PRIMUS TELECOMMUNICATIONS GROUP INC
Form 424B3
January 19, 2011
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PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

The boards of directors of Primus Telecommunications Group, Incorporated, or Primus, and Arbinet Corporation, or Arbinet, have each approved an Agreement and Plan of Merger, dated as of November 10, 2010, as amended by Amendment No. 1 dated December 14, 2010, by and among Primus, Arbinet and PTG Investments, Inc., or the merger agreement, pursuant to which PTG Investments, Inc., a wholly owned subsidiary of Primus referred to as Merger Sub, will merge with and into Arbinet with Arbinet surviving the merger as a wholly owned subsidiary of Primus.

Primus and Arbinet will each hold a special meeting of its stockholders in connection with the proposed merger. At the Primus special meeting, Primus stockholders will be asked to consider and vote on a proposal to approve the issuance of shares of Primus common stock pursuant to the merger agreement and to approve the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended. At the Arbinet special meeting, Arbinet stockholders will be asked to consider and vote on a proposal to approve and adopt the merger agreement.

If the merger is completed, each share of Arbinet common stock (other than shares subject to perfected appraisal rights) will be converted into the right to receive the number of shares of Primus common stock equal to an exchange ratio, which will be calculated as follows:
(i) $28,000,000, which may be increased by the net proceeds of a sale of Arbinet s patents and associated rights to a third party for cash, *divided by* (ii) the number of shares of Arbinet common stock issued and outstanding immediately prior to the consummation of the merger plus shares that may become issuable as Primus common stock at or after the closing of the merger in connection with Primus s assumption of Arbinet s outstanding warrants, options, stock appreciation rights and other equity awards (but excluding any issuable shares that are subject to Arbinet s stock options and stock appreciation rights as of the closing of the merger and for which the exercise price or base price, respectively, is greater than the greater of (x) $6.05 per share of Arbinet common stock and (y) the closing stock price per share of Arbinet common stock on the day prior to the closing of the merger, and, with respect to Arbinet s stock appreciation rights, including only the net number of shares of Arbinet common stock that will be issuable as calculated using the closing price of Arbinet common stock on the day prior to the closing of the merger), *divided by* (iii) $9.5464.

The actual exchange ratio cannot be determined until just before closing of the merger; however, assuming (i) the $28,000,000 base price is not increased in connection with any sale of patents and (ii) there are an aggregate of 5,722,267 shares of Arbinet common stock issued and outstanding and shares of Arbinet common stock issuable subject to Arbinet warrants and equity awards that meet the requirements described in the preceding paragraph (assuming a per share price of Arbinet common stock of $8.44 and that no shares are subject to a perfected appraisal process), the exchange ratio, as of January 7, 2011, would be expected to be 0.5126 or approximately one share of Primus common stock for 2.02 shares of Arbinet common stock owned. The actual exchange ratio may vary significantly from the ratio determined based on the assumptions above.

Primus stockholders will continue to own their existing shares of Primus common stock following the merger. We anticipate that, immediately following completion of the merger, and based on the same assumptions as described in the immediately preceding paragraph, Arbinet stockholders (by virtue of holding Arbinet common stock immediately prior to the effective time of the merger) would own approximately 22% of the outstanding shares of Primus common stock.

Primus s common stock is currently quoted on the OTC Bulletin Board under the symbol PMUG. In connection with the merger, Primus is to use its reasonable best efforts to have its common stock listed for trading on the NASDAQ. Primus has submitted an application to list its common stock on the NASDAQ. However, there can be no assurances that such listing will be effected.

Arbinet s common stock is currently listed on the NASDAQ Global Market under the symbol ARBX.

This document is a prospectus relating to shares of Primus common stock to be issued pursuant to the merger and a joint proxy statement for Primus and Arbinet to solicit proxies for their respective special meetings of stockholders. It contains answers to frequently asked questions and a summary of the important terms of the merger, the merger agreement and related matters, followed by a more detailed discussion.

For a discussion of certain significant matters that you should consider before voting on the proposed

transaction, see Risk Factors beginning on page 38.

Neither the Securities and Exchange Commission, which is referred to as the SEC, nor any state securities regulatory authority has approved or disapproved of the merger or the securities to be issued under this joint proxy statement/prospectus or has passed upon the adequacy or accuracy of the disclosure in this joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.

This joint proxy statement/prospectus is dated January 19, 2011, and is first being mailed to stockholders of Primus and Arbinet on or about January 25, 2011.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

7901 Jones Branch Drive, Suite 900

McLean, VA 22102

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS OF

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

TO BE HELD ON FEBRUARY 25, 2011

To the Stockholders of Primus Telecommunications Group, Incorporated:

We will hold a special meeting of the stockholders of Primus on February 25, 2011 at 9:00 a.m., Eastern time, at the Hilton McLean Tysons Corner located at 7920 Jones Branch Drive, McLean, VA 22102, for the following purposes:

1. to consider and vote upon a proposal to approve the issuance of shares of Primus common stock pursuant to the Agreement and Plan of Merger, dated as of November 10, 2010, as amended by Amendment No. 1 thereto dated December 14, 2010, by and among Primus, PTG Investments, Inc., a wholly owned subsidiary of Primus referred to as Merger Sub, and Arbinet Corporation, as it may be amended from time to time, which provides for, among other things, the merger of Merger Sub with and into Arbinet with Arbinet surviving the merger as a wholly owned subsidiary of Primus;

2. to consider and vote upon a proposal to approve the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended; and

3. to consider and vote upon a proposal to adjourn the special meeting, if necessary or appropriate, to permit the solicitation of additional proxies if there are not sufficient votes at the time of the special meeting to approve either of the foregoing proposals.

In addition, Primus will transact any other business that may properly come before the special meeting, or any adjournment or postponement thereof, by or at the discretion of the board of directors of Primus.

Only holders of record of Primus common stock at the close of business on January 12, 2011, the record date for the special meeting, are entitled to receive this notice and to vote their shares at the special meeting or at any adjournment or postponement (to the extent permitted by law) of the special meeting. All stockholders of record are cordially invited to attend the special meeting in person.

The approval of each of the proposals to issue shares of Primus common stock pursuant to the merger agreement and to approve the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended, requires the affirmative vote of a majority of the total votes cast at the special meeting. Even if you plan to attend the special meeting in person, Primus requests that you complete, sign, date and return the enclosed proxy (or cast your vote by telephone or over the Internet by following the instructions on your proxy card) prior to the special meeting to ensure that your shares will be represented at the special meeting if you are unable to attend.

For more information about the merger, the other transactions contemplated by the merger agreement (including the issuance of shares of Primus common stock), and the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended, please review the accompanying joint proxy statement/prospectus, including the merger agreement attached to it as Annex A, and the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended, attached to it as Annex E.

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Primus s board of directors unanimously recommends that Primus stockholders vote FOR the proposal to approve the issuance of shares of Primus common stock pursuant to the merger agreement, FOR the proposal to approve the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended, and FOR the adjournment of the Primus special meeting, if necessary or appropriate, to permit the solicitation of additional proxies.

By Order of the Board of Directors,

Thomas D. Hickey
General Counsel and Secretary

Dated: January 19, 2011

IMPORTANT

Your vote is important. Whether or not you plan to attend the special meeting, please complete, sign and date the enclosed proxy and return it promptly in the enclosed postage-paid envelope. You may also cast your vote by telephone or over the Internet by following the instructions on your proxy card. If you vote by telephone or over the Internet, you do not need to submit your proxy card. **Remember, your vote is important, so please act today.**

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ARBINET CORPORATION

460 Herndon Parkway, Suite 150

Herndon, Virginia 20170

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS OF

ARBINET CORPORATION

TO BE HELD ON FEBRUARY 25, 2011

To the Stockholders of Arbinet Corporation:

We will hold a special meeting of the stockholders of Arbinet on February 25, 2011 at 10:00 a.m., Eastern time, at Arbinet s headquarters located at 460 Herndon Parkway, Suite 150, Herndon, VA 20170, for the following purposes:

1. to consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger, dated as of November 10, 2010, as amended by Amendment No. 1 thereto dated December 14, 2010, by and among Primus Telecommunications Group, Incorporated, PTG Investments, Inc., a wholly owned subsidiary of Primus referred to as Merger Sub, and Arbinet, as it may be amended from time to time, which provides for, among other things, the merger of Merger Sub with and into Arbinet with Arbinet surviving the merger as a wholly owned subsidiary of Primus; and

2. to consider and vote upon a proposal to adjourn the special meeting, if necessary or appropriate, to permit the solicitation of additional proxies if there are not sufficient votes at the time of the special meeting to approve the proposal to approve and adopt the merger agreement.

In addition, Arbinet will transact any other business that may properly come before the special meeting, or any adjournment or postponement thereof, by or at the direction of the board of directors of Arbinet.

Only holders of record of Arbinet common stock at the close of business on January 12, 2011, the record date for the special meeting, are entitled to receive this notice and to vote their shares at the special meeting or at any adjournment or postponement of the special meeting. All stockholders of record are cordially invited to attend the special meeting in person.

The approval and adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of Arbinet common stock entitled to vote thereon. Even if you plan to attend the special meeting in person, Arbinet requests that you complete, sign, date and return the enclosed proxy (or cast your vote by telephone or over the Internet by following the instructions on your proxy card) prior to the special meeting to ensure that your shares will be represented at the special meeting if you are unable to attend. If you fail to attend the special meeting in person or by proxy, your shares will not be counted for purposes of determining whether a quorum is present at the meeting and it will have the same effect as a vote against the approval and adoption of the merger agreement, but will not affect the outcome of the vote regarding the proposal to adjourn the special meeting.

Attendance at the special meeting is limited to stockholders. If you hold shares in street name (that is, through a bank, broker, custodian or other nominee) and would like to attend the special meeting, you will need to bring an account statement or other acceptable evidence of ownership of shares of Arbinet common stock as of the record date. In addition, if you would like to attend the special meeting and vote in person, in order to vote, you must contact the person in whose name your shares are registered, obtain a proxy from that person and bring it to the special meeting. The use of cell phones, PDAs, pagers, recording and photographic equipment, camera phones and/or computers is not permitted in the meeting rooms at the special meeting.

For more information about the merger and the other transactions contemplated by the merger agreement, please review the accompanying joint proxy statement/prospectus and the merger agreement attached to it as Annex A.

Arbinet s board of directors unanimously recommends that Arbinet s stockholders vote FOR the approval and adoption of the merger agreement, which provides for, among other things, the merger of Merger Sub with and into Arbinet with Arbinet surviving the merger as a wholly owned subsidiary of

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Primus, and FOR the adjournment of the Arbinet special meeting, if necessary or appropriate, to permit the solicitation of additional proxies. In considering the recommendation of Arbinet s board of directors, stockholders of Arbinet should be aware that members of Arbinet s board of directors and its executive officers have agreements and arrangements that provide them with interests in the merger that may be different from, or in addition to, those of Arbinet stockholders. See The Merger Interests of Certain Persons in the Merger that May be Different from Your Interests beginning on page 123.

By Order of the Board of Directors,

Shawn F. O Donnell
Chief Executive Officer and President

Dated: January 19, 2011

IMPORTANT

Your vote is important. Whether or not you plan to attend the special meeting, please complete, sign and date the enclosed proxy and return it promptly in the enclosed postage-paid envelope. You may also cast your vote by telephone or over the Internet by following the instructions on your proxy card. If you vote by telephone or over the Internet, you do not need to submit your proxy card. **Please do not send any stock certificates at this time. Remember, your vote is important, so please act today.**

ADDITIONAL INFORMATION

This joint proxy statement/prospectus incorporates by reference important business and financial information about Primus from other documents filed with the Securities and Exchange Commission, or the SEC, that are not included or delivered with this joint proxy statement/prospectus. See Incorporation of Certain Documents by Reference and Where You Can Find More Information beginning on pages 182 and 183, respectively, of this joint proxy statement/prospectus.

Documents incorporated by reference are available to you without charge through the SEC s web site (*http://www.sec.gov*) or by requesting them in writing or by telephone from Primus at the following address and telephone number:

Primus Telecommunications Group, Incorporated

Attention: Investor Relations

7901 Jones Branch Drive, Suite 900

McLean, Virginia 22012

(703) 748-8050

www.primustel.com

You will not be charged for any of these documents that you request. Primus and Arbinet stockholders requesting documents should do so no later than February 18, 2011 in order to receive timely delivery of the requested documents in advance of their respective special meeting.

VOTING BY TELEPHONE, INTERNET OR MAIL

Primus stockholders of record may submit their proxies by:

Telephone. You can vote by telephone by calling the toll-free number 1-800-690-6903 in the United States, Canada or Puerto Rico on a touch-tone telephone. You will then be prompted to enter the control number printed on your proxy card and to follow the subsequent instructions. Telephone voting is available 24 hours a day until 11:59 p.m., New York time, on February 24, 2011. If you vote by telephone, you do not need to return your proxy card or voting instruction card.

Internet. You can vote over the Internet by accessing the web site at *http://www.proxyvote.com* and following the instructions on the secure web site. Internet voting is available 24 hours a day until 11:59 p.m., New York time, on February 24, 2011. If you vote over the Internet, you do not need to return your proxy card or voting instruction card.

Mail. You can vote by mail by completing, signing, dating and mailing your proxy card or voting instruction card in the postage-paid envelope included with this joint proxy statement/prospectus.

Arbinet stockholders of record may submit their proxies by:

Telephone. You can vote by telephone by calling the toll-free number 1-866-853-9884 in the United States, Canada or Puerto Rico on a touch-tone telephone. You will then be prompted to enter the control number printed on your proxy card and to follow the subsequent instructions. Telephone voting is available 24 hours a day until 3:00 a.m., New York time, on February 25, 2011. If you vote by telephone, you do not need to return your proxy card or voting instruction card.

Internet. You can vote over the Internet by accessing the web site at *http://www.proxyvotenow.com/arbx* and following the instructions on the secure web site. Internet voting is available 24 hours a day until 3:00 a.m., New York time, on February 25, 2011. If you vote over the Internet, you do not need to return your proxy card or voting instruction card.

Mail. You can vote by mail by completing, signing, dating and mailing your proxy card or voting instruction card in the postage-paid envelope included with this joint proxy statement/prospectus.

If you hold your Primus or Arbinet shares through a bank, broker, custodian or other nominee:

Please refer to your proxy card or voting instruction form or the information forwarded by your bank, broker, custodian or other nominee to see which voting methods are available to you.

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QUESTIONS AND ANSWERS ABOUT THE MERGER

The following are answers to common questions that you may have regarding the merger and your special meeting. Primus and Arbinet urge you to read carefully the remainder of this joint proxy statement/prospectus because the information in this section may not provide all the information that might be important to you in determining how to vote. Additional important information is also contained in the annexes to, and the documents incorporated by reference in, this joint proxy statement/prospectus. See Incorporation of Certain Documents By Reference and Where You Can Find More Information beginning on pages 182 and 183, respectively.

Q: What will happen in the merger?

A: The proposed merger will combine the businesses of Primus and Arbinet. At the effective time of the merger, a wholly owned subsidiary of Primus, referred to as Merger Sub, will merge with and into Arbinet. As a result of the merger, Arbinet will survive as a wholly owned subsidiary of Primus and Primus will continue as a public company. Promptly after the effective time of the merger, Primus intends to contribute Arbinet, as the surviving entity of the merger, to Primus Telecommunications Holding, Inc., a wholly owned subsidiary of Primus.

Q: Why am I receiving this document?

A: You are receiving this joint proxy statement because you are a stockholder of Primus or Arbinet. This joint proxy statement is being used by both the Primus and Arbinet boards of directors to solicit proxies of Primus and Arbinet stockholders, respectively, in connection with each entity s special meeting of stockholders. In addition, this document is a prospectus being delivered to Arbinet stockholders because Primus is offering shares of its common stock to Arbinet stockholders in exchange for shares of Arbinet common stock in connection with the merger.

Q: What are holders of Primus common stock being asked to vote on?

A: Holders of Primus common stock are being asked to vote on the following proposals:

- approve the issuance of shares of Primus common stock pursuant to the merger agreement;
- approve the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended; and
- approve the adjournment of the special meeting, if necessary or appropriate, to permit the solicitation of additional proxies if there are insufficient votes at the time of the special meeting to approve either of the foregoing proposals.

Q: What are holders of Arbinet common stock being asked to vote on?

A: Holders of Arbinet common stock are being asked to vote on the following proposals:

- approve and adopt the merger agreement; and

- approve the adjournment of the special meeting, if necessary or appropriate, to permit the solicitation of additional proxies if there are insufficient votes at the time of the special meeting to approve and adopt the merger agreement.

Q: Why have Primus and Arbinet decided to merge?

A: Primus and Arbinet believe that the merger will provide strategic and financial benefits to stockholders, customers and employees, including:

- increased scale in a rapidly consolidating global telecommunications market;

- increased cross-selling opportunities;

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the potential to produce meaningful cost savings and operational synergies resulting primarily from the elimination of duplicative expenses related to maintaining public company status, compliance and exchange listing fees, as well as from other selling, general and administrative savings, headcount reductions and a reduction in the telecommunications costs of sales;

allowing customers access to more global rates at enhanced prices; and

access to additional traffic streams, enhanced voice traffic routing and termination, the increased ability to manage multiple segments of carrier customers, and additional market opportunities in the carrier services market.

For a more complete description of Primus s and Arbinet s reasons for the merger, see The Merger Reasons for the Merger Arbinet and The Merger Reasons for the Merger Primus beginning on pages 102 and 105, respectively.

Q: What does the Primus board of directors recommend?

Primus s board of directors unanimously recommends that Primus stockholders vote FOR the proposal to approve the issuance of shares of Primus common stock pursuant to the merger agreement, FOR the proposal to approve the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended, and FOR the adjournment of the Primus special meeting, if necessary or appropriate, to permit the solicitation of additional proxies. See The Merger Reasons for the Merger Primus and Approval of the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended beginning on pages 105 and 165, respectively.

Q: What does the Arbinet board of directors recommend?

Arbinet s board of directors unanimously recommends that Arbinet stockholders vote FOR the approval and adoption of the merger agreement and FOR the adjournment of the Arbinet special meeting, if necessary or appropriate, to permit the solicitation of additional proxies. For a more complete description of the recommendation of the Arbinet board of directors, see The Merger Reasons for the Merger Arbinet beginning on page 102.

Q: Why is my vote important?

A: If you do not return your proxy card by mail or submit your proxy by telephone or over the Internet or vote in person at your special meeting, it may be difficult for Primus or Arbinet to obtain the necessary quorum to transact business at its respective special meeting.

In connection with the Primus special meeting, abstentions and broker non-votes (a broker non-vote is an unvoted proxy submitted by a bank, broker, custodian or other nominee on a stockholder s behalf) will be considered in determining the presence of a quorum. However, because abstentions and broker non-votes are not considered votes cast, they will not have any effect on the outcome of the vote with respect to each of the proposals to approve the issuance of shares of Primus common stock pursuant to the merger agreement and the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended. With respect to the proposal to adjourn the Primus special meeting, if necessary or appropriate, to permit the solicitation of additional proxies, abstentions will have the same effect as a vote AGAINST any such proposal, and broker non-votes, because they are not considered voting power present, will have no effect on approval of such proposal.

In connection with the Arbinet special meeting, abstentions and broker non-votes will be considered in determining the presence of a quorum and will have the same effect as votes cast AGAINST the approval and adoption of the merger agreement. For any proposal to adjourn the special meeting, if necessary or appropriate, to permit the solicitation of additional proxies, abstentions will have the same effect as a vote AGAINST any such proposal if a quorum is not present, but will have no effect on such proposal if a quorum is present, and broker non-votes will have no effect on such proposal.

No matter how many shares you own, you are encouraged to vote.

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Q: When and where are the special meetings?

A: The Primus special meeting will take place on February 25, 2011 at 9:00 a.m., Eastern time, at the Hilton McLean Tysons Corner located at 7920 Jones Branch Drive, McLean, VA 22102.

The Arbinet special meeting will take place on February 25, 2011 at 10:00 a.m., Eastern time, at Arbinet s headquarters located at 460 Herndon Parkway, Suite 150, Herndon, VA 20170.

For additional information relating to the Primus and Arbinet special meetings, see The Stockholder Meetings beginning on page 159.

Q: What will I receive in the merger in exchange for my shares of Arbinet common stock?

A: If the merger is completed, each share of Arbinet common stock (other than shares subject to perfected appraisal rights and other than any shares of Arbinet held by Primus, Arbinet or any of their respective direct or indirect wholly owned subsidiaries, in each case except for any such shares held on behalf of third parties) will be converted into the right to receive the number of shares of Primus common stock equal to an exchange ratio, which will be calculated as follows: (i) $28,000,000, which may be increased by the net proceeds of a sale of Arbinet s patents and associated rights to a third party for cash, *divided by* (ii) the number of shares of Arbinet common stock issued and outstanding immediately prior to the consummation of the merger plus shares that may become issuable as Primus common stock at or after the closing of the merger in connection with Primus s assumption of Arbinet s outstanding warrants, options, stock appreciation rights and other equity awards (but excluding any issuable shares that are subject to Arbinet s stock options and stock appreciation rights as of the closing of the merger and for which the exercise price or base price, respectively, is greater than the greater of (x) $6.05 per share of Arbinet common stock and (y) the closing stock price per share of Arbinet common stock on the day prior to the closing of the merger, and, with respect to Arbinet s stock appreciation rights, including only the net number of shares of Arbinet common stock that will be issuable as calculated using the closing price of Arbinet common stock on the day prior to the closing of the merger), *divided by* (iii) $9.5464. Throughout this joint proxy statement/prospectus, unless otherwise stated, exchange ratio refers to the exchange ratio as calculated in this paragraph. For a more complete description of what Arbinet stockholders will be entitled to receive pursuant to the merger, see Terms of the Merger Agreement Per Share Merger Consideration beginning on page 134.

The actual exchange ratio cannot be determined until just before closing of the merger; however, assuming (i) the $28,000,000 base price is not increased in connection with any sale of patents and (ii) there are an aggregate of 5,722,267 shares of Arbinet common stock issued and outstanding and shares of Arbinet common stock issuable subject to Arbinet warrants and equity awards that meet the requirements described in the preceding paragraph (assuming a per share price of Arbinet common stock of $8.44 and that no shares are subject to a perfected appraisal process), the exchange ratio, as of January 7, 2011, would be expected to be 0.5126 or approximately one share of Primus common stock for 2.02 shares of Arbinet common stock owned. The actual exchange ratio may vary significantly from the ratio determined based on the assumptions above.

Q: Are Arbinet stockholders entitled to appraisal rights?

A: Arbinet stockholders may, under certain circumstances, be entitled to appraisal rights under Section 262 of the General Corporation Law of the State of Delaware, or the DGCL. However, if the Primus common stock to be issued in the merger is listed on the NASDAQ, then Primus and Arbinet believe and Primus will take the position that Arbinet stockholders will not be entitled to appraisal rights. Primus s common stock is currently quoted on the OTC Bulletin Board under the symbol PMUG. In connection with the merger, Primus is to use its reasonable best efforts to have its common stock listed for trading on the NASDAQ. Primus has submitted an application to list its common stock on the NASDAQ. However, there can be no assurances that such listing will be effected.

If appraisal rights are available, holders of Arbinet common stock who do not vote in favor of the merger will have the right to seek appraisal of the fair value of their shares, but only if they submit a written

demand for such an appraisal before the vote on the merger and comply with other Delaware law procedures. For more information regarding appraisal rights, see The Merger Appraisal Rights beginning on page 128. In addition, a copy of Section 262 of the DGCL is attached to this joint proxy statement/prospectus as Annex D.

Q: Can Arbinet sell its patents and thereby increase the merger consideration?

A: Arbinet may, but is not required to, spin-off its patents and associated rights to its stockholders or sell such patents and associated rights to a third party for cash, referred to as an IP Sale, provided that any spin-off or IP Sale may not result in any residual liability to Arbinet or any of its subsidiaries (other than for costs, fees and expenses and tax liabilities) and all transaction costs, fees and expenses (which exclude the appraiser s fees relating to an appraisal of the applicable patents and associated rights) and the gross tax liabilities of Arbinet (except to the extent offset by net operating losses) attributable to any such spin-off or IP Sale may not exceed $350,000 in the aggregate. In addition, prior to the consummation of any such spin-off or IP Sale, Arbinet must first grant Primus a royalty-free, worldwide, assignable (on a non-exclusive basis) and perpetual license to all of Arbinet s patents and associated rights. The amount of any proceeds from an IP Sale, after deducting related transaction costs, fees and expenses and gross tax liabilities, may, at Arbinet s discretion, be distributed to Arbinet s stockholders prior to closing of the merger or added, dollar for dollar, to the $28,000,000 base merger consideration. There can be no assurance that Arbinet will effect any such spin-off of patents or IP Sale. For more information regarding a potential spin-off or IP Sale, see Terms of the Merger Agreement Potential Spin-off or Sale of Patents by Arbinet beginning on page 134.

Q: What vote is required to approve the merger agreement and related matters?

A: For Primus, the affirmative vote of a majority of the total votes cast at the special meeting is required to approve each of the issuance of the shares of Primus common stock pursuant to the merger agreement and the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended.

For Arbinet, the affirmative vote of a majority of its shares of common stock outstanding and entitled to vote as of the record date is required to approve and adopt the merger agreement.

Concurrently with the execution of the merger agreement, a significant stockholder of both Arbinet and Primus entered into a Stockholder Support and Voting Agreement with each of Primus and Arbinet, respectively (referred to as a Voting Agreement). Pursuant to the Voting Agreement with Primus, the stockholder has agreed, in its capacity as a stockholder of Arbinet, among other things, to vote its shares of Arbinet common stock in favor of the approval and adoption of the merger agreement. Pursuant to the Voting Agreement with Arbinet, the stockholder has agreed, in its capacity as a stockholder of Primus, among other things, to vote its shares of Primus common stock in favor of the issuance of shares of Primus common stock pursuant to the merger agreement. The shares subject to the Voting Agreement with Arbinet represent an aggregate of approximately 9.5% of the Primus common stock outstanding as of January 7, 2011, and the shares subject to the Voting Agreement with Primus represent an aggregate of approximately 23.1% of the Arbinet common stock outstanding as of January 7, 2011.

For additional information on the vote required to approve the merger and related matters, see The Stockholder Meetings beginning on page 159.

Q: Is the consummation of the merger subject to any conditions other than the approval of the stockholders of Primus and Arbinet?

A: Yes. In addition to stockholder approval, the consummation of the merger is contingent upon the following:

- the absence of any governmental order or other legal restraint prohibiting, preventing or otherwise enjoining the consummation of the merger;

the effectiveness of the registration statement on Form S-4, of which this joint proxy statement/prospectus is a part, and no pending stop order or proceeding seeking a stop order relating thereto;

subject to some exceptions, the receipt of any required approvals or authorizations of the merger from applicable governmental authorities, including the U.S. Federal Communications Commission;

the receipt of tax opinions from counsel for each of Primus and Arbinet to the effect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (which is referred to as the Code in this joint proxy statement/prospectus), and that each of Primus and Arbinet will be a party to the reorganization within the meaning of Section 368(b) of the Code; provided any permitted sale or spin-off of Arbinet s patents and associated rights would not render it impossible for such counsels to provide such opinions; and

other customary conditions, including the absence of a material adverse effect on Primus or Arbinet.

Among other potential material adverse effects, a material adverse effect with respect to Arbinet will be deemed to have occurred if the sum of the cash and cash equivalents of Arbinet as of a defined determination date before closing of the merger, less (i) all indebtedness then outstanding and (ii) all unpaid transaction costs, fees and expenses and gross tax liabilities of Arbinet (except to the extent offset by net operating losses) attributable to an IP Sale or any spin-off of Arbinet s patents and associated rights to its stockholders, is less than $9.5 million, which will be reduced by the actual transaction costs, fees and expenses and gross tax liabilities of Arbinet (except to the extent offset by net operating losses) attributable to such IP Sale or such spin-off that have been incurred and paid (provided that this reduction may not be greater than $350,000 in the aggregate), and which will exclude costs incurred by Arbinet in connection with the merger and the transactions contemplated by the merger agreement, which include the appraiser s fees for the appraisal of Arbinet s patents and associated rights.

In addition, the obligations of Primus to complete the merger are subject to:

the number of appraisal shares not exceeding 10% of the outstanding shares of Arbinet common stock; and

Arbinet having taken actions under its 2004 Stock Incentive Plan to cancel certain Arbinet stock options and stock appreciation rights.

Q: When do Primus and Arbinet expect the merger to be consummated?

A: Each of Primus and Arbinet is working to complete the merger as quickly as possible. Primus and Arbinet currently anticipate the merger to be completed by the end of February 2011, subject to obtaining stockholder approval and satisfying all the other closing conditions contained in the merger agreement.

Q: What will happen to Arbinet s warrants, stock options, restricted stock and other equity awards in the merger?

A: At the effective time of the merger, each outstanding warrant and option to purchase shares of Arbinet common stock will be converted into a warrant or option, respectively, to acquire, on the same terms and conditions applicable to each share of Arbinet common stock, shares of Primus common stock with appropriate adjustments to be made to the number of shares and the exercise prices based on the exchange ratio and otherwise as set forth in the merger agreement. Each outstanding restricted stock award under Arbinet s equity compensation plans will be converted into a restricted stock award relating to shares of Primus common stock, based on the exchange ratio in the merger agreement, on the same terms and conditions applicable to each share of Arbinet common stock. Similarly, each outstanding stock appreciation right, or SAR, under Arbinet s equity compensation plans will be converted into an SAR to acquire, on the same terms and conditions applicable under such Arbinet SAR, shares of Primus common stock based on the exchange ratio in the merger agreement, on the same terms and conditions applicable to each share of Arbinet common stock. Immediately prior to the effective time of the merger,

the performance targets under any outstanding performance share award of Arbinet for which the measurement date has not occurred will be deemed to have been achieved at the target performance level, and each share of restricted stock represented by such performance share award will be deemed to have been issued, and such

performance share restricted stock award will be converted into a restricted stock award relating to shares of Primus common stock, based on the exchange ratio in the merger agreement. Each converted performance share restricted stock award will be subject to the same terms and conditions as were applicable under the award immediately prior to the effective time of the merger. Immediately prior to the effective time of the merger, each performance share award for which the measurement date has occurred and for which Arbinet has not issued the performance share restricted stock awards will be converted into a performance share award relating to the number of shares of Primus common stock equal to the product of (x) the number of shares of Arbinet common stock relating to such performance share award immediately prior to the effective time of the merger multiplied by (y) the exchange ratio, rounded down to the nearest whole share. Each such converted performance share award will be subject to the same terms, conditions and restrictions as were applicable under such performance share award immediately prior to the effective time of the merger.

For more information, see Terms of the Merger Agreement Treatment of Arbinet Warrants, Options, Restricted Stock and other Equity Awards on page 135.

Q: Why is approval of the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended, being proposed?

A: Primus common stockholders will vote at the Primus special meeting on a proposal to approve the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended, which includes plan amendments to (1) increase from 1,000,000 to 2,000,000 the number of shares of Primus common stock available for issuance, (2) provide for individual limits of cash awards, (3) amend the share counting provisions for awards paid out in cash or exercised with share withholding or share delivery features, (4) provide for an annual grant of 10,000 non-qualified stock options and 5,000 restricted stock units to non-employee directors, (5) provide that awards shall be made using the closing price of Primus common stock on the date of grant and (6) make certain conforming and updating changes. The Primus board of directors has approved the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended, and has recommended that Primus stockholders approve at the Primus special meeting the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended. As of January 7, 2011, 120,240 shares of Primus common stock remained available for issuance under the Primus Telecommunications Group, Incorporated Management Compensation Plan. For more detail, see Approval of Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended beginning on page 165.

Q: What do I need to do now?

A: After reading and considering carefully the information contained in this joint proxy statement/prospectus, please vote promptly by calling the toll-free number listed on your proxy card, accessing the Internet web site listed on your proxy card or completing, signing, dating and returning your proxy card in the enclosed postage-paid envelope. If you hold your stock in street name through a bank, broker, custodian or other nominee, you must direct your bank, broker, custodian or other nominee to vote in accordance with the instructions you have received from your bank, broker, custodian or other nominee. Submitting your proxy by telephone, Internet or mail or directing your bank, broker, custodian or other nominee to vote your shares will ensure that your shares are represented and voted at your special meeting. For additional information on voting procedures, see The Stockholder Meetings beginning on page 159.

Q: How will my proxy be voted?

A: If you vote by telephone, over the Internet or by completing, signing, dating and returning your signed proxy card, your proxy will be voted in accordance with your instructions. The proxy confers discretionary authority to the named proxies. Accordingly, if you complete, sign, date and return your proxy card and do not indicate how you want to vote, your shares will be voted as follows:

in the case of Primus, FOR approval of the issuance of Primus common stock pursuant to the merger agreement, FOR approval of the Primus Telecommunications Group, Incorporated Management

Compensation Plan, as Amended, and FOR the adjournment of the Primus special meeting, if necessary or appropriate, to permit the solicitation of additional proxies; and

in the case of Arbinet, FOR the approval and adoption of the merger agreement and FOR the adjournment of the Arbinet special meeting, if necessary or appropriate, to permit the solicitation of additional proxies.

For additional information on voting procedures, see The Stockholder Meetings beginning on page 159.

Q: If my bank, broker, custodian or other nominee holds my shares in street name, will my bank, broker, custodian or other nominee automatically vote my shares for me?

A: No. If you do not provide your bank, broker, custodian or other nominee with instructions on how to vote your street name shares, your bank, broker, custodian or other nominee will not be permitted to vote them on your behalf. Therefore, you should be sure to provide your bank, broker, custodian or other nominee with instructions on how to vote your shares, following the directions your bank, broker, custodian or other nominee provides to you. Please check the voting form used by your bank, broker, custodian or other nominee to see if the broker offers telephone or Internet voting.

Q: What if I fail to instruct my bank, broker, custodian or other nominee?

A: If you are a Primus stockholder and you fail to instruct your bank, broker, custodian or other nominee to vote your shares and the bank, broker, custodian or other nominee submits an unvoted proxy, referred to as a broker non-vote, the broker non-vote will be counted toward a quorum at the Primus special meeting, but will not be considered a vote cast with respect to, and thus have no effect on, the proposal to approve the issuance of shares of Primus common stock pursuant to the merger agreement and the proposal to approve the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended. The broker non-vote also will not be considered voting power present and thus will have no effect on the proposal to adjourn the Primus special meeting, if necessary or appropriate, to permit the solicitation of additional proxies.

If you are an Arbinet stockholder and you fail to instruct your bank, broker, custodian or other nominee to vote your shares and the bank, broker, custodian or other nominee submits a broker non-vote, the broker non-vote will be counted toward a quorum at the Arbinet special meeting, and effectively will be treated as a vote AGAINST the proposal to approve and adopt the merger agreement; however, such broker non-vote will have no effect upon the proposal to adjourn the Arbinet special meeting, if necessary or appropriate, to permit the solicitation of additional proxies.

Q: What does it mean if I receive more than one set of materials?

A: This means you own shares of both Primus and Arbinet or you own shares of Primus or Arbinet that are registered under different names. For example, you may own some shares directly as a stockholder of record and other shares through a broker, or you may own shares through more than one broker. In these situations, you will receive multiple sets of proxy materials. You must complete, sign, date and return all of the proxy cards or follow the instructions for any alternative voting procedures on each of the proxy cards you receive in order to vote all of the shares you own. Each proxy card you receive will come with its own postage-paid return envelope; if you vote by mail, make sure you return each proxy card in the return envelope that accompanied that proxy card.

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Q: What can I do if I want to change or revoke my vote?

A: Regardless of the method you used to cast your vote, you may revoke your proxy or change your vote at any time before your proxy is voted at your special meeting. If you are a stockholder of record, you can do this by:

- sending a written notice stating that you revoke your proxy to (i) the Secretary of Arbinet at 460 Herndon Parkway, Suite 150, Herndon, VA 20170, with respect to proxies submitted for the Arbinet special meeting, or (ii) the Secretary of Primus at 7901 Jones Branch Drive, Suite 900, McLean, VA 22102, with respect to proxies submitted for the Primus special meeting, as applicable, and in each case such written notice must bear a date later than the date of any proxy previously submitted and must be received prior to the applicable special meeting;

- submitting a valid, later-dated proxy by mail, telephone or Internet that is received prior to the date of your special meeting (if a later-dated proxy is submitted and received in a timely manner according to the foregoing, any proxies previously submitted will be deemed revoked and only the later-dated proxy will be counted); or

- attending your special meeting and voting by ballot in person (your attendance at the special meeting will not, by itself, revoke any proxy that you have previously given).

If you hold your shares in street name and wish to change or revoke your vote, please refer to the information on the voting instruction form included with these materials and forwarded to you by your bank, broker, custodian or other nominee to see your voting options.

For additional information on changing your vote, see The Stockholder Meetings Revocation of Proxies beginning on page 163.

Q: If I am a holder of Arbinet common stock with shares represented by stock certificates, should I send in my Arbinet stock certificates now?

A: No. Please do not send in your Arbinet stock certificates with your proxy card. If the merger is completed, an exchange agent appointed by Primus will mail to you a letter of transmittal that will specify that Primus stock certificates will be delivered to you upon surrender of your Arbinet stock certificates to the exchange agent. Additional information on the procedures for exchanging certificates representing shares of Arbinet common stock is set forth under Terms of the Merger Agreement Surrender of Shares of Arbinet Common Stock on page 137. If your shares of Arbinet common stock are held in street name by your broker or other nominee, you should follow your broker s or nominee s instructions as to how to surrender your street name shares and receive shares of Primus common stock issued in the merger.

Q: Are there any risks in the merger that I should consider?

A: Yes. There are risks associated with all business combinations, including the proposed merger. We have described certain of these risks and other risks in more detail under Risk Factors beginning on page 38.

Q: Will Primus stockholders receive any shares as a result of the merger?

A: No. Primus stockholders will continue to hold the Primus shares they currently own.

Q: Where can I find more information about the companies?

A: Both Primus and Arbinet file periodic reports and other information with the SEC. You may read and copy this information at the SEC s public reference facility. Please call the SEC at 1-800-SEC-0330 for information about this facility. This information is also available through the SEC s web site at *http://www.sec.gov* and, with respect to Arbinet, at the offices of the NASDAQ. Both companies also maintain web sites. You can obtain Primus s SEC filings at *http://www.primustel.com* and you can obtain Arbinet s SEC filings at *http://www.arbinet.com*. We do not intend for information contained on or

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accessible through our respective web sites to be part of this joint proxy statement/prospectus, other than the documents that Primus files with the SEC that are incorporated by reference into this joint proxy statement/prospectus.

In addition, you may obtain some of this information directly from the companies. For a more detailed description of the information available, see Where You Can Find More Information beginning on page 183.

Q: Whom should I contact if I have questions about the special meeting or the merger?

A: If you are a Primus or Arbinet stockholder and have any questions about the merger or how to submit your proxy, or if you need additional copies of this joint proxy statement/prospectus, the enclosed proxy card or voting instruction forms, you should contact the following information agent/proxy solicitor:

Georgeson Inc.

199 Water Street, 26th Floor

New York, NY 10038

Banks and Brokers call collect (212) 440-9800

Primus stockholders call toll-free (866) 219-9786

Arbinet stockholders call toll-free (877) 507-1756

If you have more questions about the merger, please call the Investor Relations Department of Primus at (703) 748-8050 or the Investor Relations Department of Arbinet at (703) 456-4100.

SUMMARY

This summary highlights selected information from this document and may not contain all of the information that is important to you. To understand the merger fully and for a more complete description of the terms of the merger, you should read carefully this entire document and the other available information referred to under Incorporation of Certain Documents By Reference and Where You Can Find More Information beginning on pages 182 and 183, respectively. We encourage you to read the merger agreement, the legal document governing the merger, which is included as Annex A to this document and incorporated by reference herein. We have included page references in the discussion below to direct you to more complete descriptions of the topics presented in this summary.

The Companies (See pages 58 and 59)

Primus Telecommunications Group, Incorporated

Primus, a Delaware corporation incorporated in 1994, is an integrated facilities-based communications services provider offering a portfolio of international and domestic voice, wireless, Internet, VoIP, data, collocation, data center and outsourced managed services to customers located primarily in Australia, Canada, the United States and Brazil. Primus s largest and primary markets are Australia and Canada where the company has deployed significant network infrastructure. Primus targets customers with significant telecommunications needs, including small- and medium-sized enterprises, multinational corporations, residential customers, and other telecommunication carriers and resellers, and provides these customers with services over Primus s global, facilities-based network of IP soft switches, media-gateways, hosted IP/SIP platforms, broadband infrastructure, fiber capacity, and data centers located in Australia, Canada, the United States and Brazil. Leveraging this global network, Primus is one of the largest providers of international wholesale voice termination services to other telecommunications carriers and resellers.

Primus s common stock is currently quoted on the OTC Bulletin Board under the symbol PMUG. In connection with the merger, Primus is to use its reasonable best efforts to have its common stock listed for trading on the NASDAQ.

Primus s principal executive offices are located at 7901 Jones Branch Drive, Suite 900, McLean, Virginia 22102, its telephone number is (703) 902-2800 and its web site is www.primustel.com.

Arbinet Corporation

Arbinet, a Delaware corporation incorporated in 1996, is a provider of international voice, data and managed communications services for fixed, mobile and wholesale carriers. Arbinet offers these communication services through three primary voice-product offerings, including a spot exchange, a wholesale product called Carrier Services and a PrivateExchange product, which allows customers to create virtual connections with other customers.

Arbinet s common stock is listed on the NASDAQ Global Market and trades under the symbol ARBX.

Arbinet s principal executive offices are located at 460 Herndon Parkway, Suite 150, Herndon, Virginia 20170, its telephone number is (703) 456-4100 and its web site is www.arbinet.com.

PTG Investments, Inc.

PTG Investments, Inc., which is sometimes referred to as Merger Sub, is a Delaware corporation and a wholly owned subsidiary of Primus. Merger Sub was formed solely for the purpose of entering into the merger agreement. Merger Sub has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with the merger.

Merger Sub s principal executive offices are located at 7901 Jones Branch Drive, Suite 900, McLean, Virginia 22102 and its telephone number is (703) 902-2800.

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The Merger (See page 90)

Primus, Merger Sub and Arbinet have entered into the merger agreement. Subject to the terms and conditions of the merger agreement and in accordance with Delaware law, Merger Sub will be merged with and into Arbinet, with Arbinet continuing as the surviving entity and a wholly owned subsidiary of Primus. Upon completion of the merger, Arbinet common stock will no longer be publicly traded.

If the merger is completed, each share of Arbinet common stock (other than shares subject to perfected appraisal rights and other than any shares of Arbinet held by Primus, Arbinet or any of their respective direct or indirect wholly owned subsidiaries, in each case except for any such shares held on behalf of third parties) will be converted into the right to receive the number of shares of Primus common stock equal to an exchange ratio, which will be calculated as follows: (i) $28,000,000, which may be increased by the net proceeds of a sale of Arbinet s patents and associated rights to a third party for cash, *divided by* (ii) the number of shares of Arbinet common stock issued and outstanding immediately prior to the consummation of the merger plus shares that may become issuable as Primus common stock at or after the closing of the merger in connection with Primus s assumption of Arbinet s outstanding warrants, options, stock appreciation rights and other equity awards (but excluding any issuable shares that are subject to Arbinet s stock options and stock appreciation rights as of the closing of the merger and for which the exercise price or base price, respectively, is greater than the greater of (x) $6.05 per share of Arbinet common stock and (y) the closing stock price per share of Arbinet common stock on the day prior to the closing of the merger, and, with respect to Arbinet s stock appreciation rights, including only the net number of shares of Arbinet common stock that will be issuable as calculated using the closing price of Arbinet common stock on the day prior to the closing of the merger), *divided by* (iii) $9.5464.

The actual exchange ratio cannot be determined until just before closing of the merger; however, assuming (i) the $28,000,000 base price is not increased in connection with any sale of patents and (ii) there are an aggregate of 5,722,267 shares of Arbinet common stock issued and outstanding and shares of Arbinet common stock issuable subject to Arbinet warrants and equity awards that meet the requirements described in the preceding paragraph (assuming a per share price of Arbinet common stock of $8.44 and that no shares are subject to a perfected appraisal process), the exchange ratio, as of January 7, 2011 would be expected to be 0.5126 or approximately one share of Primus common stock for 2.02 shares of Arbinet common stock owned. The actual exchange ratio may vary significantly from the ratio determined based on the assumptions above.

The market value of the merger consideration ultimately received by Arbinet stockholders will depend on the closing price of Primus common stock on the day the merger is consummated. Because the market price of Primus common stock will fluctuate, Arbinet stockholders cannot be sure of the aggregate value of the merger consideration they will receive. See Risk Factors Risks Relating to the Merger The calculation of the merger consideration is subject to adjustment for factors that may take place or will be measured at a time that is subsequent to the vote of the Arbinet stockholders, and thus Arbinet stockholders cannot be sure of the aggregate value of the merger consideration that they will receive.

The merger agreement is attached as Annex A to this joint proxy statement/prospectus and is incorporated by reference. **You should read the merger agreement in its entirety because it is the legal document that governs the merger.**

Potential Spin-off or Sale of Patents by Arbinet and Benefit to Arbinet s Stockholders (See page 134)

Arbinet may, but is not required to, spin-off its patents and associated rights to its stockholders or sell such patents and associated rights to a third party for cash, referred to as an IP Sale, provided that any spin-off or IP Sale may not result in any residual liability to Arbinet or any of its subsidiaries (other than for costs, fees and expenses and tax liabilities) and all transaction costs, fees and expenses (which exclude the appraiser s fees relating to an appraisal of the applicable patents and associated rights) and the gross tax liabilities of Arbinet

(except to the extent offset by net operating losses) attributable to any such spin-off or IP Sale may not exceed $350,000 in the aggregate. In addition, prior to the consummation of any such spin-off or IP Sale, Arbinet must first grant Primus a royalty-free, worldwide, assignable (on a non-exclusive basis) and perpetual license to all of Arbinet s patents and their associated rights. The amount of any proceeds from an IP Sale, after deducting related transaction costs, fees and expenses and gross tax liabilities, may, at Arbinet s discretion, be distributed to Arbinet s stockholders prior to closing of the merger or added, dollar for dollar, to the $28,000,000 base merger consideration. There can be no assurance that Arbinet will effect any such spin-off of patents or IP Sale.

If, after the mailing date of this joint proxy statement/prospectus and before the closing of the merger, Arbinet elects to proceed with the spin-off of its patents and associated rights to its stockholders, then Arbinet would create a new wholly owned subsidiary, a Delaware corporation, into which Arbinet (including, to the extent applicable, through subsidiaries that may be holding patents) would contribute its patents and associated rights and a reasonable amount of cash to maintain the patents and associated rights. Arbinet would then proceed to mail to its stockholders an information statement containing the details of the new subsidiary and the spin-off transaction, which generally would include the separation of the patents and associated rights into the new subsidiary and the distribution of the shares of the new subsidiary by Arbinet to Arbinet s stockholders as a pro-rata dividend. Arbinet does not currently intend that a public trading market develop in the shares of the new subsidiary that would be distributed to Arbinet s stockholders in the spin-off. Rather, the shares of the new subsidiary would bear restrictions on transfer and resale, which will be strictly enforced to ensure that no public trading market in the shares develops, unless such stock is at some point in the future registered under Section 12 of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The separation would result in the new subsidiary operating as an independent entity with the primary purpose of holding the patents and associated rights it receives from Arbinet, which would be described more fully in the information statement. It is anticipated that Arbinet would not have any ownership or other form of interest in the new subsidiary following the separation. Approval by Arbinet s stockholders is not required as a condition to the completion of the spin-off transaction.

Treatment of Arbinet Warrants, Stock Options, Restricted Stock and other Equity Awards (See page 135)

Arbinet will have taken all actions necessary under its 2004 Stock Incentive Plan to cancel, as of the effective time of the merger: (a) all outstanding stock options to purchase shares of Arbinet common stock with an exercise price that is, as of the effective time of the merger, in excess of the greater of (i) $6.05 and (ii) the closing stock price of Arbinet common stock on the NASDAQ on the last trading day immediately prior to the closing date of the merger; and (b) all outstanding stock appreciation rights with a base price that is, as of the effective time of the merger, in excess of the greater of (i) $6.05 and (ii) the closing stock price of Arbinet common stock on the NASDAQ on the last trading day immediately prior to the closing date of the merger.

At the effective time of the merger, each outstanding warrant and option to purchase shares of Arbinet common stock will be converted into a warrant or option, respectively, to acquire, on the same terms and conditions applicable to each share of Arbinet common stock, shares of Primus common stock with appropriate adjustments to be made to the number of shares and the exercise prices based on the exchange ratio and otherwise as set forth in the merger agreement. Each outstanding restricted stock award under Arbinet s equity compensation plans will be converted into a restricted stock award relating to shares of Primus common stock, based on the exchange ratio in the merger agreement, on the same terms and conditions applicable to each share of Arbinet common stock. Similarly, each outstanding stock appreciation right, or SAR, under Arbinet s equity compensation plans will be converted into an SAR to acquire, on the same terms and conditions applicable under such Arbinet SAR, shares of Primus common stock based on the exchange ratio in the merger agreement, on the same terms and conditions applicable to each share of Arbinet common stock. Immediately prior to the effective time of the merger, the performance targets under any outstanding performance share award of Arbinet for which the measurement date has not occurred will be deemed to have been achieved at the target performance level, and

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each share of restricted stock represented by such performance share award will be deemed to have been issued, and such performance share restricted stock award will be converted into a restricted stock award relating to shares of Primus common stock, based on the exchange ratio in the merger agreement. Each converted performance share restricted stock award will be subject to the same terms and conditions as were applicable under the award immediately prior to the effective time of the merger. Immediately prior to the effective time of the merger, each performance share award for which the measurement date has occurred and for which Arbinet has not issued the performance share restricted stock awards will be converted into a performance share award relating to the number of shares of Primus common stock equal to the product of (x) the number of shares of Arbinet common stock relating to such performance share award immediately prior to the effective time of the merger multiplied by (y) the exchange ratio, rounded down to the nearest whole share. Each such converted performance share award will be subject to the same terms, conditions and restrictions as were applicable under such performance share award immediately prior to the effective time of the merger.

Recommendation of the Primus Board of Directors (See page 105)

The Primus board of directors has determined that the terms and provisions of the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of the Primus stockholders, and has approved the merger agreement and the transactions contemplated by the merger agreement. **The Primus board of directors unanimously recommends that Primus stockholders vote FOR the proposal to approve the issuance of shares of Primus common stock pursuant to the merger agreement, FOR the proposal to approve the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended, and FOR the adjournment of the Primus special meeting, if necessary or appropriate, to permit the solicitation of additional proxies.**

Recommendation of the Arbinet Board of Directors (See page 102)

The Arbinet board of directors has determined that the terms and provisions of the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of Arbinet and its stockholders, and has approved the merger agreement and the transactions contemplated by the merger agreement. **The Arbinet board of directors unanimously recommends that Arbinet stockholders vote FOR the proposal to approve and adopt the merger agreement and FOR the adjournment of the Arbinet special meeting, if necessary or appropriate, to permit the solicitation of additional proxies.**

Opinion of Arbinet s Financial Advisor (See page 110)

The Bank Street Group LLC, or Bank Street, rendered its opinion to Arbinet s board of directors and special committee of the board of directors that, as of November 10, 2010, based upon and subject to the assumptions made, matters considered, qualifications and limitations set forth in its written opinion, the exchange ratio pursuant to the merger agreement is fair, from a financial point of view, to the holders of Arbinet common stock (other than Primus, Merger Sub, Karen Singer and any of their respective affiliates).

The full text of the written opinion of Bank Street, dated November 10, 2010, which sets forth assumptions made, matters considered, qualifications and limitations on the review undertaken in connection with the opinion, is attached as Annex B to this joint proxy statement/prospectus. Bank Street provided its opinion for the information and assistance of Arbinet s board of directors and special committee of the board of directors in connection with their consideration of the merger. The Bank Street opinion is not a recommendation as to how any holder of Arbinet s common stock should vote with respect to the merger, adoption of the merger agreement or any other matter. The summary of the opinion of Bank Street set forth in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of the opinion.

Opinion of Primus s Financial Advisor (See page 117)

On November 10, 2010, Houlihan Lokey Capital, Inc., or Houlihan Lokey, rendered its oral opinion to Primus s board of directors (which opinion was confirmed in writing by delivery of Houlihan Lokey s written opinion dated November 10, 2010), as to the fairness, from a financial point of view, to Primus, as of November 10, 2010, of the exchange ratio provided for in the merger pursuant to the merger agreement, based upon and subject to the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion.

Houlihan Lokey s opinion was directed to Primus s board of directors and only addressed the fairness from a financial point of view to Primus, as of November 10, 2010, of the exchange ratio provided for in the merger pursuant to the merger agreement and did not address any other aspect or implication of the merger. The summary of Houlihan Lokey s opinion in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of its written opinion, which is included as Annex C to this joint proxy statement/prospectus and sets forth the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion. However, neither Houlihan Lokey s opinion nor the summary of its opinion and the related analyses set forth in this joint proxy statement/prospectus are intended to be, and do not constitute, a recommendation to Primus s board of directors or any stockholder as to how to act or vote with respect to the merger or related matters.

Board of Directors and Management of Primus Following the Merger (See page 123)

Primus s board of directors and executive officers will remain the same following the merger as they are immediately before the merger becomes effective.

The Primus Special Meeting (See page 159)

Date, Time and Place

The Primus special meeting will be held on February 25, 2011 at 9:00 a.m., Eastern time, at the Hilton McLean Tysons Corner located at 7920 Jones Branch Drive, McLean, VA 22102.

Purpose

The purpose of the Primus special meeting is as follows:

- to consider and vote upon a proposal to approve the issuance of shares of Primus common stock pursuant to the merger agreement, as it may be amended from time to time;
- to consider and vote upon the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended; and
- to consider and vote upon a proposal to adjourn the special meeting, if necessary or appropriate, to permit the solicitation of additional proxies if there are not sufficient votes at the time of the special meeting to approve either of the foregoing proposals.

In addition, Primus will transact any other business that may properly come before the special meeting, or any adjournment or postponement thereof, by or at the discretion of the Primus board of directors.

Primus s board of directors unanimously recommends that Primus stockholders vote FOR the proposal to approve the issuance of shares of Primus common stock pursuant to the merger agreement, FOR the proposal to approve the Primus Telecommunications Group, Incorporated Management

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Compensation Plan, as Amended, and FOR the adjournment of the Primus special meeting, if necessary or appropriate, to permit the solicitation of additional proxies.

Record Date and Quorum

You are entitled to vote at the Primus special meeting, or any adjournment or postponement (to the extent permitted by law) thereof, if you owned Primus common stock at the close of business on January 12, 2011, the record date for the Primus special meeting. You will have one vote for each share of Primus common stock that you owned on the record date. As of the record date, there were 9,816,463 shares of Primus common stock outstanding and entitled to vote. At the Primus special meeting, the holders of a majority of the total number of shares of Primus common stock outstanding and entitled to vote thereat, present in person or by proxy, will constitute a quorum.

Votes Required

The affirmative vote of a majority of the total votes cast by Primus stockholders at the Primus special meeting is required to approve the issuance of shares of Primus common stock pursuant to the merger agreement and to approve the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended. Any adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies requires the affirmative vote of the holders of Primus common stock representing a majority of the voting power present, in person or by proxy at the Primus special meeting, although less than a quorum. Abstentions and broker non-votes, as defined under Voting of Proxies below, will be considered in determining the presence of a quorum. However, because abstentions and broker non-votes are not considered votes cast, they will not have any effect on the outcome of the vote with respect to each of the proposals to approve the issuance of shares of Primus common stock pursuant to the merger agreement and the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended. With respect to the proposal to adjourn the Primus special meeting, if necessary or appropriate, to permit the solicitation of additional proxies, abstentions will have the same effect as a vote AGAINST any such proposal, and broker non-votes, because they are not considered voting power present, will have no effect on approval of such proposal.

Voting of Proxies

Any stockholder of record entitled to vote at the Primus special meeting may authorize a proxy by telephone, the Internet or by returning the enclosed proxy card by mail, or may vote in person by appearing at the Primus special meeting. If your shares of Primus common stock are held in street name by your bank, broker, custodian or other nominee, you should instruct your bank, broker, custodian or other nominee on how to vote your shares of Primus common stock using the instructions provided by your bank, broker, custodian or other nominee. If your bank, broker, custodian or other nominee cannot vote your shares on a particular matter because it has not received instructions from you and does not have discretionary voting authority on that matter or because your broker chooses not to vote on a matter for which it does have discretionary voting authority, this is referred to as a broker non-vote. Brokers do not have discretionary voting authority to vote on the proposals to issue shares of Primus common stock pursuant to the merger agreement, to approve the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended, or to adjourn the special meeting. The effect of a broker non-vote is described above under Votes Required.

If you fail to submit a proxy or vote in person at the Primus special meeting, or do not provide your bank, broker, custodian or other nominee with instructions, as applicable, your shares of Primus common stock will not be voted.

The Arbinet Special Meeting (See page 159)

Date, Time and Place

The Arbinet special meeting will be held on February 25, 2011 at 10:00 a.m., Eastern time, at Arbinet s headquarters located at 460 Herndon Parkway, Suite 150, Herndon, VA 20170.

Purpose

The purpose of the Arbinet special meeting is as follows:

- to consider and vote upon a proposal to approve and adopt the merger agreement, as it may be amended from time to time; and
- to consider and vote upon a proposal to adjourn the special meeting, if necessary or appropriate, to permit the solicitation of additional proxies if there are not sufficient votes at the time of the special meeting to approve and adopt the merger agreement.

In addition, Arbinet will transact any other business that may properly come before the special meeting, or any adjournment or postponement thereof, by or at the discretion of the board of directors of Arbinet.

Arbinet s board of directors unanimously recommends that Arbinet s stockholders vote FOR the approval and adoption of the merger agreement, which provides for, among other things, the merger of Merger Sub with and into Arbinet with Arbinet surviving the merger as a wholly owned subsidiary of Primus, and FOR the adjournment of the Arbinet special meeting, if necessary or appropriate, to permit the solicitation of additional proxies.

Record Date and Quorum

You are entitled to vote at the Arbinet special meeting, or any adjournment or postponement (to the extent permitted by law) thereof, if you owned shares of Arbinet common stock at the close of business on January 12, 2011, the record date for the Arbinet special meeting. You will have one vote for each share of Arbinet common stock that you owned on the record date. As of the record date there were 5,529,435 shares of Arbinet common stock outstanding and entitled to vote. At the Arbinet special meeting, the holders of a majority of the total number of shares of the Arbinet common stock outstanding and entitled to vote thereat, present in person or by proxy, will constitute a quorum.

Votes Required

The approval and adoption of the merger agreement by Arbinet stockholders requires the affirmative vote of the holders of a majority of the outstanding shares of Arbinet common stock entitled to vote thereon as of the record date. Approval of the proposal to adjourn the special meeting, if necessary or appropriate, to permit the solicitation of additional proxies requires the affirmative vote of the holders of shares of Arbinet common stock representing a majority of the total votes cast, in person or by proxy, at the Arbinet special meeting, if a quorum is present. However, if a quorum is not present, approval of such proposal would require the affirmative vote of the holders of shares of Arbinet common stock representing a majority of shares of Arbinet common stock present in person or by proxy at the Arbinet special meeting and entitled to vote on such proposal. Abstentions and broker non-votes, as defined under Voting of Proxies below, will be considered in determining the presence of a quorum and will have the same effect as votes cast AGAINST the approval and adoption of the merger agreement. Abstentions will have the same effect as votes cast AGAINST the approval of the proposal to adjourn the special meeting, if necessary or appropriate, to permit the solicitation of additional proxies if a quorum is not present, but will have no effect on such proposal if a quorum is present. Broker non-votes will have no effect on approval of the proposal to adjourn the special meeting, if necessary or appropriate, to permit the solicitation of additional proxies.

Voting of Proxies

Any stockholder of record entitled to vote at the Arbinet special meeting may authorize a proxy by telephone, the Internet or by returning the enclosed proxy card by mail, or may vote in person by appearing at the Arbinet special meeting. If your shares of Arbinet common stock are held in street name by your bank, broker, custodian or other nominee, you should instruct your bank, broker, custodian or other nominee on how to vote your shares of Arbinet common stock using the instructions provided by your bank, broker, custodian or other nominee. If your bank, broker, custodian or other nominee cannot vote your shares on a particular matter because it has not received instructions from you and does not have discretionary voting authority on that matter or because your bank, broker, custodian or other nominee chooses not to vote on a matter for which it does have discretionary voting authority, this is referred to as a broker non-vote. Brokers do not have discretionary voting authority to vote on the proposal to approve and adopt the merger agreement or the proposal to adjourn the special meeting. The effect of a broker non-vote is described above under Votes Required .

If you fail to submit a proxy or vote in person at the Arbinet special meeting, or do not provide your bank, broker, custodian or other nominee with instructions, as applicable, your shares of Arbinet common stock will not be voted. This will have the same effect as a vote against the proposal to approve and adopt the merger agreement and will have no effect on the approval of the proposal to adjourn the special meeting, if necessary or appropriate, to permit the solicitation of additional proxies.

Support and Voting Agreements (See page 161)

Concurrently with the execution of the merger agreement, a significant stockholder of both Arbinet and Primus entered into a Stockholder Support and Voting Agreement with each of Primus and Arbinet, respectively (referred to as a Voting Agreement). Pursuant to the Voting Agreement with Primus, the stockholder has agreed, in its capacity as a stockholder of Arbinet, among other things, to vote its shares of Arbinet common stock in favor of the approval and adoption of the merger agreement. Pursuant to the Voting Agreement with Arbinet, the stockholder has agreed, in its capacity as a stockholder of Primus, among other things, to vote its shares of Primus common stock in favor of the issuance of shares of Primus common stock pursuant to the merger agreement. The shares subject to the Voting Agreement with Arbinet represent an aggregate of approximately 9.5% of the Primus common stock outstanding as of January 7, 2011, and the shares subject to the Voting Agreement with Primus represent an aggregate of approximately 23.1% of the Arbinet common stock outstanding as of January 7, 2011.

Common Stock Ownership of Directors and Executive Officers

Primus. At the close of business on the record date for the Primus special meeting, the directors and executive officers of Primus and their affiliates beneficially owned and were entitled to vote 53,745 shares of Primus common stock, representing 0.55% in the aggregate of the shares of Primus common stock entitled to vote at the Primus special meeting. It is expected that Primus s directors and executive officers will vote their shares FOR the issuance of Primus common stock pursuant to the merger agreement and FOR the approval of the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended, although none of them has entered into any agreement requiring them to do so.

Arbinet. At the close of business of the record date for the Arbinet special meeting, the directors and executive officers of Arbinet and their affiliates beneficially owned and were entitled to vote 16,424 shares of Arbinet common stock, representing 0.30% in the aggregate of the shares of Arbinet common stock entitled to vote at the Arbinet special meeting. In the aggregate, these shares represent approximately 0.58% of the voting power necessary to approve and adopt the merger agreement at the special meeting. It is expected that Arbinet s directors and executive officers will vote their shares FOR the approval and adoption of the merger agreement, although none of them has entered into any agreement requiring them to do so.

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Risks Relating to the Merger (See page 38)

You should be aware of and consider carefully the risks relating to the merger described under Risk Factors. These risks include possible difficulties in combining two companies that have previously operated independently.

Material U.S. Federal Income Tax Consequences of the Merger (See page 152)

Arbinet and Primus expect the merger to be treated as a reorganization within the meaning of Section 368(a) of the Code. If the merger is treated as a reorganization, generally no gain or loss will be recognized by the stockholders of Arbinet for U.S. federal income tax purposes as a result of the merger (except with respect to cash received by Arbinet stockholders instead of fractional shares of Primus common stock). Although the merger is intended to qualify as a reorganization, a distribution by Arbinet of certain patents and associated rights (or the proceeds from a sale thereof) may prevent the merger from qualifying as a reorganization, in which case holders of Arbinet common stock would recognize gain or loss on the exchange of their Arbinet common stock for Primus common stock pursuant to the merger.

Please review carefully the information under the caption Material U.S. Federal Income Tax Consequences of the Merger for a description of the material United States federal income tax consequences of the merger. The tax consequences to you will depend on your own situation. **Please consult your tax advisors for a full understanding of the tax consequences of the merger to you.**

Accounting Treatment (See page 123)

The merger will be accounted for as an acquisition of Arbinet by Primus using the acquisition method of accounting.

Appraisal Rights (See page 128)

Arbinet stockholders will, under certain circumstances, be entitled under Delaware law to exercise appraisal rights and receive payment for the fair value of their Arbinet shares if the merger is completed. However, if the Primus common stock to be issued in the merger is listed on the NASDAQ, then Primus and Arbinet believe and Primus will take the position that Arbinet stockholders will not be entitled to appraisal rights. Primus s common stock is currently quoted on the OTC Bulletin Board under the symbol PMUG. In connection with the merger, Primus is to use its reasonable best efforts to have its common stock listed for trading on the NASDAQ. Primus has submitted an application to list its common stock on the NASDAQ. However, there can be no assurances that such listing will be effected. Arbinet stockholders who wish to seek appraisal of their shares are in any case urged to seek the advice of counsel with respect to the availability of appraisal rights.

If appraisal rights are available, Arbinet stockholders who desire to exercise their appraisal rights must not vote in favor of the approval and adoption of the merger agreement, must submit a written demand for an appraisal before the vote on the approval and adoption of the merger agreement and must continue to hold their Arbinet shares through the effective date of the merger. Arbinet stockholders must also comply with other procedures as required by Section 262 of the DGCL. If appraisal rights are available, Arbinet stockholders who validly demand appraisal of their shares in accordance with the DGCL and do not withdraw their demand or otherwise forfeit their appraisal rights will not receive the merger consideration. Instead, after completion of the proposed merger, the Court of Chancery of the State of Delaware will determine the fair value of their shares exclusive of any value arising from the proposed merger. This appraisal amount will be paid in cash and could be more than, the same as or less than the value an Arbinet stockholder would be entitled to receive under the merger agreement.

The DGCL requirements for exercising appraisal rights are described in further detail in this joint proxy statement/prospectus, and the relevant section of the DGCL regarding appraisal rights is reproduced and attached as Annex D.

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Conditions to the Merger (See page 147)

The merger will be completed only if the conditions to the merger are satisfied or waived (if legally permissible), including, among others, the following:

- the approval and adoption of the merger agreement by Arbinet s stockholders;
- the approval of the issuance of shares of Primus common stock pursuant to the merger agreement by Primus s stockholders;
- the absence of any governmental order or other legal restraint prohibiting, preventing or otherwise enjoining the merger;
- the authorization of the FCC as described below under Regulatory Requirements ;
- the effectiveness of the registration statement on Form S-4 of which this joint proxy statement/prospectus is a part, and no pending stop order or proceeding seeking a stop order relating thereto;
- the receipt of tax opinions from counsel for each of Primus and Arbinet to the effect that the merger will be treated as a reorganization under Section 368(a) of the Code and that each of Primus and Arbinet will be a party to the reorganization within the meaning of Section 368(b) of the Code; provided any permitted sale or spin-off of Arbinet s patents and associated rights would not render it impossible for such counsels to provide such opinions; and
- other customary conditions, including the absence of a material adverse effect on Primus or Arbinet.

Among other potential material adverse effects, a material adverse effect with respect to Arbinet will be deemed to have occurred if the sum of the cash and cash equivalents of Arbinet as of a defined determination date before closing of the merger, less (i) all indebtedness then outstanding and (ii) all unpaid transaction costs, fees and expenses and gross tax liabilities of Arbinet (except to the extent offset by net operating losses) attributable to an IP Sale or any spin-off of Arbinet s patents and associated rights to its stockholders, is less than $9.5 million, which will be reduced by the actual transaction costs, fees and expenses and gross tax liabilities of Arbinet (except to the extent offset by net operating losses) attributable to such IP Sale or such spin-off that have been incurred and paid (provided that this reduction may not be greater than $350,000 in the aggregate), and which will exclude costs incurred by Arbinet in connection with the merger and the transactions contemplated by the merger agreement, which include the appraiser s fees for the appraisal of Arbinet s patents and associated rights.

In addition, the obligations of Primus to complete the merger are subject to:

- the number of appraisal shares not exceeding 10% of the outstanding shares of Arbinet common stock; and
- Arbinet having taken actions under its 2004 Stock Incentive Plan to cancel Arbinet stock options and stock appreciation rights that, as of the effective time of the merger, have an exercise price or base price, respectively, for Arbinet common stock in excess of the greater of (i) $6.05 and (ii) the closing stock price of Arbinet common stock on the NASDAQ on the last trading day prior to the closing date of the merger, in each case on a per share basis.

Either party to the merger agreement may choose to complete the merger even though a condition has not been satisfied if the law allows Arbinet and Primus to do so; however, neither Primus nor Arbinet can give any assurance regarding when or if all of the conditions to the merger will either be satisfied or waived or that the merger will occur as intended.

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Regulatory Requirements (See page 132)

It is a condition to closing the merger that the parties have obtained the authorization of the U.S. Federal Communications Commission, or the FCC, for the transfer of control, resulting from the closing of the merger, of Arbinet and Arbinet Carrier Services, Inc., a wholly owned subsidiary of Arbinet. Arbinet and Arbinet Carrier Services, Inc. each holds an FCC authorization to be a U.S. international common carrier pursuant to Section 214 of the Communications Act of 1934, as amended.

Termination of the Merger Agreement (See page 149)

Primus and Arbinet can mutually agree to terminate the merger agreement at any time. Either Primus or Arbinet can unilaterally terminate the merger agreement in various circumstances, including the following:

- if the merger has not occurred on or before May 31, 2011, but neither party may terminate the merger agreement if that party s breach of any provision of the merger agreement has contributed to, or otherwise resulted in, the failure of the merger to occur on or before May 31, 2011;
- if a court or other governmental authority issues a final, non-appealable order restraining, enjoining or otherwise prohibiting the merger;
- if Arbinet s stockholders fail to approve and adopt the merger agreement;
- if Primus s stockholders fail to approve the issuance of Primus common stock pursuant to the merger agreement; and
- if the other party is in material breach of the merger agreement such that certain conditions set forth in the merger agreement are not capable of being satisfied and such breach is not cured prior to the earlier of 30 days after notice of the breach or May 31, 2011.

In addition, Arbinet may terminate the merger agreement if prior to the approval and adoption of the merger agreement by Arbinet s stockholders, Arbinet s board of directors has effected a change in its recommendation and authorized Arbinet to enter into a definitive agreement with respect to a superior proposal. Primus may terminate the merger agreement if Arbinet s board of directors has effected a change in its recommendation.

Termination Fee (See page 150)

On a termination of the merger agreement under certain circumstances, Arbinet may be required to pay Primus a termination fee of $1,250,000. In addition, Arbinet is obligated to reimburse Primus for up to $750,000 of its expenses related to the merger if specified termination events occur. Similarly, Primus is obligated to reimburse Arbinet for up to $750,000 of its expenses related to the merger if specified termination events occur.

Interests of Certain Persons in the Merger that May be Different from Your Interests (See page 123)

Arbinet s directors and certain of its executive officers have interests in the merger that may be different from, or in addition to, the interests of holders of Arbinet common stock. These interests include as of January 7, 2011:

- for the non-employee directors of Arbinet, the accelerated vesting in connection with the merger of (i) options for an aggregate of 8,857 shares of Arbinet common stock with a weighted average exercise price of $7.12, and (ii) an aggregate of 4,915 shares of restricted Arbinet common stock;

for the executive officers of Arbinet, the accelerated vesting of (i) options for 18,750 shares of Arbinet common stock with a weighted average exercise price of $8.20, (ii) stock appreciation rights for an aggregate of 2,310 shares of Arbinet common stock with a weighted average base price of $6.52, (iii) an aggregate of 291 shares of restricted Arbinet common stock, and (iv) restricted stock units for an aggregate of 7,500 shares of Arbinet common stock;

- for the executive officers of Arbinet, the potential award at target of an aggregate of 33,800 performance shares of Arbinet common stock in certain circumstances and the accelerated vesting of an aggregate of 16,900 performance shares of Arbinet common stock;

- for the executive officers of Arbinet following the merger, upon termination in specified circumstances, the accelerated vesting of (i) options for 18,750 shares of Arbinet common stock with a weighted average exercise price of $8.20, (ii) stock appreciation rights for an aggregate of 2,310 shares of Arbinet common stock with a weighted average base price of $ 6.52, (iii) an aggregate of 292 shares of restricted Arbinet common stock, (iv) restricted stock units for an aggregate of 7,500 shares of Arbinet common stock, and (v) performance shares for an aggregate of 16,900 shares of Arbinet common stock; and

- under certain circumstances, severance payments to the three executive officers of Arbinet of up to an aggregate of $1,180,000.

The amounts described above are based on an assumed merger completion date of January 7, 2011.

For a further discussion, see The Merger Interests of Certain Persons in the Merger that May be Different from Your Interests beginning on page 123.

Arbinet s board of directors was aware of these interests and considered them, among other matters, in making its recommendation. See The Merger Reasons for the Merger Arbinet beginning on page 102.

Acquisition Proposals (See page 143)

During the period beginning on November 10, 2010 and continuing until 11:59 p.m., Eastern time, on December 25, 2010, or the Go-Shop Period, Arbinet could initiate, solicit and encourage any alternative acquisition proposals from third parties, including by providing access to non-public information to such third parties and participate in discussions and negotiate with third parties with respect to alternative acquisition proposals. Except with respect to third parties from whom Arbinet received a written alternative acquisition proposal during the Go-Shop Period that Arbinet s board of directors or a committee of the board of directors determined in good faith constitutes, or could reasonably be expected to constitute, a superior proposal (and there were no such superior proposals), starting at 12:00 a.m., Eastern time, on December 26, 2010, or the No-Shop Period Start Date, Arbinet and its subsidiaries will not, and Arbinet and its subsidiaries will direct their respective officers, directors, employees, investment bankers, attorneys, accountants, financial advisors, agents and other representatives not to, (i) continue any discussions or negotiations with any persons that may be ongoing with respect to an acquisition proposal, (ii) directly or indirectly initiate, solicit, knowingly encourage or knowingly facilitate an acquisition proposal, (iii) participate or engage in discussions or negotiations with, or disclose any non-public information to, any other party with respect to an acquisition proposal or (iv) accept an acquisition proposal. However, prior to obtaining adoption of the merger agreement by Arbinet s stockholders, Arbinet or its board of directors may take any action described in clauses (iii) or (iv) above if Arbinet receives a written acquisition proposal from a third party and Arbinet s board of directors determines in good faith (after consultation with a special committee of the board of directors and Arbinet s financial advisors and outside legal counsel) that the proposal constitutes, or could reasonably be expected to result in, a transaction more favorable to Arbinet s stockholders than the merger.

Prior to adoption of the merger agreement by Arbinet s stockholders, and subject to certain conditions, Arbinet s board of directors may effect a change in its recommendation of the merger in response to (i) a superior proposal or (ii) an intervening event if Arbinet s board of directors concludes in good faith (after consultation with a special committee of the board of directors and Arbinet s financial advisors and outside legal counsel) that a failure to withdraw its recommendation would breach its fiduciary duties under applicable law.

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In general, the term intervening event means a material event or circumstance that was not known or reasonably foreseeable to the board of directors of Arbinet on the date of the merger agreement (or, if known, the consequences of which were not known to or reasonably foreseeable by such board of directors), which event or circumstance, or material consequences thereof, becomes known to the board of directors of Arbinet prior to the time at which Arbinet receives its stockholder approval of the merger agreement, but in no event will the receipt, existence or terms of an acquisition proposal for Arbinet constitute an intervening event.

Material Differences in the Rights of Stockholders (See page 155)

Primus and Arbinet are both Delaware corporations and, accordingly, the rights of the stockholders of each are currently, and will continue to be, governed by the Delaware General Corporation Law, or DGCL. If the merger is completed, your rights as stockholders of Primus will be governed by the DGCL, the certificate of incorporation of Primus and the bylaws of Primus. The rights of Primus stockholders contained in the certificate of incorporation and bylaws of Primus differ from the rights of Arbinet stockholders under the certificate of incorporation and bylaws of Arbinet, as more fully described in the section entitled Comparison of Stockholder Rights beginning on page 155.

Proposal to Approve the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended (See page 165)

Primus s stockholders are being asked to approve the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended. As of January 7, 2011, 120,240 shares of Primus common stock remained available for issuance under the Primus Telecommunications Group, Incorporated Management Compensation, as Amended.

The Primus board of directors believes that approval of the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended, is necessary in order to (1) attract, motivate and retain employees, independent contractors and non-employee directors, (2) give equity award recipients a sense of proprietorship and personal involvement in the development and financial success of Primus and (3) encourage equity award recipients to devote their best efforts to the business of Primus, thereby advancing the interests of Primus and its stockholders.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF PRIMUS

The following table presents selected historical consolidated financial data of Primus. The consolidated statement of operations data for the six months ended December 31, 2009 and the consolidated balance sheet data as of December 31, 2009 have been derived from the audited consolidated financial statements of Primus Telecommunications Group, Incorporated and subsidiaries (Primus or the Successor) for such periods. The consolidated statements of operations data for the six months ended July 1, 2009 and for the years ended 2008 and 2007 and the consolidated balance sheet data as of December 31, 2008, 2007, 2006, and 2005 have been derived from the audited consolidated financial statements of Primus Telecommunications Group, Incorporated and subsidiaries (the Predecessor) for such periods. The consolidated statements of operations data for the years ended 2006 and 2005 have been derived from the Predecessor s unaudited consolidated financial statements for such periods. The financial data as of and for the nine months ended September 30, 2010 and the financial data for the three months ended September 30, 2009 are derived from the Successor s unaudited consolidated financial statements for those periods. Primus s management believes that Primus s interim unaudited financial statements have been prepared on a basis consistent with its audited financial statements and include all normal and recurring adjustments necessary for a fair presentation of the results for each interim period.

As of July 1, 2009, Primus adopted fresh-start accounting in accordance with Accounting Standards Codification (ASC) No. 852. The adoption of fresh-start accounting resulted in Primus 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 for the six months ended December 31, 2009, show the operations of the reorganized company from and including July 1, 2009 through December 31, 2009. References to Predecessor refer to the operations of Primus prior to July 1, 2009, except for the 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.

The information in the following table is only a summary and is not indicative of the results of future operations of Primus. You should read the following information together with Primus s Annual Report on Form 10-K for the year ended December 31, 2009, as amended by the Form 10-K/A filed with the SEC on April 28, 2010, and as amended and superseded in part by Primus s Current Report on Form 8-K, filed with the SEC on December 20, 2010, Primus s Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010, June 30, 2010 and September 30, 2010, respectively, and the other information that Primus has filed with the SEC, and incorporated by reference into this joint proxy statement/prospectus. See Incorporation of Certain Documents by Reference and Where You Can Find More Information beginning on pages 182 and 183, respectively, of this joint proxy statement/prospectus.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Successor	Predecessor				
	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
NET REVENUE	$ 397,520	$ 365,245	$ 832,837	$ 829,342	$ 907,180	$ 973,703
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)	259,566	236,925	526,435	506,847	594,486	639,282
Selling, general and administrative	95,223	88,585	239,123	249,346	240,410	288,258
Depreciation and amortization	36,990	11,545	30,356	26,917	41,387	73,381
(Gain) loss on sale or disposal of assets	102	(43)	(5,966)	241	13,954	4,395
Asset impairment write-down					185,952	
Total operating expenses	391,881	337,012	789,948	783,351	1,076,189	1,005,316
INCOME (LOSS) FROM OPERATIONS	5,639	28,233	42,889	45,991	(169,009)	(31,613)
INTEREST EXPENSE	(17,278)	(14,093)	(53,971)	(60,709)	(53,920)	(53,072)
(ACCRETION) AMORTIZATION ON DEBT PREMIUM/DISCOUNT, net	(3)	189	583	(449)	(1,732)	
CHANGE IN FAIR VALUE OF DERIVATIVES EMBEDDED WITHIN CONVERTIBLE DEBT					5,373	
GAIN (LOSS) FROM EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	(4,146)		36,872	(7,652)	7,409	(1,693)
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(2,804)					
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	492	378	3,284	6,018	2,652	2,453
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	19,566	20,332	(46,378)	32,734	11,873	(6,254)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	1,466	35,039	(16,721)	15,933	(197,354)	(90,179)
REORGANIZATION ITEMS, net	(421)	424,825				
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,045	459,864	(16,721)	15,933	(197,354)	(90,179)
INCOME TAX BENEFIT (EXPENSE)	10,180	(4,074)	739	9,264	(4,990)	(3,331)
INCOME (LOSS) FROM CONTINUING OPERATIONS	11,225	455,790	(15,982)	25,197	(202,344)	(93,510)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(4,050)	15,081	(5,890)	(15,593)	(44,139)	(56,108)
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	(110)	251		6,132	7,415	
NET INCOME (LOSS)	7,065	471,122	(21,872)	15,736	(239,068)	(149,618)
Less: Net (income) loss attributable to the noncontrolling interest	(333)	32	(3,159)		1,110	381
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP,	$ 6,732	$ 471,154	$ (25,031)	$ 15,736	$ (237,958)	$ (149,237)

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	Successor	Predecessor				
	Six Months Ended December 31, 2009	Six Months Ended July 1, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
BASIC INCOME (LOSS) PER COMMON SHARE:						
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ 1.13	$ 3.19	$ (0.13)	$ 0.19	$ (1.79)	$ (0.98)
Income (loss) from discontinued operations	(0.42)	0.11	(0.05)	(0.12)	(0.40)	(0.58)
Gain (loss) from sale of discontinued operations	(0.01)			0.05	0.07	
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ 0.70	$ 3.30	$ (0.18)	$ 0.12	$ (2.12)	$ (1.56)
DILUTED LOSS PER COMMON SHARE:						
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ 1.11	$ 2.63	$ (0.13)	$ 0.14	$ (1.79)	$ (0.98)
Income (loss) from discontinued operations	(0.41)	0.09	(0.05)	(0.08)	(0.40)	(0.58)
Gain (loss) from sale of discontinued operations	(0.01)			0.03	0.07	
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ 0.69	$ 2.72	$ (0.18)	$ 0.09	$ (2.12)	$ (1.56)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING						
Basic	9,600	142,695	142,643	128,771	112,366	95,384
Diluted	9,800	173,117	142,643	196,470	112,366	95,384
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income (loss) from continuing operations, net of tax	$ 10,892	$ 455,822	$ (19,141)	$ 25,197	$ (201,234)	$ (93,129)
Income (loss) from discontinued operations	(4,050)	15,081	(5,890)	(15,593)	(44,139)	(56,108)
Gain (loss) from sale of discontinued operations	(110)	251		6,132	7,415	
Net income (loss)	$ 6,732	$ 471,154	$ (25,031)	$ 15,736	$ (237,958)	$ (149,237)

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	Successor		Predecessor
	Nine Months Ended September 30, 2010	Three Months Ended September 30, 2009	Six Months Ended July 1, 2009
NET REVENUE	$ 575,809	$ 194,946	$ 365,245
OPERATING EXPENSES			
Cost of revenue (exclusive of depreciation included below)	366,809	126,889	236,925
Selling, general and administrative	149,549	47,132	88,585
Depreciation and amortization	49,703	18,740	11,545
(Gain) loss on sale or disposal of assets	(179)	36	(43)
Total operating expenses	565,882	192,797	337,012
INCOME (LOSS) FROM OPERATIONS	9,927	2,149	28,233
INTEREST EXPENSE	(26,661)	(8,747)	(14,093)
(ACCRETION) AMORTIZATION ON DEBT PREMIUM/DISCOUNT, net	(135)		189
GAIN (LOSS) FROM EARLY EXTINGUISHMENT OF DEBT	164		
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(2,392)	(4,229)	
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	617	160	378
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	10,212	13,448	20,332
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	(8,268)	2,781	35,039
REORGANIZATION ITEMS, net	1	(307)	424,825
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(8,267)	2,474	459,864
INCOME TAX BENEFIT (EXPENSE)	7,291	2,121	(4,074)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(976)	4,595	455,790
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(7,681)	(2,110)	15,081
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	(196)	(110)	251
NET INCOME (LOSS)	(8,853)	2,375	471,122
Less: Net (income) loss attributable to the noncontrolling interest	(104)	(210)	32
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (8,957)	$ 2,165	$ 471,154
BASIC INCOME (LOSS) PER COMMON SHARE:			
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (0.11)	$ 0.46	$ 3.19
Income (loss) from discontinued operations	(0.79)	(0.22)	0.11
Gain (loss) from sale of discontinued operations	(0.02)	(0.01)	
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (0.92)	$ 0.23	$ 3.30
DILUTED INCOME (LOSS) PER COMMON SHARE:			
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (0.11)	$ 0.46	$ 2.63
Income (loss) from discontinued operations	(0.79)	(0.22)	0.09
Gain (loss) from sale of discontinued operations	(0.02)	(0.01)	
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (0.92)	$ 0.23	$ 2.72

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	9,711	9,600	142,695
Diluted	9,711	9,600	173,117
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED			
Income (loss) from continuing operations, net of tax	$ (1,080)	$ 4,385	$ 455,822
Income (loss) from discontinued operations	(7,681)	(2,110)	15,081
Gain (loss) from sale of discontinued operations	(196)	(110)	251
Net income (loss)	$ (8,957)	$ 2,165	$ 471,154

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Balance Sheet Data:

	Successor		Predecessor			
	As of	As of	As of December 31,			
(in thousands)	September 30, 2010	December 31, 2009	2008	2007	2006	2005
Total assets	$ 522,872	$ 558,914	$ 330,444	$ 460,403	$ 392,250	$ 641,089
Total long-term obligations (including current portion)	$ 244,109	$ 257,516	$ 604,837	$ 673,903	$ 644,074	$ 635,212
Total liabilities	$ 433,626	$ 459,005	$ 789,169	$ 907,943	$ 860,506	$ 877,423
Total Primus Telecommunications Group, Incorporated stockholders equity (deficit)	$ 89,246	$ 99,909	$ (461,539)	$ (447,540)	$ (468,255)	$ (236,334)

Discontinued Operations Data:

	Successor	Predecessor				
	Six Months Ended	Six Months Ended	As of December 31,			
(in thousands)	December 31, 2009	July 1, 2009	2008	2007	2006	2005
Net revenue	$ 26,813	$ 26,271	$ 66,876	$ 76,647	$ 109,939	$ 213,693
Operating expenses	$ 29,322	$ 27,408	$ 71,718	$ 91,187	$ 152,606	$ 261,999
Income (loss) from operations	$ (2,509)	$ (1,137)	$ (4,842)	$ (14,540)	$ (42,667)	$ (48,306)
Interest expense	$ (45)	$ (42)	$ 83	$ (664)	$ (255)	$ (369)
Interest income and other income (expense), net	$ (160)	$ 37	$ 52	$ (314)	$ (67)	$ (474)
Foreign currency transaction gain (loss)	$ (1,184)	$ 788	$ (808)	$ (41)	$ (1,196)	$ (6,292)
Reorganization items, net	$ (14)	$ 15,269	$	$	$	$
Income (loss) before income tax	$ (3,912)	$ 14,915	$ (5,515)	$ (15,559)	$ (44,185)	$ (55,441)
Income tax benefit (expense)	$ (138)	$ 166	$ (375)	$ (34)	$ 46	$ (667)
Income (loss) from discontinued operations	$ (4,050)	$ 15,081	$ (5,890)	$ (15,593)	$ (44,139)	$ (56,108)

	Successor		Predecessor
	Nine Months Ended September 30, 2010	Three Months Ended September 30, 2009	Six Months Ended July 1, 2009
Net revenue	$ 35,430	$ 13,001	$ 26,271
Impairment of goodwill and long-lived assets	6,161		
Operating expenses	38,386	14,530	27,408
Income (loss) from operations	(9,117)	(1,529)	(1,137)
Interest expense	(35)	(16)	(42)
Interest income and other income (expense), net	239	4	37
Foreign currency transaction gain (loss)	(639)	(533)	788
Reorganization items, net			15,269
Income (loss) before income tax	(9,552)	(2,074)	14,915
Income tax benefit (expense)	1,871	(36)	166

Income (loss) from discontinued operations	$ (7,681)	$ (2,110)	$ 15,081

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Factors That Could Impact Reported Future Results

Certain portions of the consolidated financial data of Primus presented above have been derived from consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. In the opinion of management, the financial statements reflect all adjustments (all of which are of a normal and recurring nature), which are necessary to present fairly the financial position, results of operations, cash flows and comprehensive income (loss) for the interim periods. The results for Primus are not necessarily indicative of the results that may be expected for future periods.

In reviewing the results provided in the tables above, it is important to note that there were significant changes resulting from the adoption of fresh start accounting that affected Primus s historical presentations and that will impact future results compared to pre-reorganization or Predecessor results, including significant changes in:

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

In light of the foregoing, past Predecessor results should not be considered comparable and are not indicative of results for corresponding future Successor periods, and material differences in results of operations and liquidity may arise in the future as a result of these factors, in addition to the factors that could affect Primus s business, as described in Risk Factors and Cautionary Statements Concerning Forward-Looking Statements on pages 38 and 55, respectively.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF ARBINET

The following table presents selected historical consolidated financial and operating data of Arbinet. The financial data as of, and for the years ended, December 31, 2009, 2008, 2007, 2006 and 2005 are derived from Arbinet s audited consolidated financial statements for those periods. The financial data as of, and for the nine months ended, September 30, 2010 and 2009 are derived from Arbinet s unaudited condensed consolidated financial statements for those periods. Arbinet s management believes that Arbinet s interim unaudited financial statements have been prepared on a basis consistent with its audited financial statements and include all normal and recurring adjustments necessary for a fair presentation of the results for each interim period.

The information in the following table is only a summary and is not indicative of the results of future operations of Arbinet. You should read the following information together with Arbinet s Financial Statements for the year ended December 31, 2009, and for the quarter ended September 30, 2010, beginning on page F-2 of this joint proxy statement/prospectus. You should also refer to the section entitled Where You Can Find More Information beginning on page 183 of this joint proxy statement/prospectus.

	Nine Months Ended September 30,		Year Ended December 31,				
	2010	2009	2009	2008	2007	2006	2005
	(in thousands, except per share amounts)						
Statements of Operations Data:							
Trading revenues	$ 230,454	$ 231,019	$ 305,792	$ 418,492	$ 483,891	$ 495,115	$ 481,607
Fee revenues	23,452	26,001	33,684	48,356	50,058	47,863	48,848
Total revenues	253,906	257,020	339,476	466,848	533,949	542,978	530,455
Cost of trading revenues	230,601	231,170	305,696	418,890	484,116	495,159	481,200
Indirect cost of trading and fee revenues	10,788	13,843	18,132	19,698	20,380	17,118	15,888
Total cost of trading and fee revenues	241,389	245,013	323,828	438,588	504,496	512,277	497,088
Gross profit	12,517	12,007	15,648	28,260	29,453	30,701	33,367
Other operating expenses:							
Sales and marketing	5,387	5,659	7,566	10,211	9,690	8,126	7,660
General and administrative	11,908	7,513	10,685	11,677	13,507	16,189	11,625
Depreciation and amortization	5,015	5,400	7,147	7,501	7,574	6,923	8,865
Severance charges	1,389	361	470	1,422	1,318	320	
Restructuring (benefit) and other exit costs			629		(672)		(2,673)
Impairment charge				3,442			
Reserve for litigation					1,940	507	
Total other operating expenses	23,699	18,933	26,497	34,253	33,357	32,065	25,477
Income (loss) from operations	(11,182)	(6,926)	(10,849)	(5,993)	(3,904)	(1,364)	7,890
Interest income	58	107	122	948	2,744	3,135	1,780
Interest expense	(465)	(520)	(626)	(577)	(966)	(1,143)	(1,459)
Foreign currency transaction gain (loss)	(1,280)	2,081	2,331	(6,978)	74	1,013	(469)
Other income, net	(938)	237	321	287	553	329	339
Income (loss) from continuing operations before income taxes	(13,807)	(5,021)	(8,701)	(12,313)	(1,499)	1,970	8,081
(Benefit) provision for income taxes	62	197	(39)	392	232	2,013	(1,298)
Net income (loss) from continuing operations	(13,869)	(5,218)	(8,662)	(12,705)	(1,731)	(43)	9,379
Discontinued operations:							
Income (loss) from discontinued operations, net of income tax				(2,228)	(5,210)	(346)	296
Net income (loss) attributable to common stockholders	$ (13,869)	$ (5,218)	$ (8,662)	$ (14,933)	$ (6,941)	$ (389)	$ 9,675

Net income (loss) per common share(1):							
Basic	$ (2.53)	$ (0.96)	$ (1.59)	$ (2.50)	$ (1.11)	$ (0.06)	$ 1.57
Diluted	$ (2.53)	$ (0.96)	$ (1.59)	$ (2.50)	$ (1.11)	$ (0.06)	$ 1.50
Dividends per common share(1)	$	$	$	$ (1.60)	$	$	$

(1) On June 11, 2010, Arbinet effected a 1:4 reverse split of its common stock. The per common share amounts were multiplied by 4, accordingly.

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	As of September 30,		As of December 31,				
	2010	2009	2009	2008	2007	2006	2005
				(in thousands)			
Balance Sheet Data:							
Cash and cash equivalents	$ 13,240	$ 18,345	$ 15,492	$ 16,224	$ 28,556	$ 32,986	$ 40,365
Marketable securities	$ 5,208	$ 6,264	$ 6,407	$ 7,926	$ 20,344	$ 30,051	$ 23,231
Total assets	$ 57,819	$ 66,933	$ 67,737	$ 79,358	$ 109,934	$ 132,522	$ 119,679
Loan payable and other long-term obligations	$ 5,083	$ 3,600	$ 3,600	$ 3,600	$ 7	$ 115	$ 1,031
Notes payable	$	$	$	$	$ 493	$ 561	$
Due to Silicon Valley Bank	$	$ 965	$ 2,014	$ 371	$ 285	$ 8,078	$
Accumulated deficit	$ (134,404)	$ (117,091)	$ (120,535)	$ (111,873)	$ (96,941)	$ (89,964)	$ (88,323)
Total stockholders equity	$ 28,479	$ 43,517	$ 40,332	$ 49,745	$ 79,661	$ 86,931	$ 85,770

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SUMMARY UNAUDITED PRO FORMA COMBINED FINANCIAL DATA OF PRIMUS

The following tables set forth certain selected unaudited pro forma condensed combined financial statement data of Primus after giving effect to the merger as if the merger had occurred on September 30, 2010 for balance sheet data and on January 1, 2009 for statement of operations data.

The unaudited pro forma condensed combined financial statement data in the table below should be read in conjunction with the historical financial statements of Primus and Arbinet that are included or incorporated by reference in this joint proxy statement/prospectus and the unaudited pro forma condensed combined financial statements beginning on page F-54. The unaudited pro forma condensed combined financial statements are provided for informational purposes only and are not necessarily indicative of the operating results or financial position that would have occurred if the merger had been completed as of the dates set forth above, nor are they indicative of the future results or financial position of the combined company.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Pro Forma	
	Year Ended December 31, 2009	**Nine Months Ended September 30, 2010**
NET REVENUE	$ 1,092,217	$ 819,063
OPERATING EXPENSES		
Cost of revenue (exclusive of depreciation included below)	798,018	592,491
Selling, general and administrative	215,436	172,769
Depreciation and amortization	78,224	55,158
(Gain) loss on sale or disposal of assets	59	(179)
Total operating expenses	1,091,737	820,239
INCOME (LOSS) FROM OPERATIONS	480	(1,176)
INTEREST EXPENSE	(35,022)	(26,661)
(ACCRETION) AMORTIZATION ON DEBT PREMIUM/DISCOUNT, net	(3)	(135)
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	(4,146)	164
GAIN (LOSS) FROM CONTINGENT VALUE RIGHTS VALUATION	(2,804)	(2,392)
INTEREST INCOME AND OTHER INCOME (EXPENSE)	1,313	(263)
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	42,229	8,932
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	2,047	(21,531)
INCOME TAX BENEFIT (EXPENSE)	11,227	7,229
INCOME (LOSS) FROM CONTINUING OPERATIONS	13,274	(14,302)
BASIC INCOME (LOSS) PER COMMON SHARE:		
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ 1.04	$ (1.15)
DILUTED INCOME (LOSS) PER COMMON SHARE:		
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ 1.02	$ (1.15)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	12,434	12,545
Diluted	12,733	12,545

AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED		
Income (loss) from continuing operations, net of tax	$ 13,274	$ (14,302)
Net (income) loss attributable to the noncontrolling interest	(301)	(104)
Income (loss) from continuing operations, net of tax and net (income) loss attributable to the noncontrolling interest	$ 12,973	$ (14,406)

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Balance Sheet Data:

(in thousands)	Pro Forma As of September 30, 2010
Total assets	$ 585,073
Total long-term obligations (including current portion)	244,228
Total liabilities	459,329
Total Primus Telecommunications Group, Incorporated stockholders equity (deficit)	125,744

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UNAUDITED COMPARATIVE PER SHARE INFORMATION

The following table sets forth selected historical and unaudited pro forma combined per share information of Primus and Arbinet.

Pro Forma Combined Per Share Information of Primus. The unaudited pro forma combined per share information of Primus below gives effect to the merger under the acquisition method of accounting, as if the merger had been effective on January 1, 2009, in the case of net income per share and cash dividends per share data, and September 30, 2010, in the case of book value per share data, and assuming that 0.5126 of a share of Primus common stock had been issued in exchange for each outstanding share of Arbinet common stock.

The accounting for an acquisition of a business is based on the authoritative guidance for business combinations. Acquisition accounting requires, among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. Acquisition accounting is dependent upon certain valuations of Arbinet s assets and liabilities and other studies that have yet to progress to a stage where there is sufficient information for a definitive measurement. Accordingly, the pro forma adjustments reflect the assets and liabilities of Arbinet at their preliminary estimated fair values. Differences between these preliminary estimates and the final acquisition accounting will occur and these differences could have a material impact on the unaudited pro forma combined per share information set forth in the following table.

The unaudited pro forma combined per share information of Primus does not purport to represent the actual results of operations that Primus would have achieved had the companies been combined during these periods or to project the future results of operations that Primus may achieve after the merger.

Historical Per Share Information of Primus and Arbinet. The historical per share information of each of Primus and Arbinet below is derived from the audited financial statements as of, and for the six months ended, December 31, 2009 for Primus and as of, and for the year ended, December 31, 2009 for Arbinet, and the unaudited condensed consolidated financial statements as of, and for the nine months ended, September 30, 2010 for each such company.

Equivalent Pro Forma Combined Per Share Information of Arbinet. The unaudited equivalent pro forma combined per share amounts of Arbinet below are calculated by multiplying the unaudited pro forma combined per share amounts of Primus by 0.5126.

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Generally. You should read the information below in conjunction with the selected historical financial information included elsewhere in this joint proxy statement/prospectus and the historical financial statements of Primus and Arbinet and related notes that are included in, or incorporated by reference into, this joint proxy statement/prospectus. See Selected Historical Consolidated Financial Data of Primus, Selected Historical Consolidated Financial Data of Arbinet, Incorporation of Certain Documents by Reference and Where You Can Find More Information beginning on pages 23, 29, 182 and 183, respectively.

	Nine Months Ended September 30, 2010	Six Months Ended December 31, 2009(4)	Year Ended December 31, 2009
Primus historical			
Income (loss) per share from continuing operations basic	$ (0.11)	$ 1.13	n/a
Income (loss) per share from continuing operations diluted	(0.11)	1.11	n/a
Cash dividends per common share			n/a
Book value per share at period end(2)	9.16	n/a	n/a
Primus pro forma combined			
Income (loss) per share from continuing operations basic	$ (1.15)	n/a	$ 1.04
Income (loss) per share from continuing operations diluted	(1.15)	n/a	1.02
Cash dividends per common share(1)		n/a	
Book value per share at period end(2)	10.00	n/a	n/a
Arbinet historical			
Income (loss) per share from continuing operations basic	$ (2.53)	n/a	$ (1.59)
Income (loss) per share from continuing operations diluted	(2.53)	n/a	(1.59)
Cash dividends per common share		n/a	
Book value per share at period end(2)	5.17	n/a	7.39
Arbinet pro forma (equivalent)(3)			
Income (loss) per share from continuing operations basic	$ (1.30)	n/a	$ (0.81)
Income (loss) per share from continuing operations diluted	(1.30)	n/a	(0.81)
Cash dividends per common share		n/a	
Book value per share at period end(2)	2.65	n/a	3.79

(1) Same as Primus s historical, since no change in dividend policy is expected as a result of the merger.
(2) Historical book value per share is calculated by dividing stockholders equity by the number of Primus or Arbinet common shares outstanding at the end of the period. Pro forma book value per share is computed by dividing pro forma stockholders equity by the pro forma number of Primus common shares basic outstanding at the end of the period. Book value per share is required to be presented on a pro forma basis only for the most recent balance sheet date September 30, 2010.
(3) Amounts are calculated by multiplying the Arbinet historical pro forma combined per share amounts by 0.5126.
(4) Presents Successor results only for Primus for the six months ended December 31, 2009 as related to the operations of the reorganized Primus and as related to Primus s New Common Stock (as defined on the following page). On June 30, 2009, shares of Primus s Old Common Stock (as defined on the following page) were cancelled pursuant to the terms of the Plan of Reorganization, and 9,600,000 shares of New Common Stock were issued. Primus has no continuing obligations with respect to the Old Common Stock as presented in Primus s predecessor data.

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COMPARATIVE PRIMUS AND ARBINET MARKET PRICE AND DIVIDEND DATA

Market Price

Shares of Primus common stock have been quoted on the OTC Bulletin Board under the symbol PMUG since July 1, 2009 (such common stock is referred to in this section of the joint proxy statement/prospectus as Primus New Common Stock). Shares of Primus common stock issued and outstanding immediately prior to July 1, 2009, or Predecessor Old Common Stock, traded on the over-the-counter market, both through quotations on the OTC Bulletin Board and in the National Quotation Bureau Pink Sheets. On June 30, 2009, shares of Predecessor Old Common Stock were cancelled pursuant to the terms of Primus s Plan of Reorganization and 9,600,000 shares of Primus New Common Stock were issued. Primus has no continuing obligations with respect to Predecessor Old Common Stock. In connection with the merger, Primus is to use its reasonable best efforts to have its common stock listed for trading on the NASDAQ.

Shares of Arbinet common stock are currently listed on the NASDAQ Global Market under the symbol ARBX .

The following tables set forth, for the calendar quarters indicated, the intra-day high and low sale prices per share of Primus common stock, as reported by the OTC Bulletin Board, and per share of Arbinet common stock, as reported on the NASDAQ Global Market. Primus historically has retained its earnings for the development of its business and, accordingly, has not paid dividends during the periods covered in the Primus table below. The Arbinet table also shows the amount of cash dividends declared per share of Arbinet common stock for the calendar quarters indicated. With respect to Primus, these prices do not include retail markups, markdowns and commissions.

	Primus New Common Stock(1)		Predecessor Old Common Stock(2)	
	High	Low	High	Low
2011:				
First Quarter (through January 12, 2011)	$ 16.25	$ 12.45		
2010:				
Fourth Quarter	$ 14.00	$ 7.00		
Third Quarter	$ 7.70	$ 6.75		
Second Quarter	$ 7.54	$ 6.15		
First Quarter	$ 7.25	$ 5.65		
2009:				
Fourth Quarter	$ 7.25	$ 5.60		
Third Quarter	$ 7.75	$ 3.20		
Second Quarter			$ 0.04	$ 0.01
First Quarter			$ 0.09	$ 0.003

(1) 9,600,000 shares of Primus New Common Stock were issued pursuant to the terms of Primus s Plan of Reorganization and trading commenced on July 1, 2009 on a when issued basis. Since July 1, 2009, the Primus New Common Stock has been quoted on the OTC Bulletin Board and trades under the symbol PMUG .

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

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	Arbinet Common Stock(1)		
	High	Low	Cash Dividends Declared
2011:			
First Quarter (through January 12, 2011)	$ 9.66	$ 7.91	$
2010:			
Fourth Quarter	$ 8.50	$ 5.03	$
Third Quarter	$ 8.17	$ 6.83	$
Second Quarter	$ 9.99(2)	$ 7.40(2)	$
First Quarter	$ 10.00	$ 7.76	$
2009:			
Fourth Quarter	$ 11.00	$ 7.72	$
Third Quarter	$ 12.32	$ 6.84	$
Second Quarter	$ 9.00	$ 6.00	$
First Quarter	$ 8.00	$ 5.60	$

(1) On June 11, 2010, Arbinet effected a 1:4 reverse split of its common stock. All prices in and prior to the first quarter of 2010 have been multiplied by 4, accordingly.

(2) The high and low stock prices shown have been calculated based on the prices of the stock values from April 1, 2010 through June 11, 2010 multiplied by 4, as compared to the stock prices from June 14, 2010 through the end of the second quarter.

The following table presents closing prices per share of Primus common stock on the OTC Bulletin Board and Arbinet common stock as reported on the NASDAQ Global Market as of November 10, 2010, the last full trading day before the public announcement of the execution of the merger agreement by Primus and Arbinet, and as of January 7, 2011. This table also presents the merger consideration equivalent proposed for each share of Arbinet common stock on each of the specified dates. These illustrative values are calculated by multiplying the closing price of Primus common stock on those dates by 0.5126. Such number was calculated by making certain assumptions about the exchange ratio: (i) the $28,000,000 base price was not increased in connection with any IP Sale, (ii) there were assumed to be 98,839 shares of Primus common stock issuable at or after the closing of the merger in connection with Primus s assumption of Arbinet s outstanding warrants, options, stock appreciation rights and other equity awards (which excluded issuable shares that are subject to Arbinet s stock options and stock appreciation rights and for which the exercise price or base price, respectively, is greater than the greater of (x) $6.05 per share of Arbinet common stock and (y) the closing stock price per share of Arbinet common stock on the day prior to the closing of the merger, and, with respect to Arbinet s stock appreciation rights, including only the net number of shares of Arbinet common stock that will be issuable as calculated using the closing price of Arbinet common stock on the day prior to the closing of the merger). The actual exchange ratio cannot be determined until just before closing; the actual exchange ratio may vary significantly from the ratio determined based on the assumptions above.

	Primus Common Stock	Arbinet Common Stock	Equivalent Per Share Value of Arbinet Common Stock
November 10, 2010	$ 9.57	$ 6.90	$ 3.59
January 7, 2011	$ 13.48	$ 8.44	$ 4.33

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The market prices of shares of Primus common stock and Arbinet common stock will fluctuate between the date of this joint proxy statement/prospectus and the completion of the merger, and thus no assurance can be given concerning the market prices of shares of Primus common stock or Arbinet common stock before the completion of the merger or shares of Primus common stock after the completion of the merger. The market value of the merger consideration ultimately received by Arbinet stockholders will depend on the closing price of Primus common stock on the day the merger is consummated. **Arbinet stockholders are encouraged to obtain current market quotations for Primus common stock and current market prices for Arbinet common stock in deciding whether to vote for adoption of the merger agreement.** See Risk Factors Risks Relating to the Merger The calculation of the merger consideration is subject to adjustment for factors that may take place, or will be measured at a time that is, subsequent to the vote of the Arbinet stockholders, and thus Arbinet stockholders cannot be sure of the aggregate value of the merger consideration that they will receive.

Record Holders

As of January 12, 2011 (the record date for each of the Primus and Arbinet special meetings), there were approximately 3 record holders, representing approximately 650 beneficial owners, of Primus common stock and approximately 84 record holders of Arbinet common stock.

Dividends

Arbinet did not declare or pay cash dividends on its common stock in 2009 and 2010. On February 28, 2008, Arbinet s board of directors approved a special one-time cash distribution of $1.60 per share of common stock, calculated based on a 1:4 reverse split effected on June 11, 2010. The aggregate total distribution of approximately $10.0 million was paid on March 28, 2008 to record holders of Arbinet common stock as of the close of business on March 12, 2008. The special cash distribution replaced a $15.0 million stock repurchase plan previously announced on June 11, 2007, or the 2007 Repurchase Plan, under which Arbinet repurchased approximately 209,249 shares, calculated based on a 1:4 reverse split effected on June 11, 2010. Except for this 2008 one-time cash distribution, Arbinet does not currently anticipate paying any cash dividends in the foreseeable future.

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RISK FACTORS

In addition to the other information included or incorporated by reference in this joint proxy statement/prospectus, including the matters addressed in the section entitled Cautionary Statements Concerning Forward-Looking Statements beginning on page 55, you should carefully consider the following risk factors before deciding how to vote with respect to the merger. In addition, you should read and consider the risks associated with each of the businesses of Primus and Arbinet because these risks will also affect the combined company; some of these risks can be found in Primus s Annual Report on Form 10-K, as updated by subsequent Quarterly Reports on Form 10-Q, all of which are filed with the SEC and incorporated by reference into this joint proxy statement/prospectus. You should also read and consider the other information in this joint proxy statement/prospectus and the other documents incorporated by reference in this joint proxy statement/prospectus. For more information, see Where You Can Find More Information beginning on page 183.

Risks Relating to the Merger

The calculation of the merger consideration is subject to adjustment for factors that may take place, or will be measured at a time that is, subsequent to the vote of the Arbinet stockholders, and thus Arbinet stockholders cannot be sure of the aggregate value of the merger consideration that they will receive.

The calculation of the number of shares of Primus common stock to be issued to Arbinet stockholders pursuant to the merger agreement will be adjusted based on certain events or factors, some of which may occur after the vote of Arbinet s stockholders with respect to the Arbinet merger proposal. If the merger is completed, each share of Arbinet common stock (other than shares subject to perfected appraisal rights and other than any shares of Arbinet held by Primus, Arbinet or any of their respective direct or indirect wholly owned subsidiaries, in each case except for any such shares held on behalf of third parties) will be converted into the right to receive the number of shares of Primus common stock equal to an exchange ratio, which will be calculated as follows:

(i) $28,000,000, which may be increased by the net proceeds of a sale of Arbinet s patents and associated rights to a third party for cash, or an IP Sale;

divided by

(ii) the number of shares of Arbinet common stock issued and outstanding immediately prior to the consummation of the merger *plus* shares that may become issuable as Primus common stock at or after the closing of the merger in connection with Primus s assumption of Arbinet s outstanding warrants, options, stock appreciation rights, or SARs, and other equity awards, but with respect to such issuable shares:

a. shall exclude issuable shares subject to Arbinet s stock options and stock appreciation rights as of the closing of the merger and for which the exercise price or base price, respectively, is greater than the greater of (x) $6.05 per share of Arbinet common stock and (y) the closing stock price per share of Arbinet common stock on the day prior to the closing of the merger; and

b. with respect to Arbinet s stock appreciation rights, shall include only the net number of shares of Arbinet common stock that will be issuable as calculated using the closing price of Arbinet common stock on the day prior to the closing of the merger;

divided by

(iii) $9.5464.

Thus, the exchange ratio of Primus common stock for each share of Arbinet common stock may be increased if an IP Sale were to occur prior to the consummation of the merger and the net proceeds of the IP Sale were not distributed directly to Arbinet stockholders.

The exchange ratio will also be affected by the number of shares of Arbinet common stock issued and outstanding immediately prior to the consummation of the merger, as well as the number of shares of Arbinet

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common stock that will be issuable as described in clause (ii) above. There are certain restrictions in the merger agreement on the ability of Arbinet to issue additional shares of common stock or awards relating to Arbinet common stock. As of January 7, 2011, there were 5,529,435 shares of Arbinet common stock issued and outstanding, 359 shares of Arbinet common stock subject to Arbinet warrants, 73,678 shares of Arbinet common stock subject to Arbinet equity awards other than options or SARs, and 118,795 shares of Arbinet common stock subject to Arbinet options and SARs with an exercise price or base price, respectively, less than the greater of (x) $6.05 per share of Arbinet common stock and (y) the closing price of $8.44 per share of Arbinet common stock on January 7, 2011; thus, as of January 7, 2011, with a closing price of $8.44 per share of Arbinet common stock, approximately 5,722,267 shares of Arbinet common stock in the aggregate would count in the calculation of the exchange ratio formula provided above. Note that some shares of Arbinet common stock that are issuable under Arbinet options or SARs and have an exercise price or base price, respectively, in excess of $6.05 per share of Arbinet common stock may not be excluded from the computation of the exchange ratio at the time of the merger to the extent the closing stock price per share of Arbinet common stock on the day prior to the closing of the merger is in excess of $6.05 per share of Arbinet common stock.

The dollar value of the consideration received by Arbinet stockholders will depend upon the market value of Primus s common stock at the effective time of the merger, and such dollar value may be different from, and lower than, the dollar value of the merger consideration on the date the merger agreement was announced, on the date that this joint proxy statement/prospectus is mailed to Arbinet stockholders, on the date of the special meeting of Arbinet stockholders and after the closing of the merger.

Stock price changes may result from a variety of factors that are beyond the control of Primus and Arbinet, including:

- market reaction to the announcement of the merger and market assessment of the likelihood of the merger being consummated;
- changes in the respective businesses, operations or prospects of Primus or Arbinet, including Primus s and Arbinet s ability to meet earnings estimates;
- governmental or litigation developments or regulatory considerations affecting Primus or Arbinet or the telecommunications industry;
- general business, market, industry or economic conditions; and
- other factors beyond the control of Primus and Arbinet, including those described elsewhere in this Risk Factors section.

Neither party is permitted to walk away from the merger, terminate the merger agreement or resolicit the vote of its stockholders solely because of changes in the market price of either party s common stock.

Arbinet s directors and executive officers have interests in the merger that may be different from, and in addition to, the interests of other Arbinet stockholders.

Arbinet s directors and executive officers are parties to agreements or participants in other arrangements that give them interests in the merger that may be different from, or in addition to, your interests as a stockholder of Arbinet, which could create conflicts of interest in their determinations to recommend the merger. You should consider these interests in voting on the merger. We have described these different interests under The Merger Interests of Certain Persons in the Merger that May be Different from Your Interests beginning on page 123.

We may not realize the anticipated benefits of the merger.

Primus and Arbinet entered into the merger agreement with the expectation that the merger would result in various benefits including, among other things, synergies, cost savings, maintaining business and customer levels of activity and operating efficiencies. The success of the merger will depend, in part, on the combined company s

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ability to realize these anticipated benefits from combining the businesses of Primus and Arbinet. However, to realize these anticipated benefits, the combined company must successfully combine the businesses of Primus and Arbinet. If we are not able to achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected.

Primus and Arbinet have operated and, until the completion of the merger, will continue to operate independently. It is possible that the integration process could take longer than anticipated and could result in the loss of valuable employees or the disruption of each company s ongoing businesses or inconsistencies in standards, controls, procedures, practices, policies and compensation arrangements, which could adversely affect the combined company s ability to achieve the anticipated benefits of the merger. The combined company s results of operations could also be adversely affected by any issues attributable to either company s operations that arise or are based on events or actions that occur prior to the closing of the merger. Primus may have difficulty addressing possible differences in corporate cultures and management philosophies. Integration efforts between the two companies will also divert management attention and resources. These integration activities could have an adverse effect on the businesses of both Primus and Arbinet during the transition period. The integration process is subject to a number of uncertainties. Although Primus s plans for integration are focused on minimizing those uncertainties to help achieve the anticipated benefits, no assurance can be given that these benefits will be realized or, if realized, the timing of their realization. Failure to achieve these anticipated benefits could result in increased costs or decreases in the amount of expected revenues and could adversely affect Primus s future business, financial condition, operating results and prospects. In addition, we may not be able to eliminate duplicative costs or realize other efficiencies from integrating the businesses to offset part or all of the transaction and merger-related costs incurred by Primus and Arbinet.

The date that Arbinet stockholders will receive the merger consideration is uncertain.

The date that Arbinet stockholders will receive the merger consideration depends on the completion date of the merger, which is uncertain. While we expect to complete the merger by the end of February 2011, the completion date of the merger might be later than expected because of unforeseen events.

Business uncertainties and contractual restrictions while the merger is pending may have an adverse effect on Arbinet or Primus.

Uncertainty about the effect of the merger on employees, suppliers, partners, regulators and customers may have an adverse effect on each of Arbinet and Primus. These uncertainties may impair each of Arbinet s and Primus s ability to attract, retain and motivate key personnel until the merger is consummated and could cause suppliers, customers and others that deal with Arbinet or Primus to defer purchases or other decisions concerning Arbinet or Primus, respectively, or seek to change existing business relationships with Arbinet or Primus, respectively. In addition, the merger agreement restricts both Primus and Arbinet from making certain acquisitions and taking other specified actions without the other s approval. These restrictions could prevent either party from pursuing attractive business opportunities that may arise prior to the completion of the merger.

Failure to complete the merger or delays in completing the merger could negatively affect Primus s and Arbinet s stock prices and future businesses and operations.

If the merger is not completed for any reason, Primus and Arbinet may be subject to a number of risks, including the following:

- the separate companies will not realize the benefits expected from the merger, including a potentially enhanced financial and competitive position;

- the current market price of Primus common stock or Arbinet common stock may reflect a market assumption that the merger will occur and a failure to complete the merger could result in a negative perception by the stock market of either company or both generally and a resulting decline in the market price of its or their common stock;

- certain costs relating to the merger, including certain investment banking, financing, legal and accounting fees and expenses, must be paid even if the merger is not completed, and either party may be required to pay substantial fees or reimbursements to the other if the merger agreement is terminated under specified circumstances; and

- there may be substantial disruption to each of Primus s and Arbinet s business and distraction of each company s management and employees from day-to-day operations because matters related to the merger (including integration planning) may require substantial commitments of time and resources, which could otherwise have been devoted to other opportunities that could have been beneficial to Primus or Arbinet, as applicable.

Delays in completing the merger could exacerbate uncertainties concerning the effect of the merger, which may have an adverse effect on the business following the merger and could defer or detract from the realization of the benefits expected to result from the merger.

The merger agreement restricts Arbinet s ability to pursue alternatives to the merger.

The merger agreement contains a limited go-shop provision that allowed Arbinet to solicit, initiate and pursue alternative acquisition proposals for 45 days following the execution of the merger agreement, which period expired on December 25, 2010. The merger agreement contains no shop provisions that, subject to limited fiduciary exceptions and the go-shop period, restrict Arbinet s ability to initiate, solicit, encourage or facilitate, discuss, negotiate or accept a competing third party proposal to acquire all or a significant part of Arbinet. Further, there are a limited number of exceptions that would allow Arbinet s board of directors to withdraw or change its recommendation to holders of Arbinet common stock that they vote in favor of the approval and adoption of the merger agreement. Although Arbinet s board of directors is permitted to take these actions if it determines in good faith that these actions are likely to be required to comply with its fiduciary duties, doing so in specified situations could entitle Primus to terminate the merger agreement and to be paid a termination fee of $1,250,000.

Primus required that Arbinet agree to these provisions as a condition to Primus s willingness to enter into the merger agreement. However, these provisions could discourage a potential acquiror that might have an interest in acquiring all or a significant part of Arbinet from considering or proposing that acquisition, even if it were prepared to pay consideration with a higher per share cash or market value than the consideration Primus proposes to pay in the merger or might result in a potential competing acquiror proposing to pay a lower per share price to acquire Arbinet than it might otherwise have proposed to pay because of the added expense of the termination fee that may become payable to Primus in certain circumstances.

Ownership by Primus stockholders will be diluted by the merger.

The merger will dilute the ownership position of the current stockholders of Primus. Pursuant to the merger agreement, and assuming the $28,000,000 base price is not increased in connection with a sale of Arbinet s patents and associated rights to a third party for cash, Primus would issue to Arbinet stockholders up to 2,933,043 shares of Primus common stock in the merger, which, if issued in full, would represent an increase in the Primus aggregate shares issued and outstanding of 29.9%. As a result, assuming full issuance of the 2,933,043 shares of Primus common stock to Arbinet stockholders, Primus stockholders would hold 77.0% of the combined company s common stock outstanding after the completion of the merger, and Arbinet stockholders would hold 23.0% of the combined company s common stock outstanding after the completion of the merger.

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The rights of Arbinet stockholders will be governed by Primus s restated certificate of incorporation, as amended, and restated by-laws.

All Arbinet stockholders who receive shares of Primus common stock in the merger will become Primus stockholders and their rights as stockholders will be governed by Primus s restated certificate of incorporation, as amended, and its restated by-laws. There are material differences between the current rights of Arbinet stockholders, which are governed by Arbinet s amended and restated certificate of incorporation and second amended and restated by-laws, and the rights of holders of Primus common stock. See Comparison of Stockholder Rights beginning on page 155.

The unaudited pro forma condensed combined financial statements are presented for illustrative purposes only, do not purport to be indicative of what the combined company s actual financial position or results of operations would have been had the transaction been completed on the dates indicated and may not be an indication of the combined company s financial condition or results of operations following the transaction.

The unaudited pro forma condensed combined financial statements contained in this joint proxy statement/prospectus are presented for illustrative purposes, do not purport to be indicative of what the combined company s actual financial position or results of operations would have been had the transaction been completed on the dates indicated and may not be an indication of the combined company s financial condition or results of operations following the merger for several reasons. The unaudited pro forma condensed combined financial statements have been derived from the historical financial statements of Primus and Arbinet and adjustments and assumptions have been made regarding the combined company after giving effect to the transaction. The information upon which these adjustments and assumptions have been made is preliminary, and these kinds of adjustments and assumptions are difficult to make with accuracy and are subject to further refinement. Moreover, the unaudited pro forma condensed combined financial statements do not reflect ongoing cost savings, operating synergies or revenue enhancements that Primus expects to achieve as a result of the merger, the costs to integrate the operations of Primus and Arbinet, or the costs necessary to achieve these costs savings, operating synergies or revenue enhancements. As a result, the actual financial condition and results of operations of the combined company following the merger may not be consistent with, or evident from, these unaudited pro forma condensed combined financial statements.

The assumptions used in preparing the unaudited pro forma condensed combined financial information may not prove to be accurate, and other factors may affect the combined company s financial condition or results of operations following the transaction. See Unaudited Pro Forma Condensed Combined Financial Information beginning on page F-54.

The financial forecasts of Primus and Arbinet included in this joint proxy statement/prospectus involve risks, uncertainties and assumptions, many of which are beyond the control of Primus and Arbinet. As a result, they may not prove to be accurate and are not necessarily indicative of current values or future performance.

The financial forecasts of Primus and Arbinet contained in this joint proxy statement/prospectus involve risks, uncertainties and assumptions and are not a guarantee of future performance. The future financial results of Primus and Arbinet may materially differ from those expressed in the financial forecasts due to factors that are beyond Arbinet s and Primus s ability to control or predict. Neither Primus nor Arbinet can provide any assurance that Primus s or Arbinet s financial forecasts, respectively, will be realized or that Primus s or Arbinet s future financial results, respectively, will not materially vary from the financial forecasts. The financial forecasts cover multiple years, and the information by its nature becomes subject to greater uncertainty with each successive year. The financial forecasts do not take into account any circumstances or events occurring after the date they were prepared.

More specifically, the financial forecasts:

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

The financial forecasts were not prepared with a view toward public disclosure or compliance with published guidelines of the SEC or the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information or United States generally accepted accounting principles, or U.S. GAAP, and do not reflect the effect of any proposed or other changes in U.S. GAAP that may be made in the future. See Certain Unaudited Prospective Financial Information beginning of page 107.

Some of the conditions to the merger may be waived by Primus or Arbinet without resoliciting stockholder approval of the proposals approved by them.

Some of the conditions set forth in the merger agreement may be waived by Primus or Arbinet, subject to certain limitations. See The Merger Agreement Conditions to Completion of the Merger beginning on page 147. If any conditions are waived, Primus and Arbinet will evaluate whether amendment of this joint proxy statement/prospectus and resolicitation of proxies are warranted. If the board of directors of Primus or Arbinet determines that resolicitation of their respective stockholders is not warranted, the applicable company will have the discretion to complete the merger without seeking further stockholder approval.

The merger may fail to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code resulting in Arbinet stockholders recognizing taxable gain or loss in respect of their Arbinet common stock.

Although the merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, a distribution by Arbinet of certain patents and associated rights (or the proceeds from a sale thereof) may prevent the merger from qualifying as a reorganization. Additionally, no assurance can be given that the IRS will not assert, or that a court would not sustain, that the merger does not qualify as a reorganization. If the merger fails to qualify as a reorganization, Arbinet stockholders generally would recognize gain or loss equal to the difference between (1) the sum of the fair market value of the shares of Primus common stock and any cash received instead of fractional shares of Primus common stock pursuant to the merger and (2) their adjusted tax basis in the shares of Arbinet common stock surrendered in exchange therefor. For a further discussion see Material U.S. Federal Income Tax Consequences of the Merger beginning on page 152.

Risks Relating to the Combined Company After the Merger

The combined company may not be able to obtain adequate financing to execute its operating strategy.

Primus and Arbinet have historically addressed their respective short- and long-term liquidity needs through the use of bank credit facilities, the issuance of debt securities and the use of cash flow provided by operating activities. The availability of these sources of capital will depend upon a number of factors, some of which are beyond the combined company s control. These factors include general economic and financial market conditions and the combined company s market value and operating performance. The combined company may be unable to fully execute its operating strategy if it cannot obtain capital from these sources.

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

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

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

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

Primus s efforts to have Primus common stock listed for trading on the NASDAQ may be unsuccessful, which may result in limited liquidity for its stockholders.

In connection with the merger, Primus will use its reasonable best efforts to have its common stock listed for trading on the NASDAQ. However, if, despite these efforts, Primus is unsuccessful in having its common stock listed on the NASDAQ and the merger is consummated, Arbinet stockholders would receive shares of Primus common stock that are not listed on a national securities exchange in return for their shares of Arbinet common stock, which are currently listed on the NASDAQ Global Market.

The combined company s ability to use Arbinet s net operating loss carryforwards to offset future taxable income for U.S. federal income tax purposes may be limited as a result of the merger, or if taxable income does not reach sufficient levels.

Arbinet has federal net operating loss carryforwards (NOLs) available to offset future taxable income. The combined company s ability to utilize the Arbinet s NOLs may be limited if Arbinet undergoes an ownership change, as defined in Section 382 of the Code. An ownership change could be triggered by substantial changes in the ownership of the outstanding stock of Arbinet. An ownership change would occur if certain stockholders increase their aggregate percentage ownership of Arbinet stock by more than 50 percentage points over their lowest percentage ownership at any time during the testing period, which is generally the three-year period preceding any potential ownership change. The merger is currently expected to result in an ownership change of Arbinet for purposes of Section 382 of the Code.

Section 382 of the Code imposes an annual limitation on the amount of post-ownership change taxable income that may be offset with pre-ownership change NOLs of the corporation that experiences an ownership change. The limitation imposed by Section 382 of the Code for any post-ownership change year generally would be determined by multiplying the value of such corporation s stock immediately before the ownership change by the applicable long-term tax-exempt rate. Any unused annual limitation may, subject to certain limits, be carried over to later years, and the limitation may under certain circumstances be increased by built-in gains or reduced by built-in losses in the assets held by such corporation at the time of the ownership change. A corporation s NOLs, however, may only be carried forward for 20 years, after which time they expire. In the present case, because of the limitation imposed by Section 382 of the Code, Arbinet s NOLs may expire before they are fully used.

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The combined company s use of NOLs arising after the date of an ownership change would not be limited unless the combined company were to experience a subsequent ownership change. Regardless of the limitation imposed by Section 382 of the Code, the combined company s ability to use NOLs will also depend on the amount of taxable income generated in future periods. NOLs may expire before the combined company can generate sufficient taxable income to utilize the NOLs.

Risks Relating to Primus s Business

In addition to the risks described above, for a discussion of the risks relating to Primus s business, see Risk Factors in Primus s Annual Report on Form 10-K for the year ended December 31, 2009, Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 and subsequently filed reports with the SEC.

Risks Relating to Arbinet s Business

The following is a summary of risk factors more specific to Arbinet s business that are not otherwise similar to risks currently applicable to Primus or the telecommunications industry generally, which risks will become applicable to Primus following the consummation of the merger.

Arbinet has limited operating history as an exchange and as a traditional wholesaler of telecommunications traffic, and experiences risks and difficulties frequently encountered by companies in new and rapidly evolving markets which if not overcome, could be materially harmful to Arbinet s business.

Arbinet has experienced, and expects to continue to experience, risks and difficulties frequently encountered by companies in new and rapidly evolving markets. In order to overcome these risks and difficulties, Arbinet must, among other things:

- generate sufficient usage by the members of Arbinet s comprehensive global electronic market, or the Exchange, for the trading, routing and settling of voice and data capacity;
- maintain and attract a sufficient number of members to Arbinet s global electronic market, also referred to as the Exchange, to sustain profitability;
- execute its business strategy successfully, including successful execution of Arbinet s Internet Exchange business;
- manage its expanding operations;
- upgrade its technology, systems and network infrastructure to accommodate increased traffic and transaction volume and to implement new features and functions; and
- achieve adoption by having customers and potential customers use its new products and services.

Arbinet s failure to overcome these risks and difficulties, and the general risks and difficulties frequently encountered by companies in new and rapidly evolving markets, could impair its ability to expand Arbinet s business, continue its operations and have a material adverse effect on Arbinet s financial condition and operating results.

Arbinet has incurred a cumulative loss since inception and if Arbinet does not maintain or generate significant revenues, it may not return to profitability.

At September 30, 2010, Arbinet s accumulated deficit was $134.4 million. Arbinet incurred a net loss of $8.7 million, $14.9 million, $6.9 million, and $0.4 million for the years ended 2009, 2008, 2007 and 2006, respectively. Arbinet had net income of $9.7 million in 2005. Even though Arbinet has taken steps to reduce its cost structure, it expects to incur significant future expenses, particularly with respect to the

development of new products and services, deployment of additional infrastructure, and expansion in strategic global markets. To

return to profitability, Arbinet must continue to increase the usage of the Exchange by the members and carrier services customers and attract new customers in order to improve the liquidity of the Exchange as well as continue to closely manage its expenses. Arbinet must also deliver superior service to the members, mitigate the credit risks of its business, and develop and commercialize new products and services. Arbinet may not succeed in these activities and may never generate revenues that are significant or large enough to return to profitability on a quarterly or annual basis. A large portion of its revenues is derived from the members on a per-minute and per-megabyte basis. Therefore, a general market decline in the price for voice calls and Internet capacity may adversely affect the fees Arbinet charges the members. Arbinet s failure to return to profitability could impair its ability to expand its business, diversify its product and service offerings or continue its operations.

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

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

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

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

Arbinet s effort to increase the traffic quality of calls on the Exchange could adversely affect its business prospects or results of operations.

In the second half 2008, Arbinet began implementing measures to increase the traffic quality and average duration of calls on the Exchange. These measures included eliminating and streamlining many of the routes offered on the Exchange, resulting in a decline of the number of minutes bought and sold and a decline in Arbinet s revenues. Although Arbinet completed this process in the fourth quarter 2008 and it believes that the decision to streamline some of its routes being offered will positively influence its business in the long term,

Arbinet cannot be certain that the volume of minutes bought and sold on the Exchange will increase or return to previous levels, or that Arbinet will be able to reestablish the routes eliminated in this effort. Arbinet further cannot be certain that the increase in traffic quality will result in its revenues increasing or returning to previous levels. A failure to return to previous volumes or revenue levels could adversely affect its business, financial condition and operating results.

Arbinet s carrier services strategy may adversely affect the activity of members on the Exchange.

Arbinet has traditionally operated as an anonymous Exchange. Arbinet established carrier services to improve its product and service offerings, improve efficiencies and simplify its customers experiences. However, some of the members may view Arbinet s development of a carrier strategy as competitive to their businesses and may limit or eliminate their activity on the Exchange. Any such reduction could have a material adverse effect on Arbinet s financial condition and operating results.

Arbinet may not achieve profitability if it prices inappropriately or fails to manage supply in carrier services.

Arbinet offers its carrier services at a price that is fixed for a specified period of time. In order to achieve profitability, Arbinet has to procure that supply below the offered price. Failure to recognize rising suppliers prices, or less expensive carriers not terminating the traffic as expected, could result in a significant loss to Arbinet.

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

The trading Exchange operates using Arbinet s defined codes so that the buyer is committed to pay the price for those codes and the seller is committing to offer termination using those codes. In the carrier services offering, Arbinet may compile a destination using multiple suppliers, each with their own prices for regions in that destination. However, portability of numbers between carriers at that destination may alter the price for termination. Arbinet is then offering to provide termination to the broader destination to its customers on the assumption that a certain blend of calling will be achieved. If the customer sends a blend of calls that is substantially different from what is expected and all of those calls are to the more expensive parts of a destination, Arbinet may receive invoices that are significantly greater than expected and may limit its ability to complete a sale to the buyer that is profitable for Arbinet.

Arbinet s standard member enrollment cycle can be long and uncertain and may not result in revenues.

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

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

the effect of the ongoing global financial and credit crisis on prospective members credit, spending and cash flow.

Arbinet s settlement procedures subject Arbinet to financial risk on all receivables not accepted by Arbinet s third party credit underwriters under Arbinet s credit arrangements or not covered by Arbinet s other methods of managing its credit risk. In addition, Arbinet may elect to forego potential revenues to avoid certain credit risks, which could materially affect its results of operations.

Arbinet has established an arrangement with Silicon Valley Bank, or SVB, whereby SVB agreed to buy from Arbinet, on a revolving basis, all right, title to, and interest in, the payment of all sums arising out of certain invoices owing or to be owing from certain members on Arbinet s Exchange. In addition, Arbinet established a trade credit insurance policy with a third party credit underwriter, covering Arbinet s accounts receivables generated in rendering its telecommunications services. These arrangements assist in protecting Arbinet from credit losses in the event of nonpayment by buyers on the Exchange. Arbinet is subject to financial risk for any nonpayment by the buyers for receivables that SVB or the third party credit underwriter does not accept. Arbinet seeks to mitigate this risk by evaluating the creditworthiness of each buyer prior to its joining the Exchange, as well as requiring deposits, letters of credit or prepayments from some buyers. Arbinet also manages its credit risk by reducing the amount owed to Arbinet by its buying members by netting the buy amount and the sell amount for each member on the Exchange. In the nine months ended September 30, 2010, approximately 84% of Arbinet s trading revenues were covered by its third party credit agreements, Arbinet s ability to net receipts and payments, and its collection from customers of prepayments, or other cash collateral, of which Arbinet s third party credit underwriters covered 39%. However, Arbinet s credit evaluations cannot fully determine whether buyers can or will pay Arbinet for capacity they purchase through the Exchange. In the future, Arbinet may elect to increase the amount of credit it extends to customers it deems creditworthy in order to reduce its credit underwriting costs. Similarly, current economic conditions may adversely impact SVB or the third party credit underwriter resulting in the inability of such entities to pay Arbinet when they are obligated to do so or at any time. If buyers fail to pay Arbinet for any reason and Arbinet has not been able or has elected not to secure credit risk protection with respect to these buyers, its business could experience a material adverse effect. In the event that the creditworthiness of Arbinet s buyers deteriorates, Arbinet s credit providers and Arbinet may elect not to extend credit and consequently, Arbinet may forego potential revenues which could materially affect its results of operations.

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

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

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

In certain instances, Arbinet offers its customers a fixed rate for specific markets for a set duration. Arbinet may assume the risk on the price of the minutes and Arbinet may not be able to secure the prices from sellers to

ensure Arbinet does not lose money on the minutes purchased by the buyers. Arbinet could incur significant losses related to having a higher cost of minutes sold in relation to the price offered to the buyer of this service.

The market for Arbinet s services is competitive and if Arbinet is unable to compete effectively, its financial results will suffer.

Arbinet faces competition for its voice trading services from communication services providers legacy processes and new companies that may be able to create centralized trading solutions that replicate Arbinet s voice trading platform. These companies may be more effective in attracting voice traffic than the Exchange.

Arbinet s carrier services, PrivateExchange and AssuredAxcess solutions may compete with communication services providers legacy processes, communication services providers themselves and potentially other companies that provide software and services to communication services providers.

Arbinet faces competition for its data trading services from Internet service providers and Internet capacity resellers. In addition, software-based, Internet infrastructure companies focused on Internet protocol route control products may compete with Arbinet for business. Furthermore, Internet network service providers may make technological advancements, such as the introduction of improved routing protocols to enhance the quality of their services, which could negatively impact the demand for Arbinet s data services.

Arbinet may not have the financial resources, technical expertise, sales and marketing abilities or support capabilities to compete successfully with these competitors. Many of Arbinet s current and potential competitors have greater financial resources than Arbinet does and, therefore, may have the ability to adopt aggressive pricing policies. In addition, many of these companies have longer operating histories and may have significantly greater technical, marketing and other resources than Arbinet does and may be able to better attract the same potential customers that Arbinet is targeting. Once communications services providers have established business relationships with Arbinet s competitors, it could be extremely difficult to convince them to utilize the exchange or replace or limit their existing ways of conducting business. These competitors may be able to develop services or processes that are superior to Arbinet s services or processes, or that achieve greater industry acceptance or that may be perceived by buyers and sellers as superior to Arbinet. Where Arbinet competes with legacy processes, it may be particularly difficult to convince customers to utilize the Exchange or replace or limit their existing ways of conducting business.

Furthermore, 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 Arbinet s business.

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

Arbinet expects to continue the expansion of its international operations, which will subject Arbinet to additional risks and uncertainties. Arbinet has established exchange delivery points in New York City, London, Frankfurt, Miami and Hong Kong, and Arbinet intends to expand its presence. Foreign operations are subject to a variety of additional risks that could have an adverse effect on Arbinet s business, including:

- difficulties in collecting accounts receivable and longer collection periods;
- changing and conflicting regulatory requirements;
- potentially adverse tax consequences;

- tariffs and general export restrictions;
- difficulties in integrating, staffing and managing foreign operations;
- political instability;
- seasonal reductions in business activity during the summer months in Europe and certain other parts of the world;
- the impact of local economic conditions and practices;
- potential non-enforceability of Arbinet s intellectual property and proprietary rights in foreign countries; and
- fluctuations in currency exchange rates.

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

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

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

Adverse conditions in the U.S. and international economies and the customers Arbinet serves have impacted Arbinet s results of operations, and may continue to adversely impact its results in the future.

The recent recession in the United States, turmoil in the U.S. financial markets, the economic slowdown and uncertainty over the breadth, depth and duration of the slowdown adversely impacted Arbinet s business in 2008 and 2009 and continue to pose challenges to results of operations. In particular, Arbinet experienced significant declines in trading volumes in 2008 and 2009. Future unfavorable general economic conditions in the U.S. or in one or more of Arbinet s other major markets could negatively affect the affordability of and demand for some of Arbinet s products and services. The business and operating results of communications service providers have been, and will continue to be, materially affected by worldwide economic conditions. In addition, adverse economic conditions may lead to an increased number of Arbinet s customers that are unable to pay for Arbinet s services. If these challenges continue for a significant period or there is significant further deterioration in the global economy, the demand for Arbinet s services will continue to be adversely impacted, and Arbinet s results of operations, financial position and cash flows could be materially and adversely affected.

Risks Related to Arbinet Regulatory Matters

Future governmental regulations may adversely affect the exchange business.

The communications services industry is highly regulated in the United States and in foreign countries. The exchange business may become subject to various United States, United Kingdom and other foreign laws, regulations, agency actions and court decisions. The FCC has jurisdiction over interstate and international communications in the United States, which includes Arbinet s carrier services business. The FCC

currently does not regulate the exchange services Arbinet offers. If, however, the FCC determined that it should regulate the exchange services and that certain of Arbinet s services or arrangements require Arbinet to obtain regulatory

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authorizations, the FCC could order Arbinet to make payments into certain funds supported by regulatory entities, require Arbinet to comply with reporting and other ongoing regulatory requirements and/or fine Arbinet. Arbinet s growth strategy may include activities that will subject Arbinet to additional regulation by the FCC. Arbinet is currently not regulated at the state level, but could be subjected to regulation by individual states as to services that they deem to be within their jurisdiction.

In addition, like many businesses that use the Internet to conduct business, Arbinet operates in an environment of tremendous uncertainty as to potential government regulation. Arbinet believes that it is not currently subject to direct regulation of the services that Arbinet offers other than its carrier services and regulations generally applicable to all businesses. However, governmental agencies have not yet been able to adapt all existing regulations to the Internet environment. Laws and regulations may be introduced and court decisions reached that affect the Internet or other web-based services, covering issues such as member pricing, member privacy, freedom of expression, access charges, content and quality of products and services, advertising, intellectual property rights and information security. In addition, because Arbinet offers its services internationally, foreign jurisdictions may claim that Arbinet is subject to their regulations. Any future regulation may have a negative impact on Arbinet s business by restricting its method of operation or imposing additional costs. Further, as a company that conducts a portion of its business over the Internet, it is unclear in which jurisdictions Arbinet is actually conducting business. Arbinet s failure to qualify to do business in a jurisdiction that requires it to do so could subject Arbinet to fines or penalties, and could result in Arbinet s inability to enforce contracts in that jurisdiction.

Changes in the regulatory framework under which Arbinet s carrier subsidiary operates could adversely affect its business prospects or results of operations.

Arbinet s carrier services subsidiary, Arbinet Carrier Services, Inc., or ACS, is subject to regulation by the FCC and other federal, state and local agencies, which may restrict Arbinet s ability to operate in or provide specified products or services. ACS is required to comply with various FCC reporting obligations and to contribute to Federal communications programs, such as the Universal Service Fund, when applicable. Failure to comply with these obligations may result in fines. The adoption of new laws or regulations or changes to the existing regulatory framework could adversely affect Arbinet s business plans. Further, compliance with the regulatory scheme will add expenses to Arbinet s operating costs. Arbinet expects that these concerns will be offset by improved product and service offerings, improved efficiencies and simplified customers experiences. A failure in this strategy may have a significant impact on Arbinet s operating results.

Risks Relating to Arbinet s Technology

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

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

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

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

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

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

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

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

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

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

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

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

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

water damage;

- power loss; and

- terrorism, sabotage and vandalism.

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

Arbinet s business could be harmed by prolonged electrical power outages or shortages or general availability of electrical resources.

Arbinet s EDPs are susceptible to electrical power shortages, planned or unplanned power outages caused by these shortages, such as those that occurred in California during 2001 and in the Northeast in 2003, and limitations, especially internationally, of adequate power resources. Arbinet attempts to limit exposure to system downtime by housing its equipment in data centers, and using backup generators and power supplies. Power outages that last beyond Arbinet s backup and alternative power arrangements could significantly harm the members and customers and Arbinet s business.

Arbinet s inability to expand or enhance its systems may limit Arbinet s growth.

Arbinet seeks to generate a high volume of traffic and transactions on the Exchange. The satisfactory performance, reliability and availability of Arbinet s processing systems and network infrastructure are critical to Arbinet s reputation and its ability to attract and retain members and customers. Arbinet s revenues depend primarily on the number and the volume of member transactions that are successfully completed. Arbinet needs to expand and upgrades its technology, systems and network infrastructure both to meet increased traffic and to implement new features and functions. Arbinet may be unable to project accurately the rate or timing of increases, if any, in the use of its services or to expand and upgrade its systems and infrastructure to accommodate any increases in a timely fashion.

Arbinet uses internally custom-developed systems to process transactions executed on the Exchange, including billing and collections processing. Arbinet must continually improve these systems in order to accommodate the level of use of the Exchange. In addition, Arbinet may add new features and functionality to its services that may result in the need to develop or license additional technologies. Arbinet s inability to add additional software and hardware or to upgrade its technology, transaction processing systems or network infrastructure to accommodate increased traffic or transaction volume could have adverse consequences. These consequences include unanticipated system disruptions, slower response times, degradation in levels of member or customer support, impaired quality of the members or customers experiences of Arbinet s service and delays in reporting accurate financial information. Arbinet s failure to provide new features or functionality also could result in these consequences. Arbinet may be unable to upgrade effectively and expand its systems in a timely manner or to integrate smoothly any newly developed or purchased technologies with its existing systems. Current adverse economic conditions and tightening credit availability may impair Arbinet s ability to expand and enhance its systems. These difficulties could harm or limit Arbinet s ability to expand its business.

Arbinet s business is dependent on the development and maintenance of the Internet infrastructure.

The success of Arbinet s product and service offerings will depend largely on the development and maintenance of the Internet infrastructure. This includes maintenance of a reliable network backbone with the necessary speed, data capacity and security, as well as timely development of complementary products, for providing reliable Internet access and services. The Internet has experienced, and is likely to continue to experience, significant growth in the numbers of users and amount of traffic. If the Internet continues to

experience increased numbers of users, increased frequency of use or increased bandwidth requirements, the Internet infrastructure may be unable to support the demands placed on it. In addition, the performance of the Internet may be harmed by an increased number of users or bandwidth requirements or by viruses, worms and similar programs. The Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure, and it could face outages and delays in the future. The public Internet is used significantly as the mechanism to interconnect many of Arbinet s customers and suppliers who are using VoIP technologies, and VoIP quality degrades rapidly with congestion or other quality issues in the Internet. Any such outages and delays could significantly reduce the level of Internet usage as well as the level of voice traffic and the processing of transactions on the exchange.

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CAUTIONARY STATEMENTS CONCERNING FORWARD-LOOKING STATEMENTS

This joint proxy statement/prospectus and the documents incorporated by reference herein include forward-looking statements about Primus, Arbinet and the combined company within the meaning of Section 27A of the Securities Act of 1933, as amended (which is referred to as the Securities Act in this joint proxy statement/prospectus), Section 21E of the Securities Exchange Act of 1934, as amended (which is referred to as the Exchange Act in this joint proxy statement/prospectus), and the Private Securities Litigation Reform Act of 1995, regarding the financial condition, results of operations, business strategies, operating efficiencies or synergies, cost savings, revenue enhancements, competitive positions, growth opportunities, plans and objectives of the management of Primus, Arbinet and the combined company following the merger, and statements regarding integration of the businesses of Primus and Arbinet and general economic conditions.

The events and circumstances referred to in forward-looking statements are subject to numerous risks and uncertainties. Although Primus and Arbinet believe that in making such statements their expectations are based on reasonable assumptions, the events and circumstances referred to may be influenced by factors that could cause actual outcomes and results to be materially different from those projected.

Except for their respective obligations to disclose material information under United States federal securities laws, neither Primus nor Arbinet undertakes any obligation to release publicly any revision to any forward-looking statement, to report events or circumstances after the date of this document or to report the occurrence of unanticipated events.

Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as will, would, should, could, plans, projects, likely, expects, anticipates, intends, believes, estimates, thinks, may and similar expressio statements. The following important factors, in addition to those discussed under Risk Factors beginning on page 38 and elsewhere in this joint proxy statement/prospectus, could affect the future results of the telecommunications industry in general, and Primus after the merger in particular, and could cause those results to differ materially from those expressed in or implied by such forward-looking statements:

- the failure to obtain, delays in obtaining or adverse conditions contained in any required regulatory approvals for the merger;
- the failure of Arbinet stockholders to approve and adopt the merger agreement;
- the failure of Primus s stockholders to approve the issuance of shares of Primus common stock pursuant to the merger agreement or to approve the Primus Telecommunications Group, Incorporated Management Compensation Plan, as Amended;
- the ability to integrate successfully Arbinet s operations into the existing operations of Primus;
- the effects of increased expenses due to activities related to the merger;
- the risk that the growth opportunities and cost synergies (or other efficiencies) from the merger may not be fully realized or may take longer to realize than expected;
- disruption from the merger making it more difficult to maintain relationships with customers, employees or suppliers;
- the effects of greater than anticipated competition requiring new pricing, marketing strategies or new product or service offerings and the risk that the combined company will not respond on a timely or profitable basis;

the effects of ongoing changes in the regulation of the telecommunications industry as a result of federal and state legislation and regulation;

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- the ability to adjust successfully to changes in the telecommunications industry and to implement strategies for improving growth;
- adverse changes in the credit markets or in the ratings given to Primus s debt securities by nationally accredited ratings organizations, which could limit or restrict the availability, or increase the cost, of financing;
- the effects of changes in both general and local economic conditions on the markets served by Primus or Arbinet, which can affect demand for its products and services, customer purchasing decisions, collectability of revenues and required levels of capital expenditures;
- changes in accounting policies or practices adopted voluntarily or as required by generally accepted accounting principles or regulations;
- the ability to manage effectively the combined company s operations, operating expenses and capital expenditures and to repay, reduce or refinance outstanding debt;
- the effects of technological changes and competition on the combined company s capital expenditures and product and service offerings, including the lack of assurance that the improvements in the combined company s service offerings will be sufficient to meet or exceed the capabilities and quality of competing service providers;
- changes in income tax rates, tax laws, regulations or rulings, or federal or state tax assessments;
- the effects of any unfavorable outcome with respect to any of Primus s or Arbinet s business s current or future legal, governmental or regulatory proceedings, audits or disputes; and
- the possible impact of adverse changes in political or other external factors over which the combined company would have no control.

In addition, various important risks and uncertainties affecting each of Primus and Arbinet may cause the actual results of the combined company to differ materially from the results indicated by the forward-looking statements in this joint proxy statement/prospectus, including, without limitation:

- the financial condition, financing requirements, prospects and cash flow of Primus and Arbinet;
- expectations of future growth, creation of shareholder value, revenue, foreign revenue contributions and net income, as well as income from operations, margins, earnings per share, cash flow and cash sufficiency levels, working capital, network development, customer migration and related costs, spending on and success with growth products, including broadband Internet, VOIP, wireless, local, data and hosting services, traffic development, capital expenditures, selling, general and administrative expenses, income tax and withholding tax expense, fixed asset and goodwill impairment charges, service introductions, cash requirements and potential asset sales;

increased competitive pressures, declining usage patterns, and the combined company s growth products, bundled service offerings, the pace and cost of customer migration onto the combined company s networks, the effectiveness and profitability of the growth products;

financing, refinancing, debt extension, de-leveraging, restructuring, exchange or tender plans or initiatives and potential dilution of existing equity holders from such initiatives;

liquidity and debt service forecast;

fluctuations in the exchange rates of currencies, particularly of the United States dollar, or USD relative to foreign currencies of the countries where Primus and Arbinet conduct their foreign operations;

timing, extent and effectiveness of cost reduction initiatives and management s ability to moderate or control discretionary spending;

management s plans, goals, expectations, guidance, objectives, strategies, and timing for future operations, acquisitions, asset dispositions, product plans, performance and results;

management s assessment of market factors and competitive developments, including pricing actions and regulatory rulings;

ability to generate net cash proceeds from the disposition of selective assets without material impairment to profitability;

the effect of various buyers and sellers on the Exchange, or members, not trading on the Exchange or utilizing Arbinet s new and additional services;

the continued volatility in the volume and mix of trading activity on Arbinet s Exchange;

uncertain and long member enrollment cycle;

the failure to manage Arbinet s credit risk;

the failure to manage Arbinet s carrier services;

the effect of competition and pricing pressure;

Arbinet s investment in its management team and investments in its personnel;

disruption or uncertainty resulting from recent changes in Arbinet s senior management;

regulatory uncertainty;

system failures, human error and security breaches that could cause Arbinet to lose members and expose Arbinet to liability;

losses in efficiency due to cost cutting and restructuring initiatives;

decreased trading volumes due to Arbinet s efforts to increase call quality on the Exchange; and

the impact of economic conditions and volatility of financial markets on Arbinet, such as decreased availability of credit to Arbinet or members.

Neither Primus nor Arbinet undertake any obligation to update publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

INFORMATION ABOUT PRIMUS AND MERGER SUB

Primus Telecommunications Group, Incorporated

Primus, a Delaware corporation incorporated in 1994, is an integrated facilities-based communications services provider offering a portfolio of international and domestic voice, wireless, Internet, VoIP, data, collocation, data center and outsourced managed services to customers located primarily in Australia, Canada, the United States and Brazil. Primus s largest and primary markets are Australia and Canada where the company has deployed significant network infrastructure. Primus targets customers with significant telecommunications needs, including small- and medium-sized enterprises, multinational corporations, residential customers, and other telecommunication carriers and resellers, and provides these customers with services over Primus s global, facilities-based network of IP soft switches, media-gateways, hosted IP/SIP platforms, broadband infrastructure, fiber capacity, and data centers located in Australia, Canada, the United States and Brazil. Leveraging this global network, Primus is one of the largest providers of international wholesale voice termination services to other telecommunications carriers and resellers.

Demand for Primus s growth services (data center, IP-based voice and broadband) is being driven, in part, by the globalization of the world s economies, the global trend toward telecommunications deregulation and the migration of communications traffic to the Internet. Primus also provides pre-paid and post-paid domestic and international long-distance voice, dial-up Internet and local services, and manages these businesses for cash flow generation that is reinvested in Primus, particularly in Primus s primary markets of Australia and Canada.

Primus s common stock is currently quoted on the OTC Bulletin Board under the symbol PMUG . In connection with the merger, Primus is to use its reasonable best efforts to have its common stock listed for trading on the NASDAQ.

Primus s principal executive offices are located at 7901 Jones Branch Drive, Suite 900, McLean, Virginia 22102, its telephone number is (703) 902-2800 and its web site is *www.primustel.com*.

For more information regarding Primus, see Incorporation of Certain Documents by Reference beginning on page 182 and Where You Can Find More Information beginning on page 183.

PTG Investments, Inc.

PTG Investments, Inc., which is sometimes referred to as Merger Sub, is a Delaware corporation and a wholly owned subsidiary of Primus. Merger Sub was formed solely for the purpose of entering into the merger agreement. Merger Sub has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with the merger.

Merger Sub s principal executive offices are located at 7901 Jones Branch Drive, Suite 900, McLean, Virginia 22102 and its telephone number is (703) 902-2800.

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INFORMATION ABOUT ARBINET

Overview

Arbinet is a leading provider of international voice, data and managed communications services for fixed, mobile and wholesale carriers. Arbinet offers these communication services through three primary voice product offerings, including a spot exchange, a wholesale product called Carrier Services and a PrivateExchange product, which allows customers to create virtual connections with other customers. Arbinet s primary data products leverage its unique routing capabilities to provide the requisite high quality for Internet data transmission.

Arbinet s first product offering is a comprehensive global electronic market, or the Exchange, for the trading, routing and settling of voice and data capacity. Buyers and sellers, or members, of the Exchange, consisting primarily of communications services providers seeking global reach, are indirectly connected to all other members where they buy and sell voice minutes and data capacity through Arbinet s centralized, efficient and liquid marketplace. Communications services providers that do not use the Exchange must individually negotiate and buy access to the networks of other communications services providers globally to send voice calls and data capacity outside of their networks. Arbinet believes that the Exchange marketplace streamlines this process and thereby provides a cost-effective and efficient alternative to negotiating individual, direct connections. Through the Exchange, Arbinet independently assesses the quality of this capacity and these routes and includes that information in the sell order. The key value proposition of the Exchange is its simple structure for members to connect traffic with other members on a cost effective basis.

Arbinet s second product offering is Carrier Services, which is a wholesale trading product based on the traditional model of buying and selling voice termination with standard carrier contracts, rate lock and multiple routing options. Arbinet places its Carrier Services trades on the Exchange. In 2009, Arbinet designed, developed and launched Carrier Services through its subsidiary, Arbinet Carrier Services, Inc., or ACS. The combination of operating Arbinet s Carrier Services business on the Exchange provides a unique opportunity in that Arbinet may originate or terminate traffic for un-serviced or underserved markets on the Exchange, thereby creating incremental supply and demand of traffic on the Exchange. Arbinet s Carrier Services customers not only benefit from this low cost solution for terminating traffic on a managed platform with access to routes posted from the Exchange s 1,100 plus members, but also have the option to place a greater emphasis on quality based routing, rather than simply price based routing. This is a part of Arbinet s ongoing strategy to broaden product and service offerings, and enhance quality and value for Arbinet s customers.

Arbinet s third product offering is PrivateExchange, which gives members access to multiple direct routes via a single interconnection with Arbinet. PrivateExchange enables retail service providers and carriers to create virtual interconnections and aggregate existing interconnections with corresponding carriers that have direct routes into their markets. The members negotiate rates and volumes between themselves using an online tool. Arbinet provides the services to route, bill and settle between the designated parties. On-line reporting and tools allow each member to manage its traffic flow. PrivateExchange enables two service providers to route traffic between each other by utilizing Arbinet s network. Provisioning charges and the time and expense of negotiating new contracts between those members are eliminated. Service providers can aggregate existing and new interconnects and benefit from increased network and port utilization.

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Through the Exchange, which is also utilized by Arbinet s Carrier Services customers, members and customers have access to communications capacity in most countries. As of September 30, 2010, Arbinet had 1,162 members who utilized its voice trading services, including the world s ten largest communications services providers. The following table illustrates the evolving mix of the minutes routed through Arbinet s platform:

			% Change			Interconnect	
		Minutes	from Prior	Wireline/Wireless Mix		Type	
Year Ended December 31,	**Members**	**(In Billions)**	**Year**	**Wireline**	**Wireless**	**Traditional**	**VoIP**
2007	990	14.4	14%	56%	44%	65%	35%
2008	1,146	13.2	(8)%	52%	48%	59%	41%
2009	1,170	10.3	(22)%	52%	48%	52%	48%
Nine months ended							
September 30,							
2010	1,162	9.5		51%	42%	35%	65%

Arbinet has evolved from providing only an electronic market for trading, routing and settling communications capacity via the Exchange to providing a variety of modes of buying and selling wholesale voice traffic and the provision of Internet Protocol (IP) services. Arbinet devotes a significant portion of its resources in both capital and personnel toward developing and implementing these additional services.

Industry Background

The Global Communications Services Industry

The global communications services industry for 2009 presents approximately $1.6 trillion in revenue and continues to grow and evolve, providing significant opportunities and creating competitive pressures for the participants in the industry. The industry has been experiencing significant evolutionary changes, including the proliferation of wireless and data products and services, increased voice and data volume, declining unit pricing and the emergence of new participants due to deregulation and low-cost technologies. The growth in competition and associated fragmentation along with declining unit pricing and an industry structure that is characterized by high fixed costs have resulted in increased pressure on the profitability of communications services providers. The increasing trend towards globalization has expanded opportunities for those with international reach and presence, particularly as companies seek to reduce the number of suppliers with which they are dealing.

Voice Industry

The voice industry is characterized by changes driven by deregulation in telecommunications markets around the world, an increase in and shift of minutes to wireless and Voice over Internet Protocol (VoIP) as an alternative to time-division multiplexing (TDM), the traditional wireline-based phone service technology. Over the past 20 years, international voice traffic has grown over 14% annually. In the late 1990s, competition among communications providers in much of the world contributed to sharp price declines of international termination costs and substantial increases in voice traffic volumes. However, the recent global recession exerted a significant downward pressure on international call volumes. Global voice traffic growth slowed from 14% in 2007 to 7% in 2008, along with a continuing shift from the traditional TDM traffic, which increased by only 6% in 2008, compared to a 16% increase in international VoIP traffic. This decline in the growth rate of traditional TDM traffic is attributed to three primary factors: (1) increasing mobile penetration, (2) VoIP incursion and other computer-to-computer calling, and (3) the diminished ability of price cuts to stimulate further additional demand. Current drivers of existing demand include:

Deregulation. According to a leading industry source for current and historical telephone traffic statistics, in 1995, nearly half of the world s international voice traffic was originated in the 15 countries that had opened their international long distance markets to competition. By 2008, 30 countries, accounting for 85% of the world s international traffic, had liberalized their regulation of international and domestic long-distance markets.

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Shift to Wireless. Consumer phone usage is shifting from fixed-line phones to wireless phones. According to the same industry source, mobile phones have significantly outnumbered fixed-line phones since 2002 and accounted for 77% of worldwide phone lines in 2008, compared with 59% in 2004.

VoIP. VoIP permits users to make voice calls over the Internet, or managed IP network. VoIP traffic may avoid the regular telephone network system based on switches, commonly referred to as a public switched telephone network (PSTN), completely, for example, when making a computer to computer call. Calls that originate as VoIP may also be terminated on the PSTN or vice versa. VoIP is used as a lower-cost alternative to provide call completion, or termination, to communication services providers. The lower cost of launching a telecommunications business with VoIP, coupled with deregulation in telecommunications markets, has contributed to fragmentation of communications services markets. VoIP is now being used as a way to provide local and long distance phone service to consumers and enterprises. Through aggressive marketing, cable companies and VoIP service providers are driving current consumer adoption of VoIP and are expected to capture a significant share of the overall voice market. According to the same industry source, annual international VoIP traffic has grown from less than 10 million minutes in 1997 to 92.7 billion minutes in 2008. Analysts estimate that VoIP origination and termination accounts for over 30% of all international telecommunications transit today.

Data Industry

The international data market is currently growing at over 40% per year driven by peer-to-peer networking, video content, broadband access and web browsing. Arbinet s current data offering includes an exchange for buying and selling Internet capacity and services to enhance IP transit quality and reduce network cost. Given the high growth and term-based contracts associated with data services, Arbinet believes the data business provides a more predictable and stable revenue stream.

Traditional Communications Services Industry Business Practices

Communications services providers must access other providers networks to exchange voice and data traffic. As the industry continues to fragment, establishing, managing and maintaining many direct interconnections have become cumbersome and expensive. Arbinet believes that voice and data communications services providers typically buy and sell capacity based on a labor-intensive and time-consuming contractual process that leads to costly installation, network management, sales, legal, billing and collection functions. Arbinet believes this traditional process can take several months from initial contact through the time of interconnection. In addition, the negotiated prices between the buyer and seller may become obsolete by the time the interconnection is ultimately established or as soon as market conditions change, which frequently happens in this industry. Further, this direct negotiation process burdens the parties with numerous interconnections that must be individually managed and maintained.

As a result of these issues, Arbinet believes the global communications services industry benefits from the Exchange, which provides a centralized, efficient platform for the trading, routing and settling of communications capacity for the members and Carrier Services customers in order to improve profitability and optimize network utilization.

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Products and Services

The Exchange

Arbinet has created a global solution, providing an automated and efficient communication hub to trade, route and settle voice and data communications. The exchange-based trading system permits buyers and sellers to transact business in a centralized, broad, liquid, open market, rather than on a one-to-one basis, and incorporates the following attributes:

Trade

Global Access. The Exchange provides members with access to capacity to nearly every country in the world.

Single Interconnection. Arbinet currently has exchange delivery points (EDPs) in New York, Miami, London, Frankfurt and Hong Kong. The members connect their networks to Arbinet s EDPs through a local network provider or over the Internet using VoIP. Through a single interconnection to one of Arbinet s EDPs, the members can seamlessly trade with and route to all other members on the Exchange. Typically, the interconnection does not require a member to purchase new equipment or incur material expenses or time.

Web-Based Platform. The members place orders through Arbinet s web-based trading platform.

Customized Ordering. The buyers on the Exchange can prioritize their orders by specifying the highest quality within their given price range, or the lowest price at their requested level of quality. Sellers can indicate specific features such as delivery of calling line identification (CLI).

Market Intelligence. Arbinet provides the members with daily reports that detail quality, price, volume and cost savings information by destination relating to their account and across Arbinet s entire Exchange.

Route

Patented Automated Order Matching. Using Arbinet s proprietary software and patented processes, the Exchange platform automatically creates a routing table that prioritizes member orders based on the quality and price parameters entered into Arbinet s web-based interface. This routing table is automatically queried by Arbinet s switches on a real-time, call by call basis.

Automated Delivery Process. When the buyer sends traffic to the Exchange, Arbinet s proprietary software automatically routes the traffic to the prioritized matched sellers.

Standardized Quality Control. Arbinet independently measures the quality of each seller s route and regularly updates that rating on its trading platform.

Fraud Control. Arbinet actively seeks to protect the members from fraud activity, and proactively tests and monitors sellers for false answer supervision and release code management.

Settle

Managed Settlement. Arbinet provides standardized invoices for all transactions on the Exchange to each seller and buyer for the relevant settlement period.

Netting. Arbinet nets the buying and selling of the members trading activities on the Exchange and issues one trading invoice to streamline the administration effort and optimize working capital.

Credit Risk Management. Arbinet manages the credit risk of the buyers on the Exchange through its arrangements with third party specialists. The third party relationships allow Arbinet to secure the

netting of the members buying and selling activities, prepayment programs, cash deposits and letters of credit. Every hour, Arbinet s CreditWatch system calculates a member s net trading balance against its credit line and automatically alerts the affected member and Arbinet personnel as the member approaches target thresholds of its credit line. Arbinet utilizes its CreditWatch system on a member-by-member basis. This enables Arbinet to monitor and proactively manage its credit exposure for voice services.

Services Offered Through the Exchange

Arbinet offers the following services:

Voice Exchange

Arbinet operates the world s largest electronic marketplace for communications trading. Arbinet s online trading platform enables 1,170 fixed and mobile service providers to buy, sell, deliver and settle over 10.3 billion minutes per year.

*PrimeVoice*SM. PrimeVoice is Arbinet s most dynamic service, rematching orders and updating a seller s quality profile every four hours. PrimeVoice allows Arbinet s buyers and sellers to take full advantage of changes in quality and prices of voice traffic on the Exchange every four hours.

*SelectVoice*SM. SelectVoice allows quality sensitive buyers to trade with the highest quality sellers. By requiring that the seller s quality remain constant over a four-day period, SelectVoice offers stable supply to Arbinet s buyers.

*RapidClear*SM. RapidClear is an accelerated settlement service Arbinet offers for a fee, where sellers can elect to be paid in advance of Arbinet s standard settlement terms.

*SoftSwitchAxcess*SM. Arbinet s SoftSwitchAxcess service allows communications services providers, including non-members, to outsource VoIP switching and control routing. It also provides carriers with a secure platform to safeguard their commercial relationships and company information, and manage routes and rates simply with an advanced online interface. Arbinet charges customers a per-minute fee for this service.

*AssuredAxcess*SM. AssuredAxcess is a service that automatically routes a buyer s call directly to its destination. Buyers do not manage orders as they do in traditional exchanges. Calls are automatically distributed between selling members to achieve the highest possible performance and lowest cost targets. Rates are fixed for 15 or 30 days.

*PrivateExchange*SM. PrivateExchange is an outsourced solution that allows communications services providers to manage their bilateral commercial agreements, including rate negotiations, while Arbinet manages routing, reporting, credit risk and settlement.

Carrier Services

Arbinet provides Carrier Services, which is a simple approach to the traditional model of buying and selling voice termination, with standard carrier contracts, rate lock and multiple routing options. Arbinet s Carrier Services enable a traditional carrier-to-carrier relationship between Arbinet, suppliers and customers. Arbinet offers varied classes of service for different customer segments, based upon customer s specific needs for price, quality and feature support. Arbinet service provides a routing solution for its retail, mobile, wholesale, or calling card customers.

By using Arbinet s Carrier Services, sellers can leverage Arbinet s network to sell their routes. With access to Arbinet s 1100+ interconnected members across the globe, suppliers can sell to Arbinet using their own codes

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and rate sheets, secure in the knowledge that they will receive payment against their destination codes, without the risk of inadvertent code mismatches. Suppliers can receive high volumes of traffic and take advantage of immediate margin and revenue opportunities without risk of credit default.

Services Offered through Arbinet s Carrier Services

Buying Arbinet s Carrier Services offering, customers may select from a variety of service classes of service and work with Arbinet s sales and trading specialists to fine-tune the price/quality mix.

Value^{SM}. Carrier Services Value provides wholesale carriers a low-cost solution for terminating traffic on a managed platform with access to more than 1100+ potential suppliers.

Quality^{SM}. Carrier Services Quality allows wholesale carriers the same potential as the Carrier Services Value, with a greater emphasis placed on quality-based routing, rather than price-based routing.

Premium^{SM}. Carrier Services Premium is the solution for retail-based fixed, VoIP and calling card operators. Fully managed, an emphasis is placed on qualifying and maintaining direct and transit direct termination. It has shorter interval for trouble resolution, fax guarantee and a limited number of CLI guaranteed destinations.

PremiumMobile^{SM}. Carrier Services Premium Mobile is Arbinet s premier quality solution for mobile operators. This service is built on the principle of terminating directly to the mobile network for assurance of roaming calls, and CLI delivery. Arbinet provides advanced, proactive, traffic monitoring and strict trouble resolution procedures, which meets the quality of service requirements.

Global Number Portability. Global Number Portability Query Services allow a carrier to query Arbinet s systems for information about the carrier currently serving an end customer in order to route and rate the call most efficiently.

Internet Exchange

Services Offered through Arbinet s Internet Exchange

Arbinet provides a leading marketplace for Internet Protocol (IP) transit and paid peering. More than 200 Internet service providers (ISPs) and IP application service providers (ASPs) buy, sell, deliver and settle IP transit and peering on the Exchange. A description of each of Arbinet s IP solutions is set forth below:

OptimizedIP^{SM}. Businesses currently buy Internet capacity on a best efforts basis. By automatically measuring and selecting the best performing Internet routes from each seller, OptimizedIP supports Arbinet s quality sensitive buyers that want to maximize the quality of their Internet traffic within their price requirements. Offered as an Exchange-based route control and optimization service, buyers of OptimizedIP establish a price limit for their Internet capacity on the Exchange, and Arbinet optimizes a buyer s traffic by dynamically routing traffic across all of the sellers that meet the buyer s price criteria using its proprietary and patent pending route optimization technology.

SelectIP^{SM}. Companies that sell Internet capacity do not deliver the same quality levels consistently to every destination. SelectIP allows members to trade route and settle traffic directed to a specific network on the Internet or autonomous system number (ASN). SelectIP allows the members to purchase on-net routes for specific ASNs at flexible terms, which simplifies IP paid peering arrangements.

PrimeIP^{SM}. Today, businesses purchase Internet capacity in a highly manual process involving requests for proposals. PrimeIP automates the buying and selling of Internet capacity, allowing the members to trade, route and settle standard Internet capacity through an automated system. PrimeIP allows the members to purchase Internet accesses from multiple leading ISPs via a single interconnect, which simplifies ISP supplier management.

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Colocation. Arbinet provides VoIP carriers and Internet service providers the option to expand their network presence by placing equipment in its facilities to take advantage of higher quality Internet access via close proximity. Arbinet s colocation customers gain access to IP backbones in a secured environment along with the option of using Arbinet s other Internet products, described above.

Fee Revenue from the Exchange

Arbinet s revenue models for its Carrier Services business and the Exchange business differ. Arbinet s Carrier Services customers simply pay the price offered for the services that are contracted for and provided, and Arbinet derives its profit from buying efficiently capacity from multiple suppliers. By contrast, Arbinet charges members of the Exchange fees based on a variety of factors, including their membership type, usage and volume commitments, subscriptions to additional services, and the value of the destinations they buy or sell. The members may pay the following fees:

Trading Fees. Minimum fees, payable monthly in advance, are based on the size of members connections to Arbinet s EDPs. These minimum fees provide these members with a fixed amount of trading volume at no additional charge. When a member trades above the allotted trading volume associated with its minimum fee, the member then generally pays an incremental per minute or per megabyte fee on all traffic above the usage minimum. Arbinet offers volume-based discounts on both the minimum capacity fees and per minute and per megabyte fees.

Price Improvement. A fee representing the spread between the buy rate fixed by a buyer and the ask price from a seller.

Credit Risk Management Fee. A fee for centralized invoicing, shorter settlement period and outsourced credit risk management services.

Membership Fee. A membership fee to join the Exchange.

Additional Service Fees. Fees for using additional value-added services. Currently, these fees include:

Inter-EDP. A fee for trading in multiple EDPs.

SelectRouting. A fee for traffic traded through Arbinet s SelectVoice services.

RapidClear. A fee to receive payment earlier than Arbinet s standard settlement terms.

Sales and Marketing

Arbinet markets and sells its products and services through its direct sales force. Arbinet seeks to expand the utilization of products and services by its current members through account managers who are dedicated to specific customer accounts. Arbinet s sales team has extensive sales experience with a broad range of communications and technology companies and is located throughout the United States, Europe, Asia, the Middle East and Latin America. Arbinet s sales process may involve a trial, where the members trade a small volume of traffic prior to trading larger volumes through the Exchange. Arbinet targets its voice services sales efforts at the telecommunications industry, and, in particular, the market for international wireline, wireless and VoIP minutes.

Arbinet s marketing efforts are designed to drive awareness of its service offerings and solutions. Arbinet s marketing activities include seminar programs, trade shows, web-site programs, public relations events, print advertising and direct mailings. Arbinet is also engaged in an on-going effort to maintain relationships with key communications industry analysts.

As a worldwide exchange of international communications traffic, Arbinet does a small amount of business with telecommunications carriers in Iran and Sudan. Arbinet believes its business dealings with the telecommunications carriers in Iran and Sudan are permitted transactions under the applicable United States

(U.S.) sanctions regimes administered by the U.S. Treasury Department s Office of Foreign Assets Control, or OFAC, which permits certain transactions related to the receipt and transmission of telecommunications involving those countries. To Arbinet s knowledge, Arbinet has no agreements with the governments of Iran and Sudan. Arbinet takes seriously its obligation to comply with all applicable laws and regulations, including OFAC sanctions programs, and has a comprehensive OFAC compliance program, including training for key employees and written policies and procedures.

Sales attributable to wholly owned subsidiaries in foreign countries are reported in Note 1 in the accompanying notes of the consolidated financial statements of Arbinet. See page F-27.

Technology

Arbinet s technology consists of a web-based interface through which the members and their agents place buy and sell orders and an automated, scalable, patented and integrated trading platform to match, route and settle the members trades. The software platform provides for the delivery of traded capacity and is proprietary to Arbinet. Arbinet has patented the process that matches buy and sell orders on the Exchange to affect the delivery of traded capacity. In 2009, Arbinet deployed the new Carrier Services system as an adjunct to the Exchange platform that provides a simple interface for its sales team to manage Carrier Services customers as well as automatically and dynamically build customized routing tables based on price and quality variables to meet each customer s needs. Arbinet integrates its state-of-the-art database, financial, and customer-care software, server hardware and communications switches, signaling devices and VoIP gateways acquired from leading manufacturers with Arbinet s proprietary trading platform to provide a full service solution handling trading, routing and settlement of voice and data services. Arbinet s technology consists of:

Customer Interface

The members and their agents access the Exchange through a web-based interface that allows them to place buy and sell orders that include quality and price parameters. Each member has its own dedicated, customizable trading environment that includes individualized traffic reports and online invoice access. Arbinet s member facing applications are run on state-of-the-art servers.

Automated Trading and Delivery Platform

Arbinet s system automatically matches buy and sell orders on its voice Exchange every four hours. Arbinet s trading platform automatically creates an individualized routing table that prioritizes member orders based on the quality and price parameters entered into Arbinet s web-based interface. This routing table is automatically downloaded into Arbinet s self-developed Service Control Point (SCP), which is queried on a call-by-call basis by Arbinet s switches in order to determine the correct routing for that individual call or session. As a result, when a buyer sends a voice call to the Exchange, Arbinet s systems can automatically determine which seller best meets the buyer s quality and price requirements and route that call to the appropriate seller. If the seller cannot terminate the voice call, Arbinet s systems automatically forward the call to the next seller that meets the buyer s quality and price requirements. If no seller is able to accept the buyer s traffic, Arbinet s systems automatically return the traffic to the buyer to try alternative service providers to complete the traffic.

Arbinet s systems automatically measure the seller s route quality based on traffic the seller has received through the Exchange and through Arbinet s Carrier Services. Arbinet s systems continually update the seller s route quality rating and this is used to match the buy and sell orders for the next four hour routing cycle. If the quality has declined below the buyer s requirements, the seller will be unmatched from that buyer. Arbinet s proprietary routing software automatically directs a buyer s traffic to the seller with the highest quality or lowest priced offer within the parameters selected by the buyer for the designated route.

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Arbinet s systems automatically generate reports that summarize the total activity on Arbinet s network and the buy and sell activities for each member. These reports are useful to the members in determining the parameters within which they buy and sell minutes on the Exchange.

TDM Switches, VoIP Gateways and Intelligence

The members connect their networks to either Arbinet s TDM switches or Arbinet s VoIP gateways using private or public interconnections. Regardless of the method of interconnection, this platform enables Arbinet to route all traffic that is traded on the Exchange under the control of its highly specialized SCP intelligence that directs the routing of each individual call according to the buyer s requirements down to the level of individual telephone numbers, if required.

Standardized and Centralized Billing System

Arbinet uses its proprietary operating support system to manage its billing and settlement functions. Arbinet s switches generate traffic records that are automatically sent to its proprietary rating software that adds the economic parameters of each minute of capacity to the traffic detail record. The traffic detail record is then automatically sent to Arbinet s billing system, which generates invoices that are posted on Arbinet s web site, and notification is automatically emailed to the members.

Arbinet has patents covering both the technology and the process of routing voice and data services in a traded exchange environment. In the event of a spin-off of these patents and associated rights to Arbinet s stockholders, Arbinet must first grant Primus a royalty-free, worldwide assignable (on a non-exclusive basis) and perpetual license to such patents and associated rights.

Members, Customers and Suppliers

The members, customers and suppliers, consist primarily of communications services providers seeking to buy or sell communications capacity and include national, multinational and regional telecommunications carriers, wireless carriers, resellers and VoIP service providers. As of December 31, 2009, Arbinet had 1,170 members who subscribe to Arbinet s voice trading services on the Exchange, compared to 1,146 members as of December 31, 2008, representing approximately a 2% increase. The members include the world s ten largest international communications services providers. The members traded approximately 10.3 billion minutes in 2009 and approximately 13.2 billion minutes in 2008, representing a decrease of approximately 22%. No member in 2009 represented over 10% of Arbinet s fee revenue, and Arbinet s top ten members represented, in the aggregate, approximately 19% of Arbinet s fee revenues. As of December 31, 2009, Arbinet had 207 members trading data on the Exchange.

Competition

Arbinet believes that it currently does not have any significant direct competitors who offer communications services providers the ability to trade, route and settle capacity based on quality and price in a liquid marketplace similar to the Exchange. Although historically several companies attempted to provide similar exchange functionality to communications services providers, many of these companies have either ceased those operations, or have become resellers of voice calls and/or Internet capacity. Although Arbinet believes that its intellectual property presents a significant advantage in this business, new competitors may be able to create centralized trading solutions that replicate Arbinet s business model, especially in the VoIP space. Arbinet has patents covering both the technology and the process of routing voice and data services in a traded exchange environment. In the event of a spin-off of these patents and associated rights to Arbinet s stockholders, Arbinet must first grant Primus a royalty-free, worldwide assignable (on a non-exclusive basis) and perpetual license to such patents and associated rights.

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Arbinet s voice and data businesses and especially its Carrier Services business compete with the legacy processes through which communications services providers buy, sell, route and settle their communications traffic directly, without the use of an exchange. These processes include, but are not limited to, existing interconnection agreements and physical interconnections with other communications services providers and incumbent relationships. Many of these companies have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than Arbinet does and may have the ability to better attract and retain the same customers that Arbinet is targeting.

Government Regulation

Communications services are subject to varying levels of regulation at the Federal, State and local level. The FCC has jurisdiction over interstate and international communications. Services that are defined as telecommunications services are subject to the most stringent regulation, including general obligations to provide service at just and reasonable rates and practices, to not unreasonably discriminate, and they are subject to various reporting requirements and fee assessments. Information services, services that utilize computer processing and interaction with stored data, are largely deregulated. Arbinet believes that the Exchange business is an information service and thus not subject to regulation. Arbinet s new Carrier Services business, however, is subject to regulation and it has obtained authority from the FCC to provide international facilities-based and resale services.

Increasingly data and voice calls are transmitted using IP. The current regulatory treatment of IP services is complicated and unresolved. Internet backbone services that transmit information from web sites or VoIP services are largely unregulated, as are Internet access services such as cable modem or Digital Subscriber Line, or DSL. However, calls that begin on a traditional telephone network and end on a traditional telephone network but are transported over IP in between are regulated as telecommunications services. The FCC has not classified calls that are VoIP on one end and regular telephone calls on the other. The FCC has for several years been assessing the regulatory treatment of various IP services, including VoIP. Some states have asserted authority over intrastate VoIP calls, adding further uncertainty.

The FCC and the various state utility commissions also regulate how much local carriers can charge for originating or terminating calls over their local networks. These access charges can vary depending on whether the call is local, intrastate or interstate/international. There is also controversy about whether VoIP calls are subject to access charges. The FCC has been studying whether to reform the intercarrier compensation framework, including access charges, and may take action in the future that could decrease some of these charges. Closely tied to this issue is the question of which types of communications should be subject to universal service fee assessments. Today, USF contributions are assessed on revenue from calls between states or those between the United States and other countries. The FCC is also reassessing this program in ways that could result in additional types of communications providers being required to contribute.

The FCC has presented to Congress a National Broadband Plan for expanding the use and availability of broadband services. The plan recommends legal and regulatory actions that should be taken to increase the availability of high speed Internet connections nationwide, possibly increasing the need for Internet capacity. The plan also calls for new rules regarding universal service and intercarrier compensation.

Intellectual Property

Arbinet s success depends in part on its proprietary rights and technology. Arbinet relies on a combination of patent, copyright, trademark and trade secret laws, employee and third-party non-disclosure agreements and other methods to protect Arbinet s proprietary rights.

Arbinet has been issued 43 domestic and international patents, and has 16 further pending patent applications related, among other things, to a process that collects requests to purchase and offers to sell

telecommunications services, from buyers and sellers of such services, matches the offers and requests and delivers the traded telecom services between matched sellers and buyers. Under the terms of the merger agreement, Arbinet may, but is not required to, spin-off its patents and associated rights to its stockholders or sell such patents and patent rights to a third party for cash, referred to as an IP Sale, under certain conditions. For information regarding a potential spin-off or IP Sale by Arbinet of its patents and associated rights to its stockholders, see Terms of the Merger Agreement Potential Spin-off or Sale of Patents by Arbinet beginning on page 134.

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Legal Proceedings

From time to time, Arbinet is involved in legal proceedings in the ordinary course of its business. The litigation process is inherently uncertain, and Arbinet cannot guarantee that the outcome of any proceedings or lawsuits in which Arbinet may become involved will be favorable to Arbinet or that the resolution of such proceedings or lawsuits will not have a material adverse effect upon its business, results of operations or financial position. Arbinet does not currently believe there are any matters pending that will have a material adverse effect on its business, results of operations or financial position.

NNP Communications, LLC versus Arbinet-thexchange, Inc.

On June 10, 2009, Arbinet was notified that a demand for arbitration had been filed with the American Arbitration Association against Arbinet by NNP Communications, LLC (NNP), a former member of Arbinet s Exchange, seeking damages in the amount of $9.5 million for alleged claims for breach of contract, unjust enrichment, fraud, tortious interference with contract and unfair competition (the NNP Arbitration). NNP alleged that the Exchange was not operated in a neutral manner and that Arbinet wrongfully competed with its members. NNP also alleged that Arbinet wrongfully directed telecommunications traffic meant for NNP to companies owned, directly or indirectly, by Arbinet insiders or companies who pay monies to Arbinet insiders in exchange for telecommunications traffic. Arbinet filed a response in the NNP Arbitration on July 8, 2009, denying the allegations and asserting a counterclaim for breach of contract and negligent misrepresentation. Arbinet also filed a demand for arbitration with the American Arbitration Association against an affiliated entity of NNP, Savontel Communications, Inc. (Savontel), another former member of the Exchange, seeking damages in the amount of $0.5 million for breach of contract and recovery of unpaid invoices (the Savontel Arbitration). On December 18, 2009, the arbitrator in the Savontel Arbitration entered an interim award granting the full amount of Arbinet s claim of $0.5 million plus interest, administrative, and reasonable legal expenses, which became final on February 9, 2010 (the Savontel Award). On August 18, 2010, Arbinet entered into a Settlement Agreement with NNP pursuant to which the parties, without admitting liability, agreed to dismiss the NNP Arbitration and release each other from liability in exchange for Arbinet s agreement to pay $0.35 million in cash (the NNP Settlement Payment) and extinguish the Savontel Award. On August 18, 2010, Arbinet also entered into a Settlement Agreement with Savontel pursuant to which the parties, without admitting liability, agreed to dismiss the Savontel Arbitration and release each other from liability in exchange for the NNP Settlement Payment. In September 2010, Arbinet made the NNP Settlement Payment, extinguished the Savontel Award, and recorded the aggregate settlement cost of $0.9 million in other income (loss), net. The NNP Arbitration and the Savontel Arbitration have each been dismissed.

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Description of Property

Arbinet s headquarters is located at 460 Herndon Parkway, Suite 150, Herndon, Virginia, where Arbinet leases approximately 28,260 square feet of office space.

Arbinet s leased properties are as follows:

Location	Approximate Area (In Sq. Feet)	Use	Lease Expiration Date
Herndon, Virginia	28,260	Administrative Office & Operations Center	May 31, 2020
New Brunswick, New Jersey	11,500	60% subleased 40% vacant	April 30, 2013
New York, New York	22,896	EDP & Sales Office	July 31, 2015
London, United Kingdom	2,837	Sales Office	June 22, 2017

In addition, Arbinet leases circuit capacity from other communications services providers to support its EDPs in Miami, Florida; London, United Kingdom; Frankfurt, Germany; and Hong Kong. As part of Arbinet s agreements with these communications services providers, they provide Arbinet with its physical connection point in those markets.

Arbinet believes its existing facilities are adequate for its current needs and that suitable additional or alternative space will be available in the future on commercially reasonable terms as needed.

Employees

As of January 7, 2011, Arbinet had 106 employees, based primarily in the Unites States and Europe. None of Arbinet s employees are represented by a labor union. Arbinet has not experienced any work stoppages and considers its relations with its employees to be good.

For more information regarding Arbinet, see Where You Can Find More Information beginning on page 183.

ARBINET S MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Revenue

Arbinet generates revenues from the trading of voice and data traffic that members conduct on the Exchange and traffic from Arbinet s Carrier Services business that is conducted on the Exchange, which Arbinet refers to as trading revenues. Revenues also include the fees and other charges Arbinet derives from members for allowing them to trade on the Exchange, which Arbinet refers to as fee revenues. Arbinet s trading revenue represents the aggregate dollar value of the calls that are routed through Arbinet s voice and data exchange delivery points (EDPs) at the price agreed to by the buyer and seller of the capacity or between the customer and Arbinet for Carrier Services. Arbinet s system automatically records all traffic terminated through its EDPs. For example, if a 10-minute call is originated in France and routed through Arbinet s facilities to a destination in India for $0.11 per minute, Arbinet records $1.10 of trading revenue for the call. Certain members contract to buy minutes to specific markets at fixed rates. Arbinet may generate profit or incur losses associated with this trading activity and other transactions executed on the Exchange.

Costs and Expenses

Arbinet s cost of trading revenues consists of the cost of calls and data transmissions that are routed through its EDPs at the price agreed to by both the buyer and the seller of the capacity for Exchange traffic, or between the supplier and Arbinet for Carrier Services traffic. For example, in the France to India hypothetical call above, Arbinet would record cost of trading revenues equal to $1.10, an amount that Arbinet would pay to the seller. For its Carrier Services model, Arbinet would expect costs to be less than its revenues on that traffic to earn a margin, which is typically reflected in fee revenues.

Indirect cost of trading and fee revenues consists of costs related to supporting the operations of the Exchange and network, such as salaries, benefits, and related costs of engineering, technical support, product and software development, and system support personnel, as well as facilities and interconnect costs. It is impractical to break down such expenses between indirect cost of trading revenues and indirect cost of fee revenues.

Sales and marketing consists of salaries, benefits, commissions, and related costs of sales and marketing personnel, trade shows and other marketing activities.

General and administrative costs consist of salaries, benefits, and related costs of corporate, finance and administrative personnel, facilities costs, insurance, bad debt expense and outside service costs, such as legal and accounting fees.

Business Development

Arbinet continues to seek to increase its trading volume. Arbinet aims to achieve this by increasing participation on the Exchange from existing members, increasing membership on the Exchange, expanding its global presence, developing and marketing complementary services and leveraging Arbinet s Federal Communication Commission (FCC) license to expand the provision of wholesale Carrier Services. Arbinet currently has EDPs in New York, Los Angeles, Miami, London, Frankfurt and Hong Kong. Arbinet can initially establish an EDP in a new market without any additional capital by directly connecting the new EDP to one of Arbinet s existing EDPs through a leased network. For example, Arbinet s EDP in Frankfurt is connected with Arbinet s EDP in London. Once Arbinet has sufficient business in a new market, it may install a new switch for the EDP in that market for a cost of approximately $1.0 million. Arbinet plans to develop, market and expand services that are complementary to its existing offerings, including enhanced trading, credit and clearing services. Arbinet may not be successful in doing so due to many factors, including the business environment in which it operates and current adverse global economic conditions. For a further discussion of regulatory, technological and other changes relevant to Arbinet s business, see Information about Arbinet Industry Background beginning on page 60.

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Critical Accounting Policies and Estimates

Arbinet s management s discussion and analysis of its financial condition and results of operations is based on its condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the amounts reported for assets, liabilities, revenues, expenses and the disclosure of contingent liabilities. Arbinet s significant accounting policies are more fully described in Note 1 Business and Summary of Significant Accounting Policies to the consolidated financial statements of Arbinet on page F-27.

Critical accounting policies are those that Arbinet believes are both important to the portrayal of its financial condition and results of operations and often involve difficult, subjective or complex judgments, generally as a result of the need to make estimates about the effect of matters that are inherently uncertain. Management evaluates these estimates, including those related to revenue recognition and deferred revenue, stock-based compensation, allowance for doubtful accounts, income taxes, long-lived assets, and goodwill and other intangible assets, on an ongoing basis. The estimates are based on historical experience and on various assumptions about the ultimate outcome of future events. Actual results may differ from these estimates.

Arbinet believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements:

Revenue Recognition and Deferred Revenue. Net revenue is derived from the provision of international voice, data and managed communications services for fixed, mobile and wholesale services. Arbinet operates an electronic market for trading, routing and settling voice and data capacity, as well as a traditional wholesale business. Arbinet recognizes trading revenues from minutes traded on the Exchange, and fee revenues from access fees, credit risk premium fees, colocation service fees, membership fees and other value-added service fees. Revenues from minutes traded represent the price per minute multiplied by the number of minutes purchased by buyers through the Exchange. Arbinet recognizes trading revenues on a gross basis, pursuant to the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, or the Codification, guidance on revenue recognition, because Arbinet acts as a principal in the transactions and not in a broker or agent capacity. Additionally, Arbinet has the risks and rewards of ownership since it collects directly from the buyer and is solely responsible for payments to the seller. Arbinet bears the credit risk of the transactions and any potential default by the buyer does not absolve Arbinet from paying the seller. Revenues from access fees generally represent the amount Arbinet charges sellers and buyers based on their trading activity on the Exchange with other Members.

Net revenue is earned based on the number of minutes at a prescribed rate that travel through Arbinet s network, adjusted for service credits and service adjustments. Revenue for a period is calculated from information received through Arbinet s network switches. Arbinet designed customized software to track the information from the switch and analyze the call detail records against stored detailed information about revenue rates. This software provides Arbinet the ability to do a timely and accurate analysis of revenue earned in a period.

Net revenue is also earned on a fee basis for additional value-added services provided to Arbinet s customers, such as accelerated payment terms, in the period service is provided. Revenues from credit risk premium fees represent the amount charged Members based on each Member s gross selling activity on the Exchange for that period. Revenues from colocation service fees represent the amount charged Members in order for the Member-owned equipment to be placed in Arbinet s premises. Arbinet recognizes revenue for access fees, credit risk premium fees and colocation service fees as the service is provided. Fee revenues also include a monthly minimum fee based on the amount of capacity that Members have connected to Arbinet s switches and overage fees for the number of minutes or megabytes that are routed through Arbinet s switches in excess of amounts allowed under the monthly minimum, or collectively referred to as access fees, which comprised approximately 76% and 79% of

fee revenues for the years ended December 31, 2009 and 2008, respectively. Additionally, deferred revenue is recorded for payments received in advance for volume minimums until such related services are provided, and membership fees are deferred and amortized over the average benefit period.

Share-Based Compensation. Arbinet measures the compensation cost of stock-based compensation at the grant date, based on the fair value of the award, including estimated forfeitures, and Arbinet recognizes that cost as an expense ratably over the associated employee service period, which generally is the vesting period of the equity award. Arbinet calculates the fair value of stock options using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires Arbinet to make certain assumptions and estimates concerning its stock price volatility, the rate of return of risk-free investments, the expected term of the awards, and its anticipated dividends. In determining the amount of expense to be recorded, Arbinet also is required to exercise judgment to estimate forfeiture rates for awards, based on the probability that employees will complete the required service period. If actual forfeitures differ significantly from Arbinet s estimates, if any of Arbinet s estimates or assumptions prove incorrect, or if the likelihood of achievement of a performance condition changes, Arbinet s results could be materially affected.

Allowance for Doubtful Accounts. Arbinet maintains an allowance for doubtful accounts for estimated losses resulting from the failure of Members on Arbinet s Exchange to make required payments. The amount of Arbinet s allowance is based on Arbinet s historical experience, current economic trends, and an analysis of Arbinet s aged outstanding accounts receivable balances. If the financial condition of a Member deteriorates, resulting in additional risk in their ability to make payments to Arbinet, then additional allowances may be required which would result in an additional expense in the period that this determination is made. While credit losses have historically been within Arbinet s range of expectations and Arbinet s reserves, Arbinet cannot guarantee that it will continue to experience the same level of doubtful accounts that Arbinet has in the past.

Income Taxes. Arbinet has net deferred tax assets, reflecting net operating loss (NOL) carryforwards and other deductible differences, which may reduce Arbinet s taxable income in future years. These net deferred tax assets are offset by a valuation allowance resulting in no tax benefit being recognized related to these net deferred tax assets. Arbinet is required to periodically assess the realization of its deferred tax assets and changes in circumstances may require adjustments in future periods. The amount of net deferred tax assets actually realized could vary if there are differences in the timing or amount of future reversals of existing deferred tax liabilities or changes in the amounts of future taxable income. If it becomes more likely than not that Arbinet will recognize a future tax benefit from the deferred tax assets, Arbinet may need to reverse some or all of its valuation allowance. When evaluating the ability for Arbinet to record a net deferred tax asset, the Codification standards require Arbinet to consider all sources of taxable income as well as all available evidence to determine that it is more likely than not that Arbinet will be able to utilize this asset.

Arbinet is also required to address whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Arbinet may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that, on a cumulative basis, has a greater than fifty percent likelihood of being realized upon ultimate settlement. It provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. Arbinet believes that it has identified all reasonably identifiable exposures and that the established reserves for such exposures are appropriate.

Long-Lived Assets. Arbinet assesses the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable, in accordance with the Codification on the impairment or disposal of long-lived assets. Factors Arbinet considers important which could trigger an impairment review include the following:

significant underperformance relative to historical or projected future operating results;

significant changes in the manner of or use of the acquired assets or the strategy for Arbinet s overall business; and

significant industry, economic or competitive trends.

Goodwill and Other Intangible Assets. Arbinet follows the FASB guidance on goodwill and intangible assets, which require that purchased goodwill and certain indefinite-lived intangibles no longer be amortized. Instead, goodwill is tested for impairment as of October 1 of each year, or more frequently if impairment indicators arise, by applying a fair value approach. Additionally, Arbinet tests for impairment of its indefinite- and definite-lived intangible assets when indicators arise. In assessing the recoverability of Arbinet s goodwill and other intangibles, Arbinet must make assumptions regarding estimated future cash flows.

On June 11, 2010, Arbinet effected a 1-for-4 reverse split of its common stock. In addition, Arbinet decreased the number of authorized shares of its common stock from 60,000,000 to 15,000,000 shares. All share information related to periods prior to June 11, 2010 in the accompanying financial statements have been restated retroactively to reflect the reverse stock split.

Results of Operations

Comparison of Three Months Ended September 30, 2010 and 2009

Trading revenues and cost of trading revenues

Trading revenues increased 3.0% to $78.1 million for the three months ended September 30, 2010 from $75.9 million for the three months ended September 30, 2009. The increase in trading revenues was due to increased minutes bought and sold on the Exchange.

A total of 3.40 billion minutes were bought and sold on the Exchange for the three months ended September 30, 2010, an increase of 35.7% from the 2.51 billion minutes that were bought and sold on the Exchange for the three months ended September 30, 2009. There were 353.5 million completed calls in the three months ended September 30, 2010, representing a 26.2% increase from the 280.1 million completed calls for the three months ended September 30, 2009. Arbinet s concerted effort to increase traffic quality and the average call duration (ACD) of calls on the Exchange began in the third quarter of 2008 and was completed in the fourth quarter 2008. Arbinet continues to maintain the monitoring programs developed during that time period. This process contributed to a temporary decline in 2008 and 2009 in the number of minutes bought and sold on the Exchange. Arbinet believes that its decision in 2008 to streamline some of its routes has positively influenced its call quality in the short term and will improve overall business results in the long term, as evidenced by the increased number of minutes traded and calls completed in the three months ended September 30, 2010. In addition, ACD of calls on the Exchange increased to 4.8 minutes per call for the three months ended September 30, 2010 from 4.5 minutes per call for the three months ended September 30, 2009.

Arbinet s United Kingdom subsidiary accounted for approximately 61% and 28% of total trading revenues for the three months ended September 30, 2010 and 2009, respectively. Arbinet s Hong Kong subsidiary accounted for approximately 6% and 2% of total trading revenues for the three months ended September 30, 2010 and 2009, respectively.

As a result of the increase in trading revenues, there was a commensurate increase in the cost of trading revenues by 3.2% to $78.3 million for the three months ended September 30, 2010 from $75.8 million for the three months ended September 30, 2009.

Fee revenues

Fee revenues decreased 12.9% to $7.0 million for the three months ended September 30, 2010 from $8.1 million for the three months ended September 30, 2009. Fee revenues decreased to $0.0021 per minute for the three months ended September 30, 2010 from $0.0032 per minute for the three months ended September 30, 2009. Average fee revenue per minute decreased as a result of changes in the mix of both geographic markets and the trading activity of members on the Exchange. In addition, Arbinet experienced increased carrier services and other member credits, decreased sales of certain premium service offerings and decreases in usage minimums. Arbinet has provided and may continue to provide incentives to improve liquidity and expand options in the Exchange. Arbinet believes that these incentives, along with the results of its Carrier Services expansion and members continuing to achieve higher volume levels, may result in a continued decline in average fee revenue per minute.

Arbinet s United Kingdom subsidiary accounted for approximately 38% and 30% of total fee revenues for the three months ended September 30, 2010 and 2009, respectively. Arbinet s Hong Kong subsidiary accounted for approximately 4% and 2% of total fee revenues for the three months ended September 30, 2010 and 2009, respectively.

Indirect cost of trading and fee revenues

Indirect cost of trading and fee revenues includes charges for interconnection of Arbinet s various network components and costs to monitor, operate and maintain Arbinet s network and supporting systems. Indirect costs of trading and fee revenues decreased 22.2% to $3.4 million for the three months ended September 30, 2010 from $4.4 million for the three months ended September 30, 2009. Compensation related expenses decreased by $0.5 million for the three months ended September 30, 2010 mainly due to headcount reductions. Beginning in 2010, Arbinet stopped reporting bonus and rent expense in its network operations cost, reclassifying these corporate-driven expenses to general and administrative. The rent expense reclassified to general and administrative for the three months ended September 30, 2010 decreased this line item approximately $0.5 million due to the reclassification compared with the three months ended September 30, 2009.

Sales and marketing

Sales and marketing expenses decreased 24.1% to $1.5 million for the three months ended September 30, 2010 from $2.0 million for the three months ended September 30, 2009. This decrease was mainly due to lower compensation related expenses of $0.2 million, including decreased payroll and related payroll taxes. Certain employee expenses, which were classified in sales and marketing expenses in the previous periods, were recorded in general and administrative expenses to reflect redefinition of responsibilities.

General and administrative

General and administrative expenses increased 61.6% to $4.0 million for the three months ended September 30, 2010 from $2.5 million for the three months ended September 30, 2009. Compensation related expense increased by $0.3 million. Due to a redefinition of responsibilities, starting in 2010, certain employee expenses for the three months ended September 30, 2010, which were classified in sales and marketing expenses in the previous periods, were recorded in general and administrative expenses. Additionally, affecting compensation expense was the reclassification of $0.1 million of company-driven bonus expense to general and administrative. Bad debt expense increased by a net $0.8 million, related to an increase in reserves for a specific account as well as a net increase in reserves on accounts overdue by more than 60 days, following increased collections efforts on aged balances which resulted in minimal additional collections on the remaining accounts. Rent expenses increased by $0.5 million due to a reclassification of rent from indirect cost of trading and fee revenues, which was fully recorded in general and administrative expenses in the three months ended September 30, 2010. In addition, Arbinet recorded $0.4 million for professional fees primarily related to matters in arbitration and associated with strategic alternatives pursued by Arbinet. These increases were partially offset

by a $0.1 million decrease in software and hardware maintenance costs, which were recorded in indirect cost of trading and fee revenues starting in 2010.

Depreciation and amortization

Depreciation and amortization decreased 8.1% to $1.6 million for the three months ended September 30, 2010 from $1.8 million for the three months ended September 30, 2009. This decrease was primarily attributable to certain assets becoming fully depreciated.

Severance charges

In the three months ended September 30, 2010, Arbinet recorded $0.2 million of severance charges primarily related to a separation and release agreement entered into with a division chief who departed from Arbinet in the third quarter 2010.

Interest and other income (expense)

Interest income was $14,000 for the three months ended September 30, 2010 as compared with $20,000 for the three months ended September 30, 2009. Interest expense decreased to $0.1 million for the three months ended September 30, 2010 from $0.2 million for the three months ended September 30, 2009. Other income (loss), net, was a loss of $1.1 million for the three months ended September 30, 2010, primarily due to the $0.9 million settlement of the NNP Arbitration and the Savontel Arbitration and the $0.3 million impairment of a certain investment recorded in other assets. Other income (loss), net, which was income of $0.1 million for the three months ended September 30, 2009, principally reflected late fees charged to certain members.

Foreign currency transaction gain (loss)

The foreign currency transaction gain (loss) for the three months ended September 30, 2010 was an $18,000 gain as compared with a $0.7 million loss for the three months ended September 30, 2009. The foreign currency transaction gain is attributable to the impact of foreign currency exchange rate changes on intercompany debt balances intended for future settlement, and on receivables and payables denominated in a currency other than a subsidiary s functional currency. The amount of gain is related to the relative change in the foreign currency exchange rates. The reduction, partially in the second quarter 2010 and substantially in the third quarter 2010, in absolute terms of the gain (loss) is due to the second quarter 2010 recategorization of an intercompany balance between the United States and United Kingdom operating subsidiaries from a balance intended for future settlement to one that is long-term in nature.

(Benefit) provision for income taxes

Arbinet recorded a benefit for income taxes of $11,000 for the three months ended September 30, 2010 and a provision for income taxes of $0.1 million for the three months ended September 30, 2009. The (benefit) provision for income taxes in 2010 and 2009 are comprised of the statutory requirements for state taxes.

Comparison of Nine Months Ended September 30, 2010 and 2009

Trading revenues and cost of trading revenues

Trading revenues of $230.5 million for the nine months ended September 30, 2010 were essentially flat compared with $231.0 million for the nine months ended September 30, 2009. For the nine months ended September 30, 2010, the increase in volume of minutes was fully offset by a lower average trade rate for minutes bought and sold on the Exchange caused by market pressures on pricing and change in mix of traffic to lower priced markets.

A total of 9.50 billion minutes were bought and sold on the Exchange for the nine months ended September 30, 2010, an increase of 22.3% from the 7.77 billion minutes that were bought and sold on the Exchange for the nine months ended September 30, 2009. There were 972.7 million completed calls in the nine months ended September 30, 2010, representing a 13.2% increase from the 859.5 million completed calls for the nine months ended September 30, 2009. Arbinet s concerted effort to increase traffic quality and ACD of calls on the Exchange began in the third quarter of 2008 and was completed in the fourth quarter 2008. Arbinet continues to maintain the monitoring programs developed during that time period. This process contributed to a temporary decline in 2008 and 2009 in the number of minutes bought and sold on the Exchange. Arbinet believes that its decision in 2008 to streamline some of its routes has positively influenced its call quality in the short term and will improve overall business results in the long term, as evidenced by the increased number of minutes traded and calls completed in the nine months ended September 30, 2010. In addition, ACD of calls on the Exchange continued to increase to 4.9 minutes per call for the nine months ended September 30, 2010 from 4.5 minutes per call for the nine months ended September 30, 2009.

Arbinet s United Kingdom subsidiary accounted for approximately 55% and 28% of total trading revenues for the nine months ended September 30, 2010 and 2009, respectively. Arbinet s Hong Kong subsidiary accounted for approximately 7% and 3% of total trading revenues for the nine months ended September 30, 2010 and 2009, respectively.

Cost of trading revenues of $230.6 million for the nine months ended September 30, 2010 was essentially flat compared with $231.2 million for the nine months ended September 30, 2009.

Fee revenues

Fee revenues decreased 9.8% to $23.5 million for the nine months ended September 30, 2010 from $26.0 million for the nine months ended September 30, 2009. Fee revenues decreased to $0.0025 per minute for the nine months ended September 30, 2010 from $0.0033 per minute for the nine months ended September 30, 2009. Average fee revenue per minute decreased as a result of changes in the mix of both geographic markets and the trading activity of members on the Exchange. In addition, Arbinet experienced increased carrier services and other member credits, decreased sales of certain premium service offerings and decreases in usage minimums. Arbinet has provided and may continue to provide incentives to improve liquidity and expand options in the Exchange. Arbinet believes that these incentives, along with the results of its Carrier Services expansion and members continuing to achieve higher volume levels, may result in a continued decline in average fee revenue per minute.

Arbinet s United Kingdom subsidiary accounted for approximately 33% and 27% of total fee revenues for the nine months ended September 30, 2010 and 2009, respectively. Arbinet s Hong Kong subsidiary accounted for approximately 4% and 2% of total fee revenues for the nine months ended September 30, 2010 and 2009, respectively.

Indirect cost of trading and fee revenues

Indirect cost of trading and fee revenues includes charges for interconnection of Arbinet s various network components and costs to monitor, operate and maintain Arbinet s network and supporting systems. Indirect costs of trading and fee revenues decreased 22.1% to $10.8 million for the nine months ended September 30, 2010 from $13.8 million for the nine months ended September 30, 2009. Compensation related expenses decreased by $1.5 million for the nine months ended September 30, 2010 mainly due to $0.2 million of bonus expense recorded in 2009 and headcount reductions, including a division chief in the first quarter 2010. Due to a redefinition of responsibilities in first quarter 2010, certain employee expenses of $0.5 million for the nine months ended September 30, 2010, which were classified in indirect cost of trading and fee revenues in the prior year, were recorded in general and administrative expenses or sales and marketing expenses. Beginning in 2010, Arbinet stopped reporting bonus and rent expense in its network operations cost, reclassifying these corporate-

driven expenses to general and administrative. The rent-related expense reclassified for the nine months ended September 30, 2010 decreased this line item approximately $1.8 million due to the reclassification compared to the nine months ended September 30, 2009.

Sales and marketing

Sales and marketing expenses decreased 4.8% to $5.4 million for the nine months ended September 30, 2010 from $5.7 million for the nine months ended September 30, 2009. Compensation-related expenses increased by $0.2 million for the nine months ended September 30, 2010, mainly due to commissions and related payroll taxes and increased expenses to improve global routing. Due to a redefinition of responsibilities in first quarter 2010, certain employee expenses of $0.3 million for the nine months ended September 30, 2010, which were classified in indirect cost of trading and fee revenues in the previous periods, were recorded in sales and marketing, partially offset by certain employee expenses of $0.1 million for the nine months ended September 30, 2010, which were classified in sales and marketing expenses in the prior year, were recorded in general and administrative expenses. Rent and utilities expenses decreased by $0.1 million due to the first quarter 2010 reclassification of rent-related expenses being reported in general and administrative expenses, as well as software and hardware maintenance costs being reported in indirect cost of trading and fee revenues. Cost-cutting measures resulted in decreases in travel expenses of $0.1 million and in marketing expenses of $0.1 million.

General and administrative

General and administrative expenses increased 58.5% to $11.9 million for the nine months ended September 30, 2010 from $7.5 million for the nine months ended September 30, 2009. The compensation related expenses increased by $1.0 million. Due to a redefinition of responsibilities in first quarter 2010, certain employee expenses of $0.4 million for the nine months ended September 30, 2010, which were classified in indirect cost of trading and fee revenues and sales and marketing expenses in the previous periods, were recorded in general and administrative expenses. Additionally, affecting compensation expense was the reclassification in the first quarter 2010 of company-driven bonus expense to general and administrative. Bad debt expense increased by a net $1.6 million, related to an increase in reserves for a specific account as well as a net increase in reserves on accounts overdue by more than 60 days, following increased collections efforts on aged balances which resulted in minimal additional collections on the remaining accounts. Rent and utilities expenses increased by $1.6 million due to a reclassification of rent, which was fully recorded in general and administrative expenses in the nine months ended September 30, 2010. Fees for credit underwriting were increased by $0.2 million in the nine months ended September 30, 2010 as compared with the nine months ended September 30, 2009. In addition, Arbinet recorded a cumulative total of $1.0 million in the nine months ended September 30, 2010 for the following: the final costs to relocate Arbinet s corporate headquarters from New Jersey to Virginia, expenses associated with the implementation of the 1-for-4 reverse stock split, legal expenses for matters in arbitration, and additional professional fees primarily associated with strategic alternatives pursued by Arbinet. These increases were partially offset by a $0.2 million decrease in professional fees and a $0.3 million decrease in software and hardware maintenance costs, which were recorded in indirect cost of trading and fee revenues starting in 2010.

Depreciation and amortization

Depreciation and amortization decreased 7.1% to $5.0 million for the nine months ended September 30, 2010 from $5.4 million for the nine months ended September 30, 2009. This decrease was primarily attributable to certain assets becoming fully depreciated.

Severance charges

In the nine months ended September 30, 2010, Arbinet recorded $1.4 million of severance charges primarily related to separation and transition services agreements entered into with its former general counsel and four division chiefs who departed from Arbinet during the nine months ended September 30, 2010.

Interest and other income (expense)

Interest income was $0.1 million for the nine months ended September 30, 2010 and 2009. Interest expense stayed flat at $0.5 million for the nine months ended September 30, 2010. Other income (loss), net, which was $0.9 million loss for the nine months ended September 30, 2010 compared to $0.2 million income for the nine months ended September 30, 2009. The 2010 loss was primarily due to the $0.9 million settlement of the NNP Arbitration and the Savontel Arbitration and a $0.3 million impairment of a certain investment.

Foreign currency transaction gain (loss)

The foreign currency transaction gain (loss) for the nine months ended September 30, 2010 was a $1.3 million loss as compared with a $2.1 million gain for the nine months ended September 30, 2009. The foreign currency transaction gain (loss) is attributable to the impact of foreign currency exchange rate changes on intercompany debt balances intended for future settlement, and on receivables and payables denominated in a currency other than a subsidiary s functional currency. The amount of gain (loss) is related to the relative change in the foreign currency exchange rates. The reduction, partially in the second quarter 2010 and substantially in the third quarter 2010, in absolute terms of the gain (loss) is due to the second quarter 2010 recategorization of an intercompany balance between the United States and United Kingdom operating subsidiaries from a balance intended for future settlement to one that is long-term in nature.

(Benefit) provision for income taxes

Arbinet recorded provisions for income taxes of $0.1 million and $0.2 million for the nine months ended September 30, 2010 and 2009, respectively. The provision for income taxes in 2010 included an offsetting $0.1 million, which was a portion of the refund of federal income taxes, most of which was recorded in 2009, due to a provision of the Worker, Homeownership and Business Assistance Act of 2009, which enabled Arbinet to receive a refund of prior years Federal alternative minimum taxes. The offsetting expense in 2010 and the provision for income taxes in 2009 primarily are comprised of the statutory requirements for state taxes.

Comparison of Fiscal Years Ended December 31, 2009 and 2008

Trading Revenues and Cost of Trading Revenues

Trading revenues decreased 26.9% to $305.8 million for the year ended December 31, 2009 from $418.5 million for the year ended December 31, 2008. The decrease in trading revenues was due to a decrease in the volume traded by the members and a lower average trade rate for minutes bought and sold on the Exchange. Specifically, the factors affecting trading revenues included:

A total of 10.25 billion minutes were bought and sold on the Exchange for the year ended December 31, 2009, a decrease of 22.2% from the 13.17 billion minutes that were bought and sold for the year ended December 31, 2008. There were 1.13 billion completed calls in the year ended December 31, 2009, representing a 33.5% decrease from the 1.70 billion completed calls for the year ended December 31, 2008. In the second half 2008, Arbinet began a concerted effort to increase traffic quality and the average call duration (ACD) of calls on the Exchange. These measures included eliminating and streamlining many of the routes offered. This process, which was completed in the fourth quarter 2008, contributed to a decline in the number of minutes bought and sold on the Exchange. In addition, the global economic recession has had a negative impact on certain of the members trading activity. Arbinet believes that its decision in 2008 to streamline some of its routes has positively influenced its call quality in the short term and will improve overall business results in the long term, as evidenced by the continued increase in the ACD to 4.5 minutes per call on the Exchange for the year ended December 31, 2009 from 3.9 minutes per call for the year ended December 31, 2008.

As a result of the decrease in trading revenues, cost of trading revenues decreased 27.0% to $305.7 million for the year ended December 31, 2009 from $418.9 million for the year ended December 31, 2008.

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Fee Revenues

Fee revenues decreased 30.3% to $33.7 million for the year ended December 31, 2009 from $48.4 million for the year ended December 31, 2008. On a per minute basis, fee revenues decreased to $0.0033 for the year ended December 31, 2009 from $0.0037 for the year ended December 31, 2008. Average fee revenue per minute decreased as a result of changes in the mix of both geographic markets and the trading activity of members on the Exchange. In addition, Arbinet experienced decreased sales of certain premium service offerings, including decreased fees for providing accelerated payments to members. In the future, Arbinet may provide incentives to improve liquidity in the Exchange and that, along with the results of its Carrier Services expansion and members continuing to achieve higher volume levels, may lead to a decline in average fee revenue per minute.

Arbinet s United Kingdom subsidiary accounted for approximately 28% and 21% of total fee revenues and 46% and 42% of total trade revenues for the years ended December 31, 2009 and 2008, respectively. Arbinet s Hong Kong subsidiary accounted for approximately 3% and 3% of total fee revenues and 2% and 1% of total trade revenues for the years ended December 31, 2009 and 2008, respectively. No single member accounted for more than 10% of total revenues for the years ended December 31, 2009 and 2008.

Indirect Cost of Trading and Fee Revenues

Indirect costs of trading and fee revenues decreased 8.0% to $18.1 million for the year ended December 31, 2009 from $19.7 million for the year ended December 31, 2008. This decrease was due to $0.6 million of reduced compensation related expenses, mainly due to headcount reductions in 2008. In addition, $0.5 million of the decrease related to nonrecurring moving costs incurred in the first half 2008 for the relocation of Arbinet s London switch to a co-location facility. Arbinet also incurred lower rent and utilities expense of $0.6 million in connection with the London premises that were exited, and Arbinet renegotiated rent for the Herndon office. Arbinet also experienced a reduction in professional fees of $0.2 million. The decreases were offset by higher interconnection costs of $0.3 million.

Sales and Marketing

Sales and marketing expenses decreased 25.5% to $7.6 million for the year ended December 31, 2009 from $10.2 million for the year ended December 31, 2008. This decrease was mainly due to lower compensation related expenses of $2.6 million, including commissions.

General and Administrative

General and administrative expenses decreased 8.5% to $10.7 million for the year ended December 31, 2009 from $11.7 million for the year ended December 31, 2008. This decrease was primarily related to a reduction in professional fees of $1.5 million, a reduction in employee compensation related costs of $0.3 million, partially offset by $0.4 million in costs to relocate Arbinet s corporate headquarters from New Jersey to Virginia.

Depreciation and Amortization

Depreciation and amortization decreased 4.7% to $7.1 million for the year ended December 31, 2009 from $7.5 million for the year ended December 31, 2008. This decrease was primarily attributable to certain assets becoming fully depreciated.

Severance Charges

Severance charges decreased to $0.5 million for the year ended December 31, 2009 from $1.4 million for the year ended December 31, 2008.

In 2009, Arbinet recorded $0.3 million of severance charges related to a separation agreement entered into with its former Chief Financial Officer and $0.2 million of one-time employee termination benefits for certain employees of Arbinet receiving severance and/or retention agreements related to the closure of Arbinet s New Brunswick, New Jersey office.

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In 2008, Arbinet recorded a severance charge of $1.4 million related to a departure and transition services agreement entered into with its former Chief Executive Officer, and a workforce reduction of certain employees in Arbinet s core voice and data business, including the termination without cause of Arbinet s Chief Operating Officer and Chief Marketing Officer.

Restructuring (Benefit) and Other Exit Costs

In December 2009, Arbinet exited its headquarters facility in New Brunswick, New Jersey and moved the corporate functions to an existing facility in Herndon, Virginia. Accordingly, Arbinet recognized a charge of $0.6 million representing the present value of the future lease obligations less estimated recoverable amounts remaining for the site.

Interest and Other Income (Expense)

Interest income decreased 88.9% to $0.1 million for the year ended December 31, 2009 from $0.9 million for the year ended December 31, 2008. This decrease was primarily due to lower average invested amounts of cash, cash equivalents and marketable securities in 2009 versus 2008, coupled with lower interest rates. Interest expense stayed flat at $0.6 million for the years ended December 31, 2009 and 2008. Other income, net, which was $0.3 million for the years ended December 31, 2009 and 2008, principally reflected late fees charged to the members.

Foreign Currency Transaction Gain (Loss)

The foreign currency transaction gain (loss) for the year ended December 31, 2009 increased $9.3 million to a $2.3 million gain from a $7.0 million loss for the year ended December 31, 2008. The foreign currency transaction gain is attributable to the impact of foreign currency exchange rate changes on intercompany debt balances and on receivables and payables denominated in a currency other than a subsidiary s functional currency.

(Benefit) Provision for Income Taxes

Arbinet recorded a benefit for income taxes of $39 thousand for the year ended December 31, 2009 and a provision for income taxes of $0.4 million for the year ended December 31, 2008. The benefit in 2009 included a $0.2 million refund of federal income taxes due to a provision of the Worker, Homeownership and Business Assistance Act of 2009 which enables Arbinet to receive a refund of prior years Federal alternative minimum taxes. The offsetting expense in 2009 and the provision for income taxes in 2008 primarily are comprised of the statutory requirements for state taxes.

Comparison of Fiscal Years Ended December 31, 2008 and 2007

Trading Revenues and Cost of Trading Revenues

Trading revenues decreased 13.5% to $418.5 million for the year ended December 31, 2008 from $483.9 million for the year ended December 31, 2007. The decrease in trading revenues was due to a decrease in overall minutes traded on the Exchange coupled with a decrease in the average trade rate per minute.

A total of 13.2 billion minutes were bought and sold on the Exchange in the year ended December 31, 2008, down 8.3% from the 14.4 billion minutes for the year ended December 31, 2007. This decrease was due to a reduction in both the number of calls completed on the Exchange and a decrease in the ACD of calls on the Exchange. In 2008, 1.70 billion calls were completed through the Exchange, down 8.6% from the 1.86 billion completed calls for the year ended December 31, 2007. The ACD of completed calls was 3.9 minutes per call in 2008. In the second half 2008, Arbinet began a concerted effort to increase traffic quality and the ACD of calls on the Exchange. These measures included

eliminating and streamlining many of the routes offered. This process, which was completed in the fourth quarter, resulted in a decline in the number of minutes bought and sold on the Exchange. Arbinet believes that the decision to streamline some of its routes will positively influence its business in the long term, as evidenced by a 25% increase in the ACD from 3.5 minutes per call in the second quarter of the year to 4.4 minutes per call in the fourth quarter 2008.

The average trade rate, which represents the average price per minute of completed calls on the Exchange, was $0.063 per minute for the year ended December 31, 2008, compared to $0.067 per minute in the year ended December 31, 2007. The lower average trade rate per minute was driven by the mix of markets and routes that were traded on the Exchange in their respective periods and an overall per minute price decline in the international voice business.

As a result of decreases in trading revenues, cost of trading revenues decreased 13.5% to $418.9 million for the year ended December 31, 2008 from $484.1 million for the year ended December 31, 2007.

Fee Revenues

Fee revenues decreased 3.4% to $48.4 million for the year ended December 31, 2008 from $50.1 million for the year ended December 31, 2007. Fee revenues decreased as a result of lower minutes bought and sold on the Exchange, as discussed above, partially offset by favorable pricing. Average fee revenue per minute was $0.0037 in the year ended December 31, 2008 compared to the $0.0035 in the year ended December 31, 2007. Average fee revenue per minute increased due to higher access fees and an increase in the sale of premium services such as RapidClear.

Indirect Cost of Trading and Fee Revenues

Indirect costs of trading and fee revenues decreased 3.3% to $19.7 million for the year ended December 31, 2008 from $20.4 million for the year ended December 31, 2007. This decrease was principally attributed to lower compensation related expenses of $1.3 million, a decrease in utilities of $0.3 million and a $0.3 million decrease in certain hardware and software maintenance expenses. These cost reductions were partially offset by $0.5 million of moving costs related to the relocation of Arbinet s London switch to a co-location facility, and higher interconnection costs of $0.6 million.

Sales and Marketing

Sales and marketing expenses increased 5.4% to $10.2 million for the year ended December 31, 2008 from $9.7 million for the year ended December 31, 2007. This increase was primarily the result of increased employee-related expenses of $0.6 million offset by lower professional fees of $0.2 million.

General and Administrative

General and administrative expenses decreased 13.5% to $11.7 million for the year ended December 31, 2008 from $13.5 million for the year ended December 31, 2007. This amount was primarily related to a decrease in professional fees of $2.1 million, and a decrease in insurance costs of $0.2 million. These decreases were partially offset by higher expenses related to certain hardware and software maintenance contracts and an increase in facilities expenses of $0.2 million.

Depreciation and Amortization

Depreciation and amortization decreased slightly from $7.6 million for the year ended December 31, 2007 to $7.5 million for the year ended December 31, 2008. The decrease was principally the result of certain assets becoming fully depreciated during 2008.

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Severance Charges

Arbinet recognized severance charges of $1.4 million and $1.3 million for the years ended December 31, 2008 and 2007, respectively. In 2008, this charge represents costs related to a departure and transition services agreement entered into with its former Chief Executive Officer, and a company-wide workforce reduction, including the termination without cause of Arbinet s Chief Operating Officer and Chief Marketing Officer. The 2007 severance expense represents charges related to a resignation agreement entered into with Arbinet s former Chief Executive Officer and a workforce reduction of certain employees.

Restructuring (Benefit) and Other Exit costs

During 2001 and 2002, Arbinet exited two leased facilities and established a reserve for the future lease obligations, net of estimated sub-lease income. In August 2007, Arbinet decommissioned certain fixed assets at 611 West 6th Street in Los Angeles and relocated its Los Angeles switch operations to one of the sites which had been exited in December 2002. As a result, Arbinet recognized a gain of $1.0 million representing the reversal of the remaining liability related to abandoned space placed back into service. In addition, Arbinet recognized a charge of $0.3 million representing the present value of future lease obligations remaining on the West 6 th Street location. A net gain of $0.7 million, representing the impact of these two transactions, was reflected as a restructuring benefit in the accompanying statement of operations for the year ended December 31, 2007.

Impairment Charge

During 2006 and 2007, Arbinet decommissioned certain fixed assets located at its EDPs in New York City, Los Angeles and London, England. As of December 31, 2008, Arbinet sold a nominal amount of these assets. During the third quarter 2008, Arbinet recorded an impairment charge of approximately $0.5 million, to adjust the carrying value of the assets to their estimated fair market value. The carrying value of this equipment as of December 31, 2008 and December 31, 2007 is approximately $12 thousand and $0.5 million, respectively, and is included in prepaids and other current assets.

Arbinet performed its annual impairment testing at the beginning of the fourth quarter 2008, which indicated there was no impairment to Arbinet s goodwill and other intangible assets. However, business conditions worsened during the fourth quarter, and the decrease in Arbinet s stock price resulted in a reduction in Arbinet s market capitalization below Arbinet s book value. These factors caused Arbinet to perform additional impairment testing as of December 31, 2008. As a result of this additional testing, Arbinet determined that its goodwill and certain of its intangible assets were impaired. Accordingly, Arbinet recorded a $3.0 million non-cash impairment charge related to goodwill and other intangible assets in its voice and data business.

Provision for Litigation

During the year ended December 31, 2007, Arbinet recognized a charge of $1.9 million representing the settlement of certain litigation matters.

Interest and Other Income, Net

Interest income decreased 65.5% to $0.9 million for the year ended December 31, 2008 from $2.7 million for the year ended December 31, 2007. This decrease was primarily due to lower average invested amounts of cash, cash equivalents and marketable securities in 2008 versus 2007 combined with lower average interest rates. Interest expense decreased to $0.6 million for the year ended December 31, 2008 from $1.0 million for the year ended December 31, 2007. This decrease was principally due to lower fees paid by Arbinet under its third party credit arrangements, mainly attributable to a decrease in trading activity on the Exchange and reduced utilization of credit by the members. Other income, net decreased to $0.3 million for the year ended December 31, 2008 from $0.6 million for the year ended December 31, 2007. This principally reflects a $0.4 million decrease in late fees charged to the members.

Foreign Currency Transaction Gain (Loss)

Arbinet recorded a foreign currency transaction loss of $7.0 million for the year ended December 31, 2008 compared to a foreign currency transaction gain of $0.1 million for the year ended December 31, 2007. The foreign currency translation gains (losses) represent the impact of currency fluctuations on United States denominated obligations of Arbinet s United Kingdom subsidiary.

Provision for Income Taxes

Arbinet recorded income tax provisions of approximately $0.4 million and $0.2 million for the years ended December 31, 2008 and 2007, respectively. The provisions in both periods primarily represent the statutory requirements for state taxes.

Discontinued Operations

Digital Media

To increase resources available for Arbinet s core businesses, in the first quarter 2008, Arbinet announced a decision to explore strategic alternatives for Broad Street Digital, a license management platform for intellectual property rights and digital content distribution. As a result of this decision, Arbinet recognized an impairment charge of approximately $2.3 million in the fourth quarter 2007, to write down the intangible and long lived assets, including $0.4 million of goodwill, of Broad Street Digital to their estimated fair value.

During the second quarter 2008, Arbinet ceased all activities related to the digital media market. As a result, the digital media segment has been presented as a discontinued operation in the accompanying financial statements for all periods presented.

On August 5, 2008, Arbinet entered into an agreement to sell substantially all of the assets of Broad Street Digital. In the second quarter 2008, Arbinet recorded a charge of $0.3 million, to adjust the carrying value of the Broad Street Digital assets to the estimated net proceeds from the transaction, which was completed on August 19, 2008. In connection with ceasing digital media activities, Arbinet entered into a separation and release agreement with the Chief Operating Officer of Arbinet Digital Media Corporation and terminated the remaining employees in this segment. Arbinet recognized a severance charge of $0.5 million in the third quarter 2008, which is reflected in loss from discontinued operations.

Bell Fax, Inc.

In October 1999, Arbinet ceased the operations of Bellfax. Bellfax was engaged in the sale and rental of telecommunication equipment and operating international routes. In the first quarter 2008, management determined that the remaining Bellfax liability of $0.2 million was no longer required. The amount was recorded as income from discontinued operations, net of income tax of $11 thousand, in the first quarter 2008.

Liquidity and Capital Resources

At September 30, 2010, Arbinet had cash and cash equivalents of $13.2 million and marketable securities of $5.2 million. Arbinet is party to a Non-Recourse Receivable Purchase Agreement with Silicon Valley Bank, or SVB, pursuant to which SVB agreed to buy from Arbinet, on a revolving basis, certain receivables of Arbinet not to exceed an aggregate of $10 million in outstanding receivables at any time, and a $25.0 million credit facility with SVB, which is collateralized by Arbinet s accounts receivable and general corporate assets. The level of borrowing is contingent upon the overall value of the collateral. In March 2010, Arbinet borrowed an additional $1.3 million under the credit facility, bringing the balance to $4.9 million outstanding. Offsetting this increase, net payment activity of $2.0 million reduced the Non-Recourse Receivable Purchase Agreement balance to $0 at September 30, 2010. During the nine months ended September 30, 2010, Arbinet invested approximately

$3.3 million in capital expenditures related to enhancements to its trading platform and its Carrier Services product, including predominantly software development and some network equipment, which Arbinet funded primarily from cash on hand and cash generated through operations. Arbinet continues to invest cash prudently and evaluate opportunities to invest cash in operations by developing efficiencies for further operating expense savings as well as for future revenue growth, including but not limited to product development and enhancements, acquisitions and strategic alternatives.

Arbinet expects to meet its cash requirements for the next 12 months through a combination of cash flow from operations, and its currently available cash, cash equivalents and short-term investments. If Arbinet s cash requirements increase materially from those currently planned, or if Arbinet fails to generate sufficient cash flow from its business, Arbinet will require additional capital to fund its working capital and capital expenditures. In this case, Arbinet intends to draw down on its existing SVB credit facility, and/or seek additional financing in the credit or capital markets, although Arbinet may be unsuccessful in obtaining financing on acceptable terms, if at all. Arbinet s SVB credit facility was set to expire on November 26, 2010. However, Arbinet and SVB agreed to extend the facility maturity date to February 26, 2011 and to require Arbinet to maintain liquidity of at least $7.5 million.

Arbinet entered into a Non-Recourse Receivable Purchase Agreement with SVB on November 28, 2005, or the SVB Receivable Agreement, as amended on November 23, 2010, whereby SVB agreed to buy from Arbinet, on a revolving basis, all right, title to and interest in the payment of all sums owing or to be owed based on certain invoices from certain members, not to exceed an aggregate of $10 million in outstanding receivables at any time. Arbinet has determined that the SVB Receivable Agreement does not qualify for sale treatment pursuant to authoritative accounting guidance. Specifically, Arbinet does not believe the transfer of receivables to SVB meets the first condition for sale treatment, the requirement that the transferred assets are isolated from the transferor. Settlement of the transferred receivables is routinely made by members making payments on account rather than paying off specific invoices. In addition, since Arbinet nets the members buying and selling activity, certain invoices are settled via buying a member s activity on the Exchange. Remittances received from members in payment of receivables are commingled with Arbinet s assets and are not deemed to be put presumptively beyond the reach of the transferor and its creditors. Arbinet records the proceeds from the sale of receivables under the SVB Receivable Agreement as a liability until sums received from customers are remitted to SVB. This agreement was set to expire on November 26, 2010. However, Arbinet and SVB agreed to extend the agreement maturity date to February 26, 2011 and to require Arbinet to maintain liquidity of at least $7.5 million. The liability recorded under the SVB Receivable Agreement was $0 and $2.0 million at September 30, 2010 and December 31, 2009, respectively.

On November 4, 2008, the Arbinet board of directors authorized the repurchase of up to $5.0 million of Arbinet common stock from time to time in the open market, or the November 2008 Repurchase Plan. On November 21, 2008, the Arbinet board of directors authorized an amendment to the November 2008 Repurchase Plan. Under the amendment, stock repurchases will also be made from time to time through privately negotiated transactions in compliance with applicable laws and other legal requirements. The timing and number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. In the nine months ended September 30, 2010, Arbinet repurchased 2,502 shares of its common stock for $23,000. As of September 30, 2010, since the November 2008 Repurchase Plan s inception, Arbinet has repurchased 419,582 shares of its common stock for approximately $3.2 million. On November 10, 2010, the Arbinet board of directors terminated the November 2008 Repurchase Plan and determined that no additional repurchasing of Arbinet s common stock may be effected under the November 2008 Repurchase Plan as of the termination date.

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Changes in Cash Flows

The following table sets forth components of Arbinet s cash flows for the following periods:

	Nine Months Ended September 30,	
	2010	2009
	(in thousands)	
Net cash provided by operating activities continuing operations	$ 970	$ 3,655
Net cash used in operating activities for discontinued operations	$	$ (373)
Net cash used in investing activities continuing operations	$ (2,137)	$ (967)
Net cash used in financing activities	$ (749)	$ (605)

Cash Provided by (Used in) Operating Activities Continuing Operations and Discontinued Operations

Cash provided by operating activities continuing operations for the nine months ended September 30, 2010 of $1.0 million was comprised of a net loss of $13.9 million, partially offset by certain adjustments for non-cash charges including depreciation and amortization of $5.0 million, deferred financing cost amortization of $0.1 million, stock-based compensation of $1.1 million, an unrealized foreign currency transaction loss of $1.3 million, an impairment charge of $0.3 million, and a net change in operating assets and liabilities of $7.2 million. The change in operating assets and liabilities principally reflects a $5.8 million decrease in accounts receivable and a $3.5 million increase in accounts payable, partially offset by a $2.0 million decrease in deferred revenue, accrued expenses and other current liabilities and a $0.1 million decrease in deferred rent and other long-term liabilities.

Cash provided by operating activities continuing operations for the nine months ended September 30, 2009 of $3.7 million was comprised of a net loss of $5.2 million, certain adjustments for non-cash charges including depreciation and amortization of $5.4 million, stock-based compensation of $1.5 million, unrealized foreign currency exchange gain of $2.1 million and a net change in operating assets and liabilities of $4.0 million. The net change in operating assets and liabilities was primarily driven by a decline in trading volume on Arbinet s Exchange. Cash used in operating activities for discontinued operations was $0.4 million for the nine months ended September 30, 2009.

Cash Used in Investing Activities

Cash used in investing activities for the nine months ended September 30, 2010 was $2.1 million. Total capital expenditures for the nine months ended September 30, 2010 were $3.3 million related primarily to the costs of capitalized software and purchases of telecommunications switching equipment, partially offset by the net of total purchases of marketable securities of $6.9 million and total proceeds from sales and maturities of marketable securities of $8.1 million for the nine months ended September 30, 2010.

Cash used in investing activities for the nine months ended September 30, 2009 was $1.0 million related primarily to $2.6 million used for the purchase of capitalized software and telecommunications switching equipment, partially offset by the net of total purchases of marketable securities of $6.6 million and total proceeds from sales and maturities of marketable securities of $8.3 million for the nine months ended September 30, 2009.

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Cash Used in Financing Activities

Cash used in financing activities for the nine months ended September 30, 2010 was $0.7 million, primarily due to a $2.0 million payment to SVB under the Non-Recourse Receivable Purchase Agreement and $0.2 million utilized for the purchase of Arbinet s common shares in accordance with the November 2008 Repurchase Plan, partially offset by a $1.3 million increase in debt from SVB and $0.2 million received from stock option exercises.

Cash used in financing activities for the nine months ended September 30, 2009 was $0.6 million. It was primarily attributable to the purchase of treasury shares in accordance with stock repurchase plans approved by Arbinet s Board of Directors, partially offset by a $0.6 million increase in debt from SVB.

Off-Balance Sheet Arrangements

Arbinet does not currently have any off-balance sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Credit Risk Management

Arbinet manages the invoicing, credit risk and settlement of all traffic traded on the Exchange. Since Arbinet is obligated to pay the seller regardless of whether it ultimately collects from the buyer, Arbinet assumes the credit risk associated with all traffic traded on the Exchange. As part of managing the credit risk associated with buyers on the Exchange, Arbinet has an integrated credit risk management program under which the following arrangements assist in the mitigation of this credit risk:

Netting. Arbinet nets the members buying and selling activity. This enables Arbinet to extend credit to members up to the amount they have sold in a given period. The netting also reduces the working capital requirements for the members and for Arbinet. For the nine months ended September 30, 2010, 30% of Arbinet s trading revenues were offset by selling activity.

Credit Risk Assessment and Underwriting. Pursuant to the terms of Arbinet s Non-Recourse Receivable Purchase Agreement with SVB, SVB agreed to buy from Arbinet, on a revolving basis, all right, title to and interest in the payment of all sums owed or to be owing based on certain invoices from certain members on the Exchange, not to exceed an aggregate of $10 million in outstanding receivables at any time. The agreement with SVB was set to expire on November 26, 2010. However, Arbinet and SVB agreed to extend the agreement to February 26, 2011 and to require Arbinet to maintain liquidity of at least $7.5 million. In addition, effective June 1, 2010, after terminating Arbinet s credit risk assessment and credit underwriting services agreements with GMAC and Euler, Arbinet moved to a new credit insurance policy with a third party underwriter, which provides Arbinet customer default and insolvency protection.

Self Underwriting. Members can self-finance a credit line with Arbinet by prepaying, posting a cash deposit or letter of credit or by placing money in escrow.

CreditWatch System. Arbinet creates and monitors a credit line for each member on its CreditWatch system. This credit line is the sum of the outside provider credit lines, selling activity, other cash collateral and internal credit. Under Arbinet s CreditWatch system, Arbinet regularly monitors the member s net trading balances and sends email alerts to any member who surpasses 50%, 75% and 90% of its available credit limit, and Arbinet is able to automatically suspend a member s ability to buy if its net balance reaches its total credit line.

Frequent Settlement. Arbinet has two trading billing periods per month. Payments from buyers are generally due fifteen days after the end of each trading period. This frequent settlement reduces the

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amount outstanding from buyers. The frequent clearing of trading balances, together with the ability to net buy and sell transactions, allows the members to trade large dollar volumes while minimizing the outstanding balance that needs to be underwritten by additional sources of credit.

Arbinet occasionally issues internal credit lines to the members based on its review of certain factors including the member s financial statements, credit references and payment history with Arbinet. These internal credit lines may be in excess of the credit coverage provided by Arbinet s third party underwriters and may exceed other means of cash collateral. Arbinet evaluates the credit risk, on a case-by-case basis, of each member who is not covered by its third-party credit arrangements, its netting policy, prepayments or other cash collateral. Arbinet has adopted written procedures to determine authority levels for certain of its officers to grant internal credit lines. In the nine months ended September 30, 2010, approximately 84% of Arbinet s trading revenues were covered by its third party underwriters, netting, prepayments or other cash collateral, of which Arbinet s third party underwriters covered 39%. However, Arbinet s credit evaluations cannot fully determine whether buyers can or will pay Arbinet for capacity they purchase through the Exchange. In the event that the creditworthiness of Arbinet s buyers deteriorates, Arbinet s credit providers and Arbinet may elect not to extend credit and consequently it may forego potential revenues which could materially affect its results of operations.

On June 23, 2009, Arbinet issued a standby letter of credit through SVB with an approximate limit of $0.1 million on behalf of one of the members to guarantee payment obligations for a certain promotional and interim termination rate agreement. The letter of credit expired on March 31, 2010. No cash collateral was required.

Arbinet s agreement to provide credit risk assessment and credit underwriting services with Euler expired on May 31, 2010. Arbinet s agreement with GMAC was terminated effective April 1, 2010, which resulted in a reduction to the remaining minimum annual commission. Effective June 1, 2010, Arbinet moved to a new credit insurance policy with a third party underwriter, which provides Arbinet customer default and insolvency protection. Pursuant to the terms of Arbinet s agreements with this third party underwriter, Arbinet is required to pay minimum annual insurance premiums of $0.3 million. In addition, Arbinet s Non-Recourse Receivable Agreement was set to expire on November 26, 2010. However, Arbinet and SVB agreed to extend the agreement to February 26, 2011 and to require Arbinet to maintain liquidity of at least $7.5 million.

Summary Disclosure about Contractual Obligations

The following table summarizes Arbinet s contractual obligations as of September 30, 2010 (in thousands):

		Payments Due by Period			
	Total	**2010**	**2011 2013**	**2014 2016**	**2017 +**
Credit facility	$ 4,900	$ 4,900	$	$	$
Equipment financing	183		183		
Operating leases	19,774	760	5,927	5,742	7,345
Purchase obligations	960	45	915		
Total contractual obligations	$ 25,817	$ 5,705	$ 7,025	$ 5,742	$ 7,345

Recent Accounting Pronouncements

In July 2010, the FASB issued new accounting guidance on financing receivables and the allowance for credit losses, which requires more robust and disaggregated disclosures about the credit quality of an entity s financing receivables and its allowance for credit losses. This new guidance is effective for the first interim or annual reporting periods ending on or after December 15, 2010. While Arbinet is currently evaluating the effect this new guidance may have on its consolidated financial statements, Arbinet does not believe that it will have a material effect on its consolidated results of operations, cash flows or financial position upon adoption.

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In May 2009, the FASB issued guidance on Arbinet s assessment of subsequent events. The guidance established principles and standards related to the accounting for and disclosure of events that occur after the balance sheet date but before the financial statements were issued. The May 2009 guidance required an entity to recognize, in the financial statements, subsequent events that provided additional information regarding conditions that existed at the balance sheet date. In February 2010, the FASB issued new guidance that removed the requirements in the May 2009 guidance to disclose the date through which subsequent events were evaluated. The new guidance was effective upon issuance. The implementation of this standard did not have a material impact on Arbinet s consolidated financial position and results of operations.

Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exposure

The financial position and results of operations of Arbinet s United Kingdom subsidiary are measured using British Pounds Sterling (GBP) as the functional currency. The financial position and results of operations of Arbinet s United Kingdom subsidiary are reported in United States dollars (USD) and included in Arbinet s consolidated financial statements. Arbinet s exposure to foreign currency fluctuation is mitigated, in part, by the fact that Arbinet incurs certain operating costs in the same foreign currencies in which fee revenues are denominated. There were no trading revenues denominated in GBP. The foreign currency transaction gain (loss) is attributable to the impact of foreign currency exchange rate changes on intercompany debt balances and on receivable and payables denominated in a currency other than a subsidiary s functional currency. During the three months ended September 30, 2010, the USD weakened as compared to GBP. Correspondingly, and relative to the degree of change in the USD/GBP exchange rate, Arbinet s United Kingdom subsidiary would need to convert less GBP into the same amount of USD at the end of the period than at the beginning of the period to pay-off the intercompany balance, thereby incurring a transaction gain for the period. During the nine months ended September 30, 2010, the USD strengthened as compared to GBP. Correspondingly, and relative to the degree of change in the USD/GBP exchange rate, Arbinet s United Kingdom subsidiary would need to convert more GBP into the same amount of USD at the end of the period than at the beginning of the year to pay-off the intercompany balance, thereby incurring a transaction loss for the period. This gain (loss) was unrealized as no cash was exchanged for actual settlement of the intercompany balances.

Interest Rate Exposure

Arbinet is exposed to interest rate fluctuations. Arbinet invests its cash in short-term interest bearing securities. Although its investments are recorded as available for sale, Arbinet generally holds such in