data Center in Canada. This flagship Data Center is also LEED certified for significant environmental achievements.

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 Internet access, local access, long-distance and wireless products to our residential customers in select markets. We are expanding our local and broadband offerings to additional markets and are focused on bundling them.

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

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, 2012, 2011 or 2010.

Sales and Marketing

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

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

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

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

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

Third Party Distribution Agreements and Affinity Channels. We attempt to achieve brand recognition through use of the Primus®, BLACKIRON Data®, Lingo® and TELEGROUP® registered

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trademarks and service marks and the Primus, Primus TELECOMMUNICATIONS and iPrimus trademarks and service marks. Through use of the Primus brand, we have been able to establish relationships to market our services through external retailers, manufacturers, affinity and preferred partnerships and programs. These relationships allow us to increase awareness of our services among customers and reduce the cost of customer acquisition.

Management Information and Billing Systems

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

We believe that our financial reporting and billing systems are generally adequate to meet our business needs. However, 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

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. These trends have resulted in, and we expect them to continue to result in, increasingly intense competition from other telecommunication service providers of voice and Internet and data based services, as discussed further below.

With respect to voice-based services, 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 of our markets, we have numerous competitors including wireline, wireless, VoIP and cable competitors. We believe that competition in our markets will continue to 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.

The following summaries contain more specific information on how regulatory and other industry trends have impacted competition for our voice and Internet and data based services in the geographic segments in which we operate:

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

United States. In the U.S., which is among the most competitive and deregulated local and long-distance markets in the world, competition is based on pricing, customer service, network quality and the ability to

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provide value-added services and the bundling of services. AT&T, Inc. and Verizon Communications, Inc. are the largest suppliers of local voice and long-distance services. Wireless carriers, of which AT&T and Verizon are now the largest, have gained significant ground, particularly in the domestic voice market, and VoIP cable-based service providers present a growing source of competition.

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, 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.

See Item 1A, Risk Factors Risks Related to Our Industry and Overall Business We are substantially smaller than our major competitors, whose marketing and pricing decisions and relative size advantage could adversely affect our ability to attract and to retain customers and are likely to continue to cause significant pricing pressures that could adversely affect our net revenues, results of operations and financial condition and Risk Factors Risks Related to Our Industry and Overall Business Given strong competition in delivering individual and bundled local, wireless, broadband, DSL and VoIP services, we may not be able to operate successfully or expand these parts of our business, for additional information regarding the risks associated with the intense competition that we face in the telecommunications industry.

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.

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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.

On November 29, 2012, the FCC released an order removing the requirement for 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 all remaining U.S.-international routes with the exception of Cuba , thereby allowing carriers to negotiate market-based arrangements on those routes The November 29, 2012 order also adopted a requirement for U.S. carriers to provide information about any above-benchmark settlement rates to the FCC on an as-needed basis in connection with an investigation or competition problems on selected routes or review of high consumer rates on either multiple or selected routes. We may take advantage of these more flexible arrangements with non-dominant foreign carriers, and the greater pricing flexibility that may result, but we may also face greater price competition from other international service carriers. We cannot predict the actions the FCC will take in the future or their potential effect on our international termination rates, costs, or revenues.

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

Normally our long-distance customers, and the recipients of calls from our customers, do not connect directly to our network but, instead, are connected to our network by means of the local facilities of LECs, which impose regulated charges on us, called switched access charges, to originate and terminate calls over their local facilities.

The FCC has adopted major changes to its rules regarding LEC access charges, which have created uncertainty concerning our termination and origination costs as well as possible competitive pressures affecting our retail pricing.

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

Voice-over-Internet Protocol (VoIP). VoIP services that permit subscribers to send calls to and receive calls from the traditional telephone network, known as interconnected VoIP services, are generally subject to the regulatory authority of the FCC. We offer such services. For many years the FCC has been considering whether to classify such services as telecommunications services or information services under the Communications Act. Information services are generally subject to less regulation than telecommunications services. However, the FCC has extended a number of regulatory obligations normally applicable to telecommunications services to VoIP services, irrespective of the lack of clarity regarding the classification of such services. These include the obligation to (1) contribute to the USF; (2) comply with CALEA; (3) comply with the FCC s rules regarding protecting customer proprietary network information (CPNI); (4) provide enhanced 911 emergency (E911) services, and to disclose limitations on such services to end users; (5) permit customers to keep their telephone number when changing from one carrier to another; (6) deploy equipment and provide services that make reasonable accommodations for the needs of disabled persons; (7) pay a variety of regulatory fees; (8) notify customers of service disconnection under certain circumstances; (9) pay intercarrier compensation charges to other carriers for termination of VoIP calls; and (10) notify the FCC of service outages in certain circumstances. 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 to be 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 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

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

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

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

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

The FCC now requires interconnected VoIP service providers like us to pay regulatory fees to the FCC.

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

On November 18, 2011, the FCC released an order that adopted substantial reforms to the system under which service providers compensate each other for interstate, intrastate, and local traffic origination and termination services, including VoIP traffic that originates or terminates on the public switched telephone network (PSTN) (i.e., intercarrier compensation), and imposing new call signaling requirements on VoIP and other service providers. The FCC s rules concerning charges for transmission of VoIP traffic could result in an increased cost to terminate the Company s traffic absent specific agreements that provide the appropriate rate to be charged for such traffic when passed between us and other carriers. Specifically, for VoIP traffic that originates or terminates on the PSTN, the order established a transitional framework that: (1) establishes default intercarrier compensation rates for toll VoIP-PSTN traffic that are equal to interstate access rates applicable to non-VoIP traffic; (2) establishes default intercarrier compensation rates for other VoIP-PSTN traffic that will be the otherwise-applicable reciprocal compensation rates (i.e., local traffic); and (3) allows carriers to tariff these default charges in the relevant federal and state tariffs to be applied in the absence of an agreement for different intercarrier compensation. The rules also provided for a multiyear transition to a national bill-and-keep framework as the ultimate end state for all telecommunications traffic exchanged with a LEC. Under bill-and-keep, providers do not charge an originating carrier for terminating traffic and instead recover the costs of termination from their own customers. To the extent that the Company transmits traffic not subject to a specific intercarrier compensation arrangement and another provider were to assert that the traffic we exchange with them is subject to higher levels of compensation than we, or the third parties terminating our traffic to the PSTN, pay today (if any), our termination costs could initially increase, but ultimately would be reduced as the intercarrier compensation system transitions to a bill-and-keep framework.

The November 18, 2011 order also adopted rules to address phantom traffic, i.e., calls for which identifying information is missing or masked in ways that frustrate intercarrier billing. Specifically, the FCC s rules require service providers that originate interstate or intrastate traffic on the PSTN, or that originate interstate or intrastate interconnected VoIP traffic destined for the PSTN, to transmit the telephone number associated with the calling party to the next provider in the call path. Intermediate providers must pass calling party number (CPN) or charge number (CN) signaling information they receive from other providers unaltered, to subsequent providers in the call path. While the Company believes that it is in compliance with this rule, to the extent that we pass traffic that does not have appropriate CPN or CN information, we could be subject to fines, cease and desist orders, or other penalties.

On February 21, 2012, the FCC released an order applying the FCC s service outage reporting rules to interconnected VoIP service providers. Under these new requirements, interconnected VoIP providers must submit electronically notifications to the FCC in the event of certain types of service outages and disruptions. The rules provide different reporting deadlines depending on the type and severity of the outage. 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 service outage reporting requirements.

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

LECs have been seeking reduction of state regulatory requirements, including greater pricing flexibility which, if granted, could subject us to increased price competition. We may also be required to contribute to USFs in some states.

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

Canada

We operate in Canada as a non-facilities based reseller and facilities-based carrier through Primus Canada, a Canadian corporation and wholly owned subsidiary of PTGi. Separate from our operations as a reseller of telecommunications services in Canada, we operate carrier services through Globility Communications Corporation (Globility), a wholly owned subsidiary that operates in most major urban areas across Canada. Prior to July 31, 2012, due to foreign ownership restrictions then in place, we owned a minority interest in Globility. However, as a result of changes to the Telecommunications Act (as amended, the Canadian Telecommunications Act) discussed below under Foreign Ownership Restrictions, we were no longer restricted by foreign ownership requirements and so purchased the remaining interest in Globility on July 31, 2012. These operations are subject to differing regulations and operational considerations.

Through our reseller operations, we offer telecommunication services through the use of leased facilities and certain exempt transmission equipment. As a reseller, we are not subject to direct regulation by the Canadian Radio-television and Telecommunications Commission (CRTC) pursuant to the Telecommunications Act (as amended, the Canadian Telecommunications Act). We may resell long-distance service, local telephone service, wireless service, Internet access and other telecommunication services without the regulation of our rates, prices or the requirement to file tariffs.

Our facilities-based carrier operations are permitted to own and operate transmission facilities and provide competitive local exchange services. Pursuant to the Telecommunications Act, we operate as a telecommunications common carrier and are therefore subject to direct regulation by the CRTC. We may own and operate transmission facilities and provide local exchange services subject to certain regulatory and tariff requirements.

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

The CRTC maintains a revenue-based contribution regime to support universal access. All telephone service providers, including us, are required to remit a percentage of eligible revenues to subsidize the provision of telephone service in high cost service areas. Decisions by the CRTC to increase the effectiveness of the framework have lowered our contribution expenses since the introduction of the revised regime in 2001.

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Pursuant to revisions to the CRTC Telecommunications Fees Regulations, we are required to contribute to the recovery of the telecommunication related regulatory costs of the CRTC. The applicable contribution amount is based on the total regulatory costs published by the CRTC and assessed based the percentage of our contribution-eligible revenues relative to the total contribution-eligible revenues of all eligible telecommunication service providers.

As required as part of our competitive local exchange service operations, we are required to contribute funding to the Canadian Numbering Administration Consortium Inc. to recover costs related to numbering administration.

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

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

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

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

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

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

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

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

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

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

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

In addition, we operate as a CLEC that provides local exchange services. These operations are subject to certain direct regulatory requirements and obligations set out by the CRTC. These include:

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

Tariffs. We are required to maintain tariffs that govern interconnection operations and agreements.

The Provision of 911 Services. We are required to provide 911 service equivalent to that provided by the ILEC.

Number Portability. We are required to permit the porting out of local numbers.

Agreements. We are required to enter into inter-carrier, interconnection agreements, 911 service, and other service agreements with other LECs.

Local Exchange Entry Obligations. We are required to satisfy certain pre and post entry obligations when entering a new serving area. These obligations include, for example, notice of intention, obtaining central office codes, completion of required interconnection agreements and notice of completion.

Contract Obligations with Other Providers. We are required to include certain regulatory obligations in our agreements with resellers, such as 911 obligations, as to subject them indirectly to regulations determined by the CRTC.

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

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

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

Ownership and Control Filings. Pursuant to our operations as a telecommunications common carrier, we are required to attest that we satisfy the eligibility requirements to operate pursuant to the Telecommunications Act.

Commissioner for Complaints for Telecommunications Services (CCTS). We are required to be a participating provider in the CCTS, a customer complaint resolution body.

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

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

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

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

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

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

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

Economic Traffic Management Practices on Wholesale Internet Access Services. In November 2011, the CRTC approved a new capacity-based billing framework for incumbents seeking to apply economic traffic management practices on their residential wholesale Internet access services. The CRTC also permitted incumbents seeking to maintain flat-rate models to do so. In addition, the CRTC determined that business wholesale Internet access services will remain flat-rated and not subject to the new capacity-based billing framework. A CRTC decision on the final capacity and access rates and other matters related to framework is outstanding and will be released in the first quarter of 2013. While this new framework will require potential changes to the retail residential services that we provide using these services, it provides us with the ability to offer differentiated and innovative services. In addition, the retail Internet service that we provide through ILEC facilities obtained via strategic arrangements with CLECs will not be impacted by this new framework.

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

As markets become competitive, the Canadian Telecommunications Act permits the CRTC to forbear from regulating the rates and terms of service of Canadian carriers. The long-distance rates of Canadian ILECs have largely been forborne from regulation since 1997. The ILECs rates for retail Internet services were forborne from regulation in 1999. On April 6, 2006, the CRTC established a framework for forbearance in respect of local services by defining the geographic markets in which the CRTC will forbear from regulating as the criteria for deregulation are met, and by establishing these criteria. On April 4, 2007 the Governor-in-Council varied this framework by reducing the size of the geographic market in which the criteria are to be met and by relaxing the criteria to be met. As of 2011, approximately 82% of all residential local lines and 76% of commercial local lines in Canada have been deregulated.

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

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

Foreign Ownership Restrictions. Under the Canadian Telecommunications Act and the Radiocommunication Act, and certain regulations promulgated thereunder (i.e., the Radiocommunication Regulations and the Canadian Telecommunications Common Carrier Ownership and Control Regulations), foreign ownership restrictions apply to telecommunications common carriers and radiocommunication carriers

(Canadian carriers), a concept which includes, for example, CLECs and microwave license holders, but not to companies, such as resellers, that do not own or operate transmission facilities. Accordingly, resellers may be wholly foreign-owned and controlled.

In 2012, the Canadian Telecommunications Act was amended as to remove the foreign ownership restrictions for Canadian carriers that have total annual telecommunications revenues that are less than 10% of the total Canadian telecommunications service revenues as calculated by the CRTC (the 10% threshold). Canadian carriers that operate pursuant to this exemption will be permitted to continue operating under the exemption if their revenues exceed the 10% threshold, provided the growth is organic. Canadian carriers that operate pursuant to this exemption are also subject to the obligation to report any acquisition of another Canadian carrier or its assets to the CRTC and are restricted from acquiring another Canadian carrier if revenues exceed the 10% threshold.

Other Canadian Interests

Following the amendments to the Canadian Telecommunications Act that loosened the foreign ownership restrictions for Canadian carriers, PTGi acquired 100% of the interest in Globility.

Employees

The following table summarizes the number of our employees as of December 31, 2012 by region:

	Total
Canada	696
United States	116
Europe (International Carrier Services)	22
Total	834

As of December 31, 2012, 821 of these employees were full-time employees. We have never experienced a work stoppage.

Corporate Information

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

The Company s Common Stock

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

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ITEM 1A. RISK FACTORS

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

RISKS RELATED TO OUR INDUSTRY AND OVERALL BUSINESS

Continuing global economic conditions could adversely affect our business.

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

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

There are uncertainties associated with our continued exploration and evaluation of strategic alternatives to enhance shareholder value.

On October 4, 2011, we announced that a Special Committee of PTGi s Board of Directors was exploring and evaluating strategic alternatives to enhance shareholder value. As discussed above under Item 1, Business Divestiture of Primus Australia, we sold all of the equity interests of Primus Australia to M2 in May 2012. Also, as discussed above under Item 1, Business Our Business Units ICS Pursuit of Divestiture of ICS Business Unit, in June 2012, PTGi s Board of Directors committed to dispose of, and is actively soliciting a sale or other disposition of, the Company s ICS business unit. However, in addition to the sale of Primus Australia and the possible sale or other disposition or disposal of ICS, the Special Committee continues to explore and evaluate other strategic alternatives to enhance shareholder value, which may include (but may not be limited to) a sale, merger or other business combination, a recapitalization, a joint venture arrangement, the sale or spinoff of our assets or one or more of our business units, or the continued execution of our business plans. There is no set timetable for completion of the evaluation process, and we do not intend to provide updates or make any comments regarding the evaluation of strategic alternatives, unless our Board of Directors has approved a specific transaction or otherwise deems disclosure appropriate.

Except as described above, there can be no assurance that any such transaction will be pursued or consummated. We may also incur substantial costs in connection with the pursuit of strategic alternatives which are not ultimately consummated. Also, there are risks inherent with the consummation of any such transaction, such as the risks that the expected enhancement of shareholder value may not be realized, that unexpected liabilities may result from such transaction and that the process of consummating or the effects of consummating such a transaction may cause interruption or slow down the operations of our existing or continuing businesses. See, for example, The sale of Primus Australia substantially reduced our revenue and Risks Associated with the ICS Business We may encounter difficulties and incur costs in pursuing the divestiture plan associated with our ICS business unit, which could adversely impact our business and results of operations for a discussion of specific risks associated with the disposition of Primus Australia and the proposed disposition of ICS, respectively.

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

A significant portion of our net revenue (about 86% for the year ended December 31, 2012) is derived from sales and operations outside the U.S. The reporting currency for our consolidated financial statements is the USD. Our foreign operating subsidiaries, including our largest operating subsidiaries in Canada, generate cash in their respective local currencies and fluctuations in exchange rates can have a material adverse impact on amounts of USDs transferred to U.S. parent entities. In the future, we expect to continue to derive a significant portion of our net operating cash flow from our operating subsidiaries outside the U.S., which is a substantial source for servicing our significant debt obligations at the parent entity level, as well as a source for making principal payments and paying corporate expenses. Changes in exchange rates have had and may have a significant, and potentially adverse, effect on our results of operations.

From December 31, 2008 to December 31, 2009, the CAD increased by 11% relative to the USD, which had a positive impact on amounts of USDs transferred to U.S. parent entities. From December 31, 2009 to December 31, 2010, the CAD increased by 5% relative to the USD. From December 31, 2010 to December 31, 2011, the CAD decreased by 1% relative to the USD. And from December 31, 2011 to December 31, 2012, the CAD increased by 3% relative to the USD. Due to the large percentage of our operations conducted outside of the U.S., and the cash transfers from these foreign operating subsidiaries to the U.S. parent, a strengthening of the USD relative to the CAD could have an adverse impact on future results of operations and could adversely affect our ability to service our significant debt obligations and make principal payments at the parent entity level, and pay corporate expenses.

We historically have not engaged in hedging transactions. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies. In addition, the operations of affiliates and subsidiaries in foreign countries have been funded with investments and other advances denominated in foreign currencies. Historically, such investments and advances have been long-term in nature, and we accounted for any adjustments resulting from currency translation as a charge or credit to accumulate other comprehensive loss within the stockholders deficit section of our consolidated balance sheets.

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

The local, long-distance, Internet, broadband, DSL, data and hosting and wireless telecommunications industry is significantly influenced by the marketing and pricing decisions of the larger business participants.

Prices in the long-distance industry have continued to decline in recent years and, as competition continues to increase within each of our service segments and each of our product lines, we believe that prices are likely to continue to decrease. The most significant competitors in our primary markets include:

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

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

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

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

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

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

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

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

The sale of Primus Australia substantially reduced our revenue.

As described above under Item 1, Business Divestiture of Primus Australia, the Company divested its Australian operations pursuant to the sale of Primus Australia to M2, which transaction was consummated on May 31, 2012. Our Australian operations accounted for approximately $66.8 million, or 28.6%, of our net revenues, exclusive of the currency effect, for the three months ended March 31, 2012 and approximately $254.9 million, or 27.2%, of our net revenues, exclusive of the currency effect, for the fiscal year ended December 31, 2011. Following the divestiture of Primus Australia, our ability to produce revenues will therefore be substantially reduced. There can be no assurance that the proceeds from the divestiture and the revenues and profits generated from the remaining operations of the Company, along with other capital that we have access to, will be adequate to sustain our business objectives.

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

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

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

Our positioning in the marketplace to focus on Growth Services segments of the telecom market, including broadband, VoIP, data, and data center services may place a significant strain on our management, operational

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

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

While we recognized net income of $27.9 million in 2012 (after taking into account $94.3 million of gain from the sale of discontinued operations, net of tax), we incurred a net loss of $38.7 million in 2011 and have incurred losses in prior periods. We cannot assure you that we will recognize net income in future periods. If we cannot generate net income or sufficient operating profitability, we may not be able to meet our debt service or working capital requirements.

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

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

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

We have significant international operations and, for the year ended December 31, 2012, derived about 86% of our net revenues by providing services outside of the U.S. We are smaller than the principal or incumbent telecommunications carriers that operate in each of the jurisdictions where we operate, including in international markets. In these markets, incumbent carriers: (1) are likely to modify and/or control access to, and pricing of, the local networks; (2) enjoy better brand recognition and brand and customer loyalty; (3) generally offer a wider range of products and services; and (4) have significant operational economies of scale, including a larger backbone network and longer term customer and supplier agreements on generally better prevailing terms. Moreover, the incumbent carriers may take many months to allow competitors, including us, to interconnect to their switches within our territory, and we are dependent upon their cooperation in migrating customers onto our network. There can be no assurance that we will be able to: (A) obtain the permits and operating licenses required for us to operate in the new service areas; (B) obtain access to local transmission facilities on economically acceptable terms; or (C) market services in international markets.

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

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

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

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

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

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

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

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

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

We also rely on indemnification provisions from third parties to protect against claims of infringement regarding the licensed technology, which indemnification could be affected by, among other things, the financial strength of the licensor. Furthermore, effective intellectual property protection may not be available in every country where we do business. Any significant impairment of our intellectual property or other licensed rights could harm our business and/or our ability to compete effectively.

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

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

RISKS ASSOCIATED WITH OUR FINANCIAL STATEMENTS

At various times in the past, our disclosure controls and procedures and internal control over financial reporting have been determined not to be effective. If we fail to maintain effective internal control over financial reporting at a reasonable assurance level, we may not be able to accurately report our financial results, which could have a material adverse effect on our operations, investor confidence in our business and the trading prices of our securities.

At various times in the past, in evaluating the effectiveness of our internal control over financial reporting, our management identified control deficiencies in our controls and procedures in the areas of accounting for income taxes and for foreign currency transaction gain (loss), and management concluded in each case that the control deficiency in our internal controls over financial reporting constituted a material weakness. These deficiencies represented a material weakness in internal control over financial reporting on the basis that there was more than a remote likelihood that a material misstatement in our interim or annual financial statements could occur and would not be prevented or detected by our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis. Our management has taken steps in each case to address the control deficiencies and has concluded that we maintained effective internal control over financial reporting as of December 31, 2012 and that our disclosure controls and procedures were effective as of that date. However, we cannot assure you that additional material weaknesses in our internal control over financial reporting or deficiencies in the effectiveness of our disclosure controls and procedures will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses, and cause us to fail to timely meet our periodic reporting obligations or result in material misstatements in our financial statements. The existence of a material weakness could result in future errors in our financial statements that could result in a restatement of financial statements, cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information.

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

Upon the Holding Companies emergence from Chapter 11 on July 1, 2009, we adopted fresh-start accounting in accordance with Accounting Standards Codification (ASC) No. 852, Reorganizations (ASC 852), pursuant to which our reorganization value, which represents the fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the Reorganization, has been allocated to the fair value of assets in conformity with ASC No. 805, Business Combinations (ASC 805), using the purchase method of accounting for business combinations. We stated liabilities, other than deferred taxes, at a present value of amounts expected to be paid. The amount remaining after allocation of the reorganization value to the fair value of identified tangible and intangible assets is reflected as goodwill, which is subject to periodic evaluation for impairment. In addition, under fresh-start accounting, our accumulated deficit ($1.06 billion at June 30, 2009) has been eliminated. In addition to fresh-start accounting, our consolidated financial statements reflect all effects of the transactions contemplated by the Plan of Reorganization. Thus, our future consolidated balance sheets and consolidated condensed statements of operations data will not be comparable in many respects to our consolidated balance sheets and consolidated condensed statements of operations data for periods prior to our adoption of fresh-start accounting and prior to accounting for the effects of the Reorganization.

We may encounter difficulties and incur costs in pursuing the divestiture plan associated with our ICS business unit, which could adversely impact our business and results of operations.

As described above under Item 1, Business Our Business Units ICS Pursuit of Divestiture of ICS Business Unit, on June 28, 2012, PTGi s Board of Directors committed to dispose of and is actively soliciting a sale or other disposition of the Company s ICS business unit. We may not be able to achieve the full strategic and financial benefits we expect from the divestiture of our ICS business unit. There is no guarantee that the planned divestiture will occur or will not be significantly delayed, and there can be no assurance that analysts and investors will place greater value on the Company following any such divestiture. Completion of the plan of divestiture is also subject to a number of factors. Our divestiture plan may require a substantial amount of management, administrative and operational resources. These demands may distract our employees from the day-to-day operations of our other business units. If we are unable to successfully address any of these risks, our business and results of operations may be adversely impacted.

The members of the Exchange may not trade on the Exchange or utilize ICS s other services due to, among other things, the lack of a liquid market, which may materially harm the ICS business. Volatility in

trading volumes may have a significant adverse effect on the ICS business financial condition and operating results, which could have a negative impact on the amount we may realize from the planned sale of ICS.

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

If the Exchange continues to be an active, liquid market in which lower-priced alternatives are available to buyers, sellers may conclude that further development of the Exchange will erode their profits and they may stop offering communications capacity on the Exchange.

There have been adverse changes in the public and private equity and debt markets for communication services providers that have affected their ability to obtain financing or to fund capital expenditures. In some cases, the significant debt burden carried by certain communication services providers has adversely affected their ability to pay their outstanding balances with ICS and some of the members have filed for bankruptcy as a result of their debt burdens.

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

Any breach of security relating to confidential information of the members or customers could result in legal liability to ICS and a reduction in use of the Carrier Services or Exchange or cancellation of Arbinet s services, any of which could materially harm ICS s business.

Maintaining international operations will subject ICS to additional risks and uncertainties.

ICS maintains international operations, which will subject ICS to additional risks and uncertainties. ICS has established delivery points in New York City, London, Frankfurt, Miami and Hong Kong. Foreign operations are subject to a variety of additional risks that could have an adverse effect on ICS s business, including:

- difficulties in collecting accounts receivable and longer collection periods;
- changing and conflicting regulatory requirements;
- potentially adverse tax consequences;
- tariffs and general export restrictions;
- difficulties in integrating, staffing and managing foreign operations;

political instability;

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seasonal reductions in business activity during the summer months in Europe and certain other parts of the world;

the impact of local economic conditions and practices;

potential non-enforceability of ICS s intellectual property and proprietary rights in foreign countries; and

fluctuations in currency exchange rates.

ICS s inability to manage these risks effectively could result in increased costs and distractions and may adversely affect ICS s business, financial condition and operating results, which could negatively impact the amount we may realize from the planned sale of ICS.

Any failure of ICS s physical infrastructure, including undetected defects in technology, could lead to significant costs and disruptions that could reduce its revenue and harm its business reputation and financial results, which could negatively impact the amount we may realize from the planned sale of ICS.

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

human error;

physical or electronic security breaches;

fire, earthquake, flood and other natural disasters;

water damage;

power loss; and

terrorism, sabotage and vandalism.

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

RISKS ASSOCIATED WITH OUR LIQUIDITY NEEDS, INDEBTEDNESS AND SECURITIES

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

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

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such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions for fair market value or at all. Furthermore, any proceeds that we could realize from any such disposition may not be adequate to meet our debt service obligations then due.

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

Upon the occurrence of certain change of control events specified in the indenture (as amended or supplemented from time to time, the 10% Notes Indenture) governing our 10% Senior Secured Notes due 2017 and 10% Senior Secured Exchange Notes due 2017 (collectively, the 10% Notes), our subsidiary that issued the 10% Notes will be required to offer to repurchase all outstanding 10% Notes at 100% of the principal amount thereof plus, without duplication, accrued and unpaid interest and additional interest, if any, to the date of repurchase. However, it is possible that the issuer will not have sufficient funds at the time of the change of control to make the required repurchase of all 10% Notes delivered by holders seeking to exercise their repurchase rights, particularly as that change of control may trigger a similar repurchase requirement for, or result in an event of a default under or the acceleration of, other indebtedness (or the instruments governing such indebtedness). Moreover, restrictions in the instruments governing our future indebtedness may not allow such repurchases. Any failure by the issuer to repurchase the 10% Notes upon a change of control would result in an event of default under the 10% Notes Indenture and may also constitute a cross-default on other indebtedness (or the instruments governing such indebtedness) existing at that time.

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

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

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

These restrictions could limit the ability of PTGi and its restricted subsidiaries to finance their future operations or capital needs, make acquisitions or pursue available business opportunities. PTGi and its restricted subsidiaries may be required to take action to reduce their debt or act in a manner contrary to their business objectives to satisfy these covenants. Events beyond the control of PTGi and its restricted subsidiaries, including changes in economic and business conditions in the markets in which they operate, may affect their ability to do so. PTGi and its restricted subsidiaries may not be able to satisfy these covenants. A breach of any of the covenants in the 10% Notes Indenture could result in a default under the 10% Notes Indenture, which could lead to the debt under the 10% Notes Indenture becoming immediately due and payable and foreclosure on our assets that secure our obligations with respect to the 10% Notes. A default under the10% Notes Indenture could, in turn, result in a default under other debt instruments and result in other creditors accelerating the payment of other obligations and foreclosing on assets securing such obligations, if any. Any such defaults could materially impair our financial conditions and liquidity.

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We have a substantial amount of indebtedness.

As of December 31, 2012, we had $127.0 million of long-term obligations. Our substantial indebtedness has important consequences. For example, it:

- limits our ability to borrow additional funds;
- limits our flexibility in planning for, or reacting to, changes in our business and our industry;
- increases our vulnerability to general adverse economic and industry conditions;
- limits our ability to make strategic acquisitions;
- requires us to dedicate a substantial portion of our cash flow from operations to payments on indebtedness, reducing the availability of cash flow to fund working capital, capital expenditures and other general corporate activities; and
- places us at a competitive disadvantage compared to competitors that have less debt.

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

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

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

There are no assurances that our common stock will remain listed on the NYSE.

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

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ADDITIONAL RISKS RELATED TO REGULATION

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

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

The FCC or Congress in the United States and the Canadian Radio-television and Telecommunications Commission, or CRTC, or Parliament in Canada may revise how companies like us contribute to certain federal programs that could increase our costs, reduce our profitability, or make our services less competitive in the communications marketplace.

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

We are subject to similar contribution obligations in Canada. These obligations include percentage-of-revenue based contributions to subsidize the provision of telephone service in high cost service areas, percentage-of-revenue based contributions to fund CRTC telecommunications regulatory activities, and percentage-of-revenue based contributions to fund Canadian numbering resource administration. Any change to these regulations may increase or decrease our contribution obligations, operations and financial results.

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

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

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

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

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

- The disability access requirements of Sections 225 and 255 of the Communications Act, which have been interpreted by the FCC to require interconnected VoIP providers to contribute to the telecommunications relay services fund and offer 711 abbreviated dialing access to relay services, and to ensure that VoIP services are accessible to persons with disabilities, if reasonably achievable. In August 2010, the FCC adopted a Further Order and Notice of Proposed Rulemaking with respect to hearing aid compatibility requirements applicable to various services. In April 2012, the FCC released an order adopting technical standards governing hearing aid compatibility for mobile phones. We cannot predict at this time what additional hearing aid compatibility or other disability access requirements the FCC will establish, if any, or how any such new requirements may affect us.

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

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

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

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

- In December 2010, the FCC released a Notice of Inquiry regarding Next Generation 9-1-1 service. On February 22, 2012, Congress enacted the Next Generation 9-1-1 Advancement Act of 2012 as part of the Middle Class Tax Relief and Job Creation Act of 2012. Section 6509 of the Act directs the Commission to issue a report, within one year of enactment, containing recommendations for the legal and statutory framework for Next Generation 9-1-1 (NG9-1-1) services. The FCC has opened a proceeding to consider the recommendations to be made in the report. It is uncertain whether the FCC will adopt specific requirements arising from these proceedings or, if it does, how and whether any such requirements will affect us.

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

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

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Rules that extend outage reporting requirements to interconnected VoIP providers.

In July 2011, the FCC released a Notice of Proposed Rulemaking, seeking comment on proposed rules designed to assist consumers in detecting and preventing the placement of unauthorized charges on their telephone bills, an unlawful practice commonly referred to as cramming. On April, 27, 2012, the FCC released an Order and Further Notice of Proposed Rulemaking establishing rules governing cramming. The FCC found that the record in the proceeding did not demonstrate a need for rules to address cramming for VoIP customers at this time, but requested comment on any developments concerning cramming for VoIP customers. At this time we cannot predict whether the FCC will adopt cramming rules applicable to VoIP or other services, nor can we predict its potential impact on our business.

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

In Canada the CRTC has extended rules to interconnected VoIP providers that are similar to certain of those described above for the U.S., which rules are also subject to change from time to time.

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

In October 2011, the FCC ruled that VoIP services are subject to Sections 255 and 716 of the Act regarding requirements to ensure that people with disabilities have access to certain services. As such, VoIP providers and other providers of advanced communications services (and manufacturers of equipment used for such services) must ensure that their services and products are accessible to people with disabilities, unless it is not achievable to do so. The FCC also established recordkeeping, certification, and enforcement provisions related to the disability access provisions it adopted. If and to the extent that we are determined to be out of compliance with the FCC s disability access requirements, we may be subject to fines, penalties, cease and desist orders prohibiting us from providing service on the federal and state levels or any combination of the foregoing. The FCC s review of disability access related requirements remains ongoing, and at this time, we cannot predict whether we will be subject to additional accessibility requirements.

In Canada, we are subject to certain regulatory obligations related to the accommodation of people with disabilities. These obligations include, for example, the provision of materials in alternative formats, the provision of relay services and requirements related to website format and content. If and to the extent that we are determined to be out of compliance with these obligations, we may be subject to orders to comply and/or revocation of registrations that permit our operation.

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

Our international operations are also subject to regulatory risks, including the risk that regulations in some jurisdictions will prohibit us from providing our services cost-effectively or at all, which could limit our growth. We cannot make assurances that these conditions will not have a material effect on our revenues and growth in the future. International regulatory considerations that affect or limit our business include general changes in access charges and contribution payments that could adversely affect our cost of providing long-distance, wireless, broadband, VoIP, local and other services.

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

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

As of November 2005, FCC rules require VoIP providers interconnected to the public switched telephone network to provide E911 service in a manner similar to traditional wireline carriers. Like many interconnected VoIP providers, Lingo, a subsidiary of ours which sells such services, was able to meet this deadline for some but not all of its customers. We sought a waiver from the FCC asking for additional time to complete deploying our E911 service. The FCC has not yet addressed our waiver petition. As of December 31, 2012, approximately 99% of our Lingo customers were equipped with E911 service as required by the FCC s rules. If and to the extent that we are determined to be out of compliance with the FCC order regarding E911 services we may be subject to fines, penalties and cease and desist orders prohibiting Lingo from providing service on the federal and state levels or any combination of the foregoing.

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

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

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

Since 2008, interconnected VoIP providers and others involved in handling 911 calls have been afforded the same liability protections as mobile or wired telephone service providers when handling 911 calls. However, the applicability of the liability protection to 911 calling services that do not conform to the FCC s VoIP E911 rules is unclear. As such, to the extent our services do not comply with the FCC s VoIP E911 requirements we may still face significant and material liability due to failures of our E911 service to function properly. We may be similarly exposed to liability in Canada in connection with emergency services associated with our VoIP services. A description of our regulatory obligations associated with our VoIP services in Canada is set forth under Item 1, Business Government Regulation Canada.

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

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

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

At this time we cannot predict the outcome of these proceedings nor can we predict their potential impact on our business.

The CRTC has announced a review of the 911 service framework in Canada. This proceeding commenced in December 2012 and will review the 911 service frameworks for all telecommunication services, including wireline, wireless and VoIP. At this time we cannot predict the outcome of this proceeding nor can we predict its potential impact on our business. Any change to the 911 regulations applicable to our operations may increase our obligations and impact our operations and financial results.

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

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

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

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

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

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

We may become subject to U.S. state or Canadian provincial regulation for certain service offerings.

A number of states have adopted the position that offerings by VoIP companies like us are subject to state regulation. These states generally base their jurisdiction to regulate such offerings based on whether a VoIP company is able to determine the beginning and end points of communications and whether such communications occur entirely within the boundaries of the respective state. We believe that the FCC has preempted states from regulating VoIP offerings. We cannot predict how this issue will be resolved or its impact on our business at this time but we could be subject to increased costs, reduced profitability, and fines or penalties.

Our operations in Canada are subject to Federal regulation. However, certain provinces have issued consumer protection legislation that seeks to apply to telecommunication services and operations. The validity of provincial regulations on a federally regulated service has not been tested or challenged by parties to date. We cannot predict how this issue will be resolved or its impact on our business at this time but we could be subject to increased costs, reduced profitability, and fines or penalties under provincial legislation.

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

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

On December 23, 2010, the FCC adopted an order that imposes network neutrality rules on providers of fixed and wireless broadband Internet access services, with wireless providers subject to a more limited set of rules. Among other things, the rules: (1) require providers of consumer broadband Internet access to publicly disclose their network management practices and the performance and commercial terms of their broadband Internet access services; (2) prevent broadband Internet access providers from blocking lawful content, applications, services, or non-harmful devices, subject to reasonable network management; and (3) prevent broadband Internet access providers from unreasonably discriminating in the transmission of lawful network traffic over a consumer s broadband Internet access service. While the substance of the rules and the process used by the FCC in adopting the rules differs from the FCC s previous Internet policy principles that were called into question by the D.C. Circuit, questions remain concerning the FCC s ability to adopt rules governing the

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conduct of fixed and wireless broadband Internet access providers. The FCC s rules became effective on November 20, 2011. Several parties have appealed these rules to the U.S. Court of Appeals for the District of Columbia. We cannot predict to what extent these or any other appeals may succeed, nor can we predict what impact these rules may have on our business at this time. If an Internet access provider were to interfere with access to our products and services, such actions could result in a loss of existing users and increased costs, and could impair our ability to attract new users, thereby harming our revenue and growth.

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

We must comply with Section 114 of the Fair and Accurate Credit Transactions Act of 2003 (FACTA) and rules of the FTC that require creditors to develop and effectuate written internal programs to detect, prevent, and mitigate identity theft in connection with their accounts. The rules became effective on January 1, 2011, and we may be deemed to be a creditor as defined in the FACTA to the extent that we use consumer reports in connection with providing service to customers, or provide information to debt collectors or consumer reporting agencies.

On December 6, 2012, the Federal Trade Commission published an interim final rule that narrows the circumstances under which creditors are covered by the Red Flag Rule. The interim final rule amends the definition of creditor in the Red Flag Rule to clarify that a creditor is covered only if, in the ordinary course of business, it regularly obtains or uses consumer reports in connection with a credit transaction, furnishes information to consumer reporting agencies in connection with a credit transaction, or advances funds to or on behalf of a person, in certain cases. The FTC accepted public comment on the interim final rule until February 11, 2013, at which point such interim rule became effective.

We are taking steps to ensure compliance with the FTC s rules, but if and to the extent that we are determined to be out of compliance with the rules we may be subject to fines, penalties, compliance orders or any combination of the foregoing.

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

In 2008, the CRTC issued a decision that relieved the incumbent telecommunications carriers of the obligation to provide certain regulated wholesale services classified as non-essential subject to phase-out. Access to services classified as non-essential subject to phase-out is pursuant to negotiated commercial terms upon deregulation. More than a third of wholesale services have been deregulated as of 2012, including intra-exchange transport services which are used to interconnect our sites where we have located DSLAM equipment. The area likely to have the next-largest impact involves high-speed access to business services, which is to be deregulated in 2013. A further review of the framework and the continued regulation of wholesale services that remain regulated is scheduled to commence in 2014 but may commence earlier, including in 2013. In addition, a decision on the final regulated rates that will apply to the capacity-based billing framework for wholesale Internet access services approved in November 2011 is outstanding.

Accordingly, we face certain uncertainty and risks related to the ability to establish favorable negotiated agreements with the incumbents for wholesale services that have been and will be deregulated and in relation to any changes to the regulated rates for services that remain regulated. We also face uncertainty as to whether and how our competitors will adjust their retail prices in response to changes to regulated rates or favorable negotiated agreements, which may affect our own pricing and profit margins.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

We currently lease our corporate headquarters facility, which is located in McLean, Virginia. Additionally, we lease administrative, technical and sales office space, as well as space for our switches and data centers, in various locations in the countries in which we operate. This space is used in each of our BLACKIRON Data and North America Telecom reportable operating segments. Our European ICS operations are headquartered in London. As of December 31, 2012, total leased space in the United States, Canada, and the United Kingdom, as well as other countries in which we operate, approximates 418,750 square feet and the total annual lease costs are approximately $13.7 million. The operating leases expire at various times, with the longest commitment expiring in 2023. We believe that our present administrative and sales office facilities are adequate for our anticipated operations and that similar space can be obtained readily as needed, and we further believe that the current leased facilities are adequate to house existing communications equipment.

We own substantially all of our communications equipment required for our business. However, certain communications equipment which includes network switches and transmission lines are leased through operating leases, capital leases and vendor financing agreements. Our net property and equipment was $65.3 million and $152.2 million at December 31, 2012 and 2011, respectively. The 10% Notes and related guarantees are secured by a pledge of and first lien security interest in (subject to certain exceptions) substantially all of the assets of PTHI, a wholly owned subsidiary of PTGi and the issuer of the 10% Notes, and the guarantors of the 10% Notes, including PTGi. See Note 4 Property and Equipment, for additional detail regarding our property and equipment.

ITEM 3. LEGAL PROCEEDINGS

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

Termination of 10% Notes Indenture Litigation

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

Also on September 17, 2012, certain holders of 10% Notes (the Plaintiffs) commenced that certain action (the Litigation) in the Court of Chancery of the State of Delaware (the Court) under the caption *Whitebox Advisors, LLC and River Ridge Master Fund Ltd. v. Primus Telecommunications Holding, Inc.*, Civil Action No. 7871-VCG, which alleged that the First Supplemental Indenture was entered into in breach of certain covenants in the 10% Notes Indenture. In connection with the Note Exchange, which is discussed in greater detail below under Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Recent Developments Repurchase of a Majority of 10% Notes and Subsequent Note Exchanges for Newly Issued 10% Exchange Notes, the Plaintiffs agreed to file and, on November 14, 2012, filed with the Court, a notice of dismissal with prejudice with respect to the Litigation.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Common Stock

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

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

	New Common Stock	
Period	**High**	**Low**
2012		
1st Quarter	$ 16.13	$ 12.25
2nd Quarter	$ 17.63	$ 14.30
3rd Quarter	$ 17.08	$ 14.08
4th Quarter	$ 15.29	$ 10.50
2011		
1st Quarter	$ 15.75	$ 12.50
2nd Quarter	$ 15.65	$ 13.50
3rd Quarter	$ 15.17	$ 9.55
4th Quarter	$ 13.21	$ 10.09

Holders of Common Stock

As of February 28, 2013, PTGi had thirteen holders of record of its common stock. This number does not include stockholders for whom shares were held in nominee or street name.

Dividends

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

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

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The payment of dividends, if any, in the future is within the discretion of the Board of Directors and will depend on our earnings, our capital requirements and financial condition. The 10% Notes Indenture contains covenants that, among other things, limit or restrict our ability to make certain restricted payments, including the payment of cash dividends with respect to PTGi s common stock. See Note 6 Long-Term Obligations to our consolidated financial statements for more detail concerning our 10% Notes. Moreover, dividends may be restricted by other arrangements entered into in the future by us.

Class A and B Warrants

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

Antidilution adjustment provisions in each of the Class A Warrant Agreement and Class B Warrant Agreement provide that the number of shares of PTGi common stock issuable upon exercise of the Warrants and the exercise prices of the Warrants will be adjusted in connection with any dividend or distribution of PTGi common stock, assets or cash (other than any regular cash dividend not to exceed in any fiscal year 45% of the consolidated net income of the Company), or any subdivision or combination of the PTGi common stock. In addition, the number of shares of PTGi common stock issuable upon exercise of the Warrants and the exercise prices of the Warrants are also subject to adjustment in connection with any issuance, grant or sale to any person of (A) rights, warrants, options, exchangeable securities or convertible securities entitling such person to subscribe for, purchase or otherwise acquire shares of PTGi common stock at a price per share less than the fair market value of the PTGi common stock on the trading day immediately prior to such issuance, sale or grant, subject to certain exceptions, or (B) shares of PTGi common stock at a price per share less than the fair market value of the PTGi common stock on the trading day immediately prior to such issuance, sale or grant. Additionally, if any transaction or event occurs in which all or substantially all of the outstanding PTGi common stock is converted into, exchanged for, or the holders thereof are otherwise entitled to receive on account thereof stock, other securities, cash or assets (each, a Fundamental Change Transaction) the holder of each Warrant outstanding immediately prior to the occurrence of such Fundamental Change Transaction shall have the right to receive upon exercise of the applicable Warrant the kind and amount of stock, other securities, cash and/or assets that such holder would have received if such Warrant had been exercised.

The Dividends that occurred in 2012 triggered the antidilution adjustment provisions in the Warrant Agreements, such that (A) the exercise price with respect to (i) the Class A-1 Warrants was adjusted downward to $8.91, (ii) the Class A-2 Warrants was adjusted downward to $12.05, (iii) the Class A-3 Warrants was adjusted downward to $14.93, and (iv) the Class B Warrants was adjusted downward to $18.96; and (B) after taking into account exercised Warrants, the number of shares of PTGi common stock issuable upon exercise of (i) the

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Class A-1 Warrants was adjusted upward to 1,370,658, (ii) the Class A-2 Warrants was adjusted upward to 1,372,293, (iii) the Class A-3 Warrants was adjusted upward to 1,372,293, and (iv) the Class B Warrants was adjusted upward to 2,058,438.

Contingent Value Rights

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

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

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

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

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

The Dividends that occurred in 2012 triggered the antidilution adjustment provisions in the CVR Agreement, such that (A) the CVR Strike Price was adjusted downward to $26.20 and (B) the maximum number of CVR Shares issuable with respect to the CVRs was adjusted upward to 3,657,157.

Recent Sales of Unregistered Securities

There were no unregistered sales of our equity securities in the year ended December 31, 2012.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or programs (in millions)
Shares purchased in satisfaction of tax withholding obligations (1)				
October 1, 2012 to October 31, 2012		$		$
November 1, 2012 to November 30, 2012		$		$
December 1, 2012 to December 31, 2012		$		$
Total		$		$
Shares purchased under a stock repurchase program (2)				
October 1, 2012 to October 31, 2012		$		$ 14.6
November 1, 2012 to November 30, 2012		$		$ 14.6
December 1, 2012 to December 31, 2012		$		$ 14.6
Total		$		$ 14.6

(1) Upon vesting of restricted stock units awarded by PTGi to employees, PTGi withholds shares to cover employees tax withholding obligations, other than for employees who have chosen to satisfy their tax withholding requirements in the form of a cash payment. The table above reflects shares of common stock withheld to satisfy tax withholding obligations during the year ended December 31, 2012.

(2) On August 8, 2011, PTGi s Board of Directors authorized a stock repurchase program of up to $15 million of its common stock through August 8, 2013. Under the stock repurchase program, PTGi may repurchase common stock from time to time in the open-market, privately negotiated transactions or block trades. During the year ended December 31, 2012, PTGi did not purchase shares of common stock in connection with our stock repurchase program.

Stock Performance Graph

The following graph compares the cumulative total returns during the period from July 1, 2009 to December 31, 2012 of our common stock to the Standard & Poor s Midcap 400 Index and the iShares S&P Global Telecommunications Sector Index Fund. The comparison assumes $100 was invested on July 1, 2009 in the common stock of the Company and the indices and assumes that all dividends were reinvested. The reorganized company s New Common Stock began trading on the OTC Bulletin Board on July 1, 2009, and on the NYSE on June 23, 2011. The company s Old Common Stock, which was actively traded prior to July 1, 2009, does not provide meaningful comparison and the performance of the Old Common Stock has not been provided.

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	July 1, 2009	December 31, 2009	December 31, 2010	December 31, 2011	December 31, 2012
Primus Telecommunications Group, Inc. (PTGI)	$ 100.00	$ 143.75	$ 312.50	$ 316.50	$ 370.81
Standard & Poor s Midcap 400 Index (^MID)	$ 100.00	$ 124.38	$ 155.29	$ 150.48	$ 174.66
iShares S&P Global Telecommunications Sector Index Fund (IXP)	$ 100.00	$ 115.67	$ 129.10	$ 130.31	$ 140.02

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

ITEM 6. SELECTED FINANCIAL DATA

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

As of July 1, 2009, the Company adopted fresh-start accounting in accordance with ASC 852. The adoption of fresh-start accounting resulted in the Company becoming a new entity for financial reporting purposes. Accordingly, the financial statements on or prior to July 1, 2009 are not comparable with the financial statements for periods after July 1, 2009. The consolidated condensed statements of operations and any references to Successor or Successor Company for the six months ended December 31, 2009, show the operations of the reorganized Company from and including July 1, 2009, the Effective Date, through December 31, 2009. References to Predecessor or Predecessor Company refer to the operations of the Company prior to July 1, 2009, except for Predecessor s July 1, 2009 statements of operations which reflect only the effect of the plan adjustments and fresh-start accounting as of such date and do not reflect any operating results.

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In accordance with ASC 805, the preliminary allocation of the reorganization value is subject to additional adjustment until the Company has completed its analysis, but not to exceed one year after emergence from bankruptcy, to provide the Company with the time to complete the valuation of its assets and liabilities. The final determination of the fair value of individual assets and liabilities and the final allocation of the reorganization value was finalized during the first six months of 2010.

Discontinued Operations

Australia and ICS. During the second quarter of 2012, the Company sold its Australian segment. Additionally, the Board of Directors of PTGi committed to dispose of the Company s ICS business unit and as a result classified ICS as a discontinued operation. The Company continues to actively solicit a sale or other disposition of its ICS business unit. As a result, the Company has applied retrospective adjustments for 2011, 2010, 2009 and 2008 to reflect the effects of the discontinued operations that occurred during 2012. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the 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.

Brazil. During the fourth quarter of 2011, the Company sold its Brazilian segment. As a result, the Company has applied retrospective adjustments for 2010, 2009 and 2008 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.

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

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Successor				Predecessor	
	Year Ended December 31, 2012	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
NET REVENUE	$ 260,554	$ 291,386	$ 282,017	$ 147,936	$ 144,015	$ 349,017
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)	125,263	143,347	134,892	65,592	63,276	160,517
Selling, general and administrative	102,760	110,711	113,008	58,092	57,309	144,504
Depreciation and amortization	31,023	35,371	40,177	22,304	6,918	15,584
(Gain) loss on sale or disposal of assets	171	(12,948)	(196)	11	(123)	(6,036)
Asset impairment expense	10,000					
Total operating expenses	269,217	276,481	287,881	145,999	127,380	314,569
INCOME (LOSS) FROM OPERATIONS	(8,663)	14,905	(5,864)	1,937	16,635	34,448
INTEREST EXPENSE	(23,934)	(30,811)	(35,331)	(16,977)	(13,694)	(53,043)
ACCRETION (AMORTIZATION) ON DEBT PREMIUM/DISCOUNT, net	(201)	(213)	(183)	(3)	189	583
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	(21,682)	(7,346)	164	(4,146)		36,872
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	1,292	2,902	(13,737)	(2,804)		
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	86	1,265	(167)	177	82	618
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	2,739	(2,426)	6,570	19,544	20,379	(46,348)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	(50,363)	(21,724)	(48,548)	(2,272)	23,591	(26,870)
REORGANIZATION ITEMS, net			1	(2,220)	402,007	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(50,363)	(21,724)	(48,547)	(4,492)	425,598	(26,870)
INCOME TAX BENEFIT (EXPENSE)	4,518	(1,282)	6,515	9,927	(4,074)	1,432
INCOME (LOSS) FROM CONTINUING OPERATIONS	(45,845)	(23,006)	(42,032)	5,435	421,524	(25,438)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(20,551)	(5,482)	19,914	1,740	49,347	3,566
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	94,265	(4,781)	2,926	(110)	251	
NET INCOME (LOSS)	27,869	(33,269)	(19,192)	7,065	471,122	(21,872)
Less: Net (income) loss attributable to the noncontrolling interest	18	(5,461)	105	(333)	32	(3,159)
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 27,887	$ (38,730)	$ (19,087)	$ 6,732	$ 471,154	$ (25,031)
BASIC INCOME (LOSS) PER COMMON SHARE:						
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (3.31)	$ (2.19)	$ (4.31)	$ 0.53	$ 2.95	$ (0.20)

Income (loss) from discontinued operations		(1.48)		(0.42)		2.05		0.18		0.35		0.02
Gain (loss) from sale of discontinued operations		6.81		(0.37)		0.30		(0.01)				
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$	2.02	$	(2.98)	$	(1.96)	$	0.70	$	3.30	$	(0.18)
DILUTED INCOME (LOSS) PER COMMON SHARE:												
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$	(3.31)	$	(2.19)	$	(4.31)	$	0.52	$	2.43	$	(0.20)
Income (loss) from discontinued operations		(1.48)		(0.42)		2.05		0.18		0.29		0.02
Gain (loss) from sale of discontinued operations		6.81		(0.37)		0.30		(0.01)				
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$	2.02	$	(2.98)	$	(1.96)	$	0.69	$	2.72	$	(0.18)

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	Successor				Predecessor	
	Year Ended December 31, 2012	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
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING						
Basic	13,844	12,994	9,721	9,600	142,695	142,643
Diluted	13,844	12,994	9,721	9,800	173,117	142,643
DIVIDENDS DECLARED PER SHARE	4.09					
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income (loss) from continuing operations, net of tax	$ (45,827)	$ (28,467)	$ (41,927)	$ 5,102	$ 421,556	$ (28,597)
Income (loss) from discontinued operations, net of tax	(20,551)	(5,482)	19,914	1,740	49,347	3,566
Gain (loss) from sale of discontinued operations, net of tax	94,265	(4,781)	2,926	(110)	251	
Net income (loss)	$ 27,887	$ (38,730)	$ (19,087)	$ 6,732	$ 471,154	$ (25,031)

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Balance Sheet Data:

	Successor				Predecessor
	As of December 31,				As of December 31,
(in thousands)	2012	2011	2010	2009	2008
Total assets	$ 301,190	$ 543,824	$ 514,459	$ 558,914	$ 330,444
Total long-term obligations (including current portion)	$ 127,112	$ 247,762	$ 243,891	$ 257,516	$ 604,837
Total liabilities	$ 232,687	$ 442,118	$ 431,425	$ 459,005	$ 789,169
Total Primus Telecommunications Group, Inc. stockholders equity (deficit)	$ 68,503	$ 101,706	$ 83,034	$ 99,909	$ (461,539)

Discontinued Operations Data:

	Successor				Predecessor	
	Year Ended December 31, 2012	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
Net revenue	$ 417,671	$ 723,244	$ 520,435	$ 276,397	$ 247,502	$ 550,696
Operating expenses	428,902	725,885	515,013	275,202	237,041	547,096
Income (loss) from operations	(11,231)	(2,641)	5,422	1,195	10,461	3,600
Interest expense	(513)	(1,772)	(169)	(346)	(441)	(846)
Interest income and other income (expense)	285	(908)	512	149	334	2,718
Foreign currency transaction gain (loss)	(2,750)	(336)	9,708	(1,160)	741	(837)
Reorganization items				1,786	38,086	
Income (loss) before income tax	(14,209)	(5,657)	15,473	1,624	49,181	4,635
Income tax (expense) benefit	(6,342)	175	4,441	116	166	(1,069)
Income (loss) from discontinued operations	$ (20,551)	$ (5,482)	$ 19,914	$ 1,740	$ 49,347	$ 3,566

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

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

Introduction and Overview of Operations

We are an integrated facilities-based communications services provider offering a portfolio of international and domestic voice, wireless, Internet, Voice over Internet Protocol (VoIP), data, colocation and data center services to customers located primarily in Canada and the United States. Our primary market is Canada, where we have deployed significant network infrastructure. We classify our services into three categories: Growth Services, Traditional Services and International Carrier Services (ICS). We provide these services from our three business units: North America Telecom, BLACKIRON Data (previously known as Data Center) and ICS. Our two primary reportable operational segments are North America Telecom and BLACKIRON Data.

Our focus is on expanding our Growth Services in our North America Telecom and BLACKIRON Data business units. Within the North America Telecom unit, Growth Services include our broadband, VoIP and on-net Ethernet services. For our BLACKIRON Data unit, we are heavily focused on expansion of our collocation facilities, cloud computing and managed services. Both units fulfill the demand for high quality, competitively priced communications and data center services. This demand is being driven, in part, by the explosion of data being generated on a daily basis, the globalization of the world s economies, the global trend toward telecommunications deregulation and the migration of communications traffic to the Internet. We manage our Traditional Services, which includes our domestic and international long-distance voice, local landline, wireless, prepaid cards, and dial-up Internet services, for cash flow generation that we reinvest to develop and market our Growth Services, particularly in our primary market of Canada. We also provide our ICS voice termination services to other telecommunications carriers and resellers requiring IP or time-division multiplexing access. However, as discussed below under Recent Developments Pursuit of Divestiture of ICS Business Unit, the Company is currently pursuing a sale or other disposition or disposal of its ICS segment, which no longer is a separate reportable business segment and has been classified as a discontinued operation as a result of being held for sale.

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

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

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

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

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

Recent Developments

Repurchase of a Majority of 10% Notes and Subsequent Note Exchanges for Newly Issued 10% Exchange Notes

On September 17, 2012, Primus Telecommunications Holding, Inc. (PTHI), a subsidiary of PTGi, consummated the repurchase of $119.0 million in aggregate principal amount of its 10% Senior Secured Notes due 2017 (the 10% Notes) for a purchase price equal to 109% of the principal amount thereof, plus accrued but unpaid interest to the date of repurchase, in each case pursuant to agreements with certain selling holders of 10% Notes. In connection with this repurchase, the sellers of the 10% Notes, representing a majority in principal amount of the outstanding 10% Notes, consented to amendments of the indenture governing the 10% Notes (as amended or supplemented from time to time, the 10% Notes Indenture) to remove substantially all of the restrictive and reporting covenants under the 10% Notes Indenture, as well as certain events of default and related provisions. PTHI, each of the guarantors of the 10% Notes, including PTGi, and U.S. Bank National Association, as Trustee, entered into a Supplemental Indenture, dated as of September 17, 2012 (the First Supplemental Indenture), to memorialize such 10% Notes Indenture amendments.

On November 14, 2012, PTHI consummated the exchange (the Note Exchange) of $79.7 million in aggregate principal amount of its 10% Notes for $86.9 million in aggregate principal amount of its 10% Senior Secured Exchange Notes due 2017 (the 10% Exchange Notes), which were newly issued pursuant to the Second Supplemental Indenture (as defined below) to the 10% Notes Indenture. PTHI also paid accrued but unpaid interest on the exchanged 10% Notes for the period from October 15, 2012 to, but not including, November 14, 2012. The 10% Exchange Notes accrue interest from November 14, 2012 and are guaranteed by the same entities, including PTGi, that guarantee the 10% Notes. The terms of the 10% Exchange Notes are substantially similar to those governing the 10% Notes, which are described in greater detail below under Liquidity and Capital Resources Important Long-Term Liquidity and Capital Structure Developments Exchange Offers and Consent Solicitation; Issuance of the 10% Notes, except that the applicable redemption price of the 10% Exchange Notes at any time such notes are redeemed is 100.00% of the principal amount of such 10% Exchange Notes redeemed, plus accrued and unpaid interest. Unless the context dictates otherwise, all references herein to the 10% Notes include the 10% Exchange Notes.

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

The participating noteholders also agreed to file and, on November 14, 2012, filed with the Court, a notice of dismissal with prejudice with respect to that certain Litigation commenced on September 17, 2012, as discussed in greater detail in Item 3, Legal Proceedings Termination of 10% Notes Indenture Litigation.

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

Dividends

During 2012, PTGi s Board of Directors declared and paid three special cash dividends (referred to herein as the Dividends) with respect to PTGi s issued and outstanding common stock, as discussed in greater detail in Item 5, Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Dividends.

Pursuit of Divestiture of ICS Business Unit

On June 28, 2012, PTGi s Board of Directors committed to dispose of the Company s ICS business unit. As a result of holding the ICS business unit out for sale, such business unit has been classified as a discontinued operation. The Company continues to actively solicit a sale or other disposition of its ICS business unit. See Note 18 Discontinued Operations to the notes to our consolidated annual audited financial statements included elsewhere in this Annual Report on Form 10-K.

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

Divestiture of Primus Australia

PTGi and Primus Telecommunications International, Inc., an indirect wholly owned subsidiary of PTGi (PTII), entered into a definitive Equity Purchase Agreement, dated April 15, 2012 (the Purchase Agreement), with M2 Telecommunications Group Ltd. (M2), an Australian telecommunications company, pursuant to which PTII agreed to sell to M2 100% of the outstanding equity of Primus Telecom Holdings Pty Ltd. (Primus Australia), a direct wholly owned subsidiary of PTII. On May 31, 2012, we completed this transaction.

The purchase price before adjustment was approximately $AUD 192.4 million (or approximately $USD 195.7 million giving effect to a currency hedge that the Company put in place in connection with the transaction). In connection with the closing of the transaction, approximately $USD 9.8 million (the Retention Amount) was retained from the purchase price and placed in escrow for a period of twelve months following the closing date of the transaction for purposes of satisfying potential indemnification claims asserted by M2 for breaches of PTII s warranties in the Purchase Agreement. Subject to limited exceptions, PTII s liability to M2 for indemnification for breaches of PTII s warranties is subject to a survival period of twelve months after the closing date and is limited to the Retention Amount. The Purchase Agreement contains customary warranties and covenants for a transaction of this nature. PTGi also provided M2 with a guarantee of the performance of PTII s obligations under the Purchase Agreement. The purchase price was also subject to a customary post-closing working capital adjustment. During the fourth quarter of 2012, the Company paid to M2 $USD 4.4 million upon finalization of the working capital adjustment. See Note 18 Discontinued Operations, for further information.

For additional detail regarding the impact of the divestiture of Primus Australia and related transactions on our liquidity and capital resources, see Liquidity and Capital Resources Important Long-Term Liquidity and Capital Structure Developments Divestiture of Primus Australia and Subsequent Asset Sale Tender Offer.

Reclassification of BLACKIRON Data Costs

In order to conform to industry best practices, certain amounts in selling, general and administrative expense related to our BLACKIRON Data operating segment were reclassified to cost of revenue as part of the Company s new operating segment structure discussed in Note 14 Operating Segment and Related Information to the notes to our consolidated annual audited financial statements included elsewhere in this Annual Report on Form 10-K.

Foreign Currency

Foreign currency can have a major impact on our financial results. During the year ended December 31, 2012, approximately 86% 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 risk of loss regarding foreign currency exchange rates is caused primarily by fluctuations in the following exchange rates: US Dollar (USD)/Canadian dollar (CAD), USD/British pound sterling (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. In addition, prior to the sale of the Company s Australia operations during the quarterly period ended June 30, 2012, we also experienced risk of loss regarding foreign currency exchange rates due to fluctuations in the USD/Australian dollar (AUD) exchange rate. We have agreements with certain subsidiaries for repayment of a portion of the investments and advances made to these subsidiaries. As we anticipate repayment in the foreseeable future, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the 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

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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, 2012, as compared to the year ended December 31, 2011, the USD was stronger on average as compared to the CAD, GBP and EUR; the USD was weaker on average as compared to the AUD. 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, 2012, 2011 and 2010:

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

	Years Ended December 31,			2012 vs 2011		2011 vs 2010	
	2012	2011	2010	Variance $	Variance%	Variance $	Variance%
Canada	$ 223,301	$ 246,612	$ 231,185	$ (23,311)	-9.5%	$ 15,427	6.7%
Australia	114,860	286,462	276,614	(171,602)	-59.9%	9,848	3.6%
United Kingdom	202,196	273,053	93,440	(70,857)	-25.9%	179,613	192.2%
Europe (1) , (2)	(149)	87	60,617	(236)	-271.3%	(60,530)	-99.9%
Brazil (2)		25,457	27,686	(25,457)	-100.0%	(2,229)	-8.1%

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

	Years Ended December 31,			2012 vs 2011		2011 vs 2010	
	2012	2011	2010	Variance $	Variance%	Variance $	Variance%
Canada (in CAD)	$ 223,190	$ 243,656	$ 238,229	$ (20,466)	-8.4%	$ 5,427	2.3%
Australia (in AUD)	110,408	277,461	301,324	(167,053)	-60.2%	(23,863)	-7.9%
United Kingdom (in GBP)	127,726	170,124	60,619	(42,398)	-24.9%	109,505	180.6%
Europe (1) , (2) (in EUR)	(76)	64	45,518	(140)	-218.8%	(45,454)	-99.9%
Brazil (2) (in BRL)		42,049	48,908	(42,049)	-100.0%	(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.

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.

Valuation of Long-lived Assets (Held and Used) 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. We derive future cash flow estimates from our historical experience and our 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 estimate of the appropriate discount rate to be used to apply the present value technique in determining fair value was our weighted average cost of capital which is based on the effective rate of our long-term debt obligations at the current market values as well as the current volatility and trading value of our common stock.

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

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

We evaluated the carrying value of ICS in the second quarter of 2012 which resulted in it being higher than its fair value less costs to sell by $10.3 million and have attributed such adjustment to the long-lived assets of ICS. As the adjustment is related to ICS, it is classified within Income (loss) from discontinued operations, net of tax on the consolidated statements of operations. We performed the same analysis as of December 31, 2012 and determined that the fair value less costs to sell exceeded the carrying value and therefore no additional write-down was required.

Valuation of 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 useful lives and are subject to the impairment provisions of ASC No. 360, Property Plant and Equipment (ASC 360).

Goodwill impairment is tested at least annually (October 1st) or when factors indicate potential impairment using a two-step process that begins with an estimation of the fair value of each reporting unit.

Step 1 is a screen for potential impairment pursuant to which the estimated fair value of a reporting unit is compared to its carrying value. The Company estimates the fair values of each reporting unit by a combination of

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(i) estimation of the discounted cash flows of each of the reporting units based on projected earnings in the future (the income approach) and (ii) a comparative analysis of revenue and EBITDA multiples of public companies in similar markets (the market approach). If there is a deficiency (the estimated fair value of a reporting unit is less than its carrying value), a Step 2 test is required.

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

We also may utilize the provisions of Accounting Standards Update (ASU) No. 2011-08, Testing Goodwill for Impairment (ASU 2011-08), which allows us to use qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than