ROBERTS JEFFREY W
Form 4
April 03, 2013

FORM 4

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

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

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

OMB APPROVAL	
OMB Number:	3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
ROBERTS JEFFREY W
(Last) (First) (Middle)
C/O U.S. CONCRETE, INC., 331 N. MAIN ST.
(Street)
EULESS, TX 76039
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
US CONCRETE INC [NONE]

3. Date of Earliest Transaction (Month/Day/Year)
04/01/2013

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

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
VP & GM - Ingram Concrete, LLC

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

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

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common stock	04/01/2013		M		757	A	$ 0 (1)	19,591	D	
Common stock	04/01/2013		F		201	D	$ 13.81	19,390	D	
Common stock	04/01/2013		A		8,000 (2)	A	$ 0	27,390	D	
Common stock	04/01/2013		F		812	D	$ 13.81	26,578	D	

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

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

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price Derivat Securit (Instr. 5
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Restricted stock units	(1)	04/01/2013		M			757	(3)	(3)	Common stock	757	$ 0

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
ROBERTS JEFFREY W C/O U.S. CONCRETE, INC. 331 N. MAIN ST. EULESS, TX 76039			VP & GM - Ingram Concrete, LLC	

Signatures

/s/ Lisa Sutter, as Attorney-in-Fact for Jeffrey W. Roberts	04/03/2013
**Signature of Reporting Person	Date

Explanation of Responses:

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

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

(1) Each restricted stock unit represents the right to receive one share of common stock of the company.

(2) Represents restricted shares granted under the Company's Management Equity Incentive Plan, to vest as follows:(i) sixty percent (60%) of the total number of shares of Awarded Shares will become vested over three (3) years in equal annual installments from the date of grant, and forty percent (40%) of the shares granted shall time-and-performance-vest (the Time-And-Performance Shares) with fifty percent (50%) of the Time-And-Performance Shares vesting should the average of the daily volume-weighted average share price of the Companys Common Stock over any period of twenty (20) consecutive trading days attain $18.00 per share within the three (3) year period from the date of grant and fifty percent (50%) of the Time-And-Performance Shares vesting should the average of the daily volume-weighted average share price of the Company's Common Stock over any period of twenty (20) consecutive trading days attain

$22.00 per share within the three (3) year period from the date of grant.

(3) The restricted stock units vest as to one-twelfth (1/12) of the shares subject thereto on each of the first twelve (12) quarterly anniversaries from grant date of October 1, 2010.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. n" SIZE="2">(270) (33) (815) (1,219)

INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES

(4,132) 4,915 (3,817) 2,822 (212)

EQUITY IN NET INCOME OF SUBSIDIARIES

4,253 9,701 (13,954)

INCOME FROM CONTINUING OPERATIONS

121 4,915 5,884 2,822 (13,954) (212)

INCOME FROM DISCONTINUED OPERATIONS, net of tax

333 333

NET INCOME

$121 $4,915 $5,884 $3,155 $(13,954) $121

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Nine Months Ended September 30, 2006					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$	$	$ 121,771	$ 641,253	$	$ 763,024
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			92,102	411,254		503,356
Selling, general and administrative	5,260	20	31,586	182,164		219,030
Depreciation and amortization			7,925	33,119		41,044
Loss on sale or disposal of assets			9,245	5,057		14,302
Asset impairment write-down			47,952	161,296		209,248
Total operating expenses	5,260	20	188,810	792,890		986,980
LOSS FROM OPERATIONS	(5,260)	(20)	(67,039)	(151,637)		(223,956)
INTEREST EXPENSE	(13,205)		(23,230)	(4,223)		(40,658)
ACCRETION ON DEBT DISCOUNT	(1,344)					(1,344)
CHANGE IN FAIR VALUE OF DERIVATIVES EMBEDDED WITHIN CONVERTIBLE DEBT	5,373					5,373
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	10,374		(2,965)			7,409
INTEREST AND OTHER INCOME	104		14	3,287		3,405
FOREIGN CURRENCY TRANSACTION GAIN	4,128	518	2,120	1,754		8,520
INTERCOMPANY INTEREST		1,910	972	(2,882)		
MANAGEMENT FEE			5,768	(5,768)		
ROYALTY FEE		11,557	(292)	(11,265)		
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET LOSS OF SUBSIDIARIES	170	13,965	(84,652)	(170,734)		(241,251)
INCOME TAX EXPENSE	(309)	(828)	(192)	(2,368)		(3,697)
INCOME (LOSS) BEFORE EQUITY IN NET LOSS OF SUBSIDIARIES	(139)	13,137	(84,844)	(173,102)		(244,948)
EQUITY IN NET LOSS OF SUBSIDIARIES	(235,392)		(212,919)		448,311	
INCOME (LOSS) FROM CONTINUING OPERATIONS	(235,531)	13,137	(297,763)	(173,102)	448,311	(244,948)
INCOME FROM DISCONTINUED OPERATIONS, net of tax				2,002		2,002
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax				7,415		7,415
NET INCOME (LOSS)	$ (235,531)	$ 13,137	$ (297,763)	$ (163,685)	$ 448,311	$ (235,531)

37

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED BALANCE SHEET

(in thousands)

	September 30, 2007					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 2,110	$	$ 144	$ 106,470	$	$ 108,724
Accounts receivable			12,804	107,304		120,108
Prepaid expenses and other current assets	665		1,315	21,504		23,484
Total current assets	2,775		14,263	235,278		252,316
INTERCOMPANY RECEIVABLES	91,068	185,089	600,170		(876,327)	
INVESTMENTS IN SUBSIDIARIES	(40)		(91,561)		91,601	
RESTRICTED CASH			314	9,375		9,689
PROPERTY AND EQUIPMENT Net			16,503	121,174		137,677
GOODWILL				39,552		39,552
OTHER INTANGIBLE ASSETS Net				1,801		1,801
OTHER ASSETS	2,651	298	8,243	19,304		30,496
TOTAL ASSETS	$ 96,454	$ 185,387	$ 547,932	$ 426,484	$ (784,726)	$ 471,531
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)						
CURRENT LIABILITIES:						
Accounts payable	$ 1,427	$	$ 2,399	$ 75,271	$	$ 79,097
Accrued interconnection costs			18,103	24,819		42,922
Deferred revenue			1,007	15,983		16,990
Accrued expenses and other current liabilities	1,340		9,135	44,203		54,678
Accrued income taxes	242	4,130	2,332	16,095		22,799
Accrued interest	2,304	5,183	4,033	63		11,583
Current portion of long-term obligations			3,908	9,729		13,637
Total current liabilities	5,313	9,313	40,917	186,163		241,706
INTERCOMPANY PAYABLES	413,880		113,429	349,018	(876,327)	
LONG-TERM OBLIGATIONS	123,723	114,281	393,626	44,606		676,236
OTHER LIABILITIES				51		51
Total liabilities	542,916	123,594	547,972	579,838	(876,327)	917,993
COMMITMENTS AND CONTINGENCIES						
STOCKHOLDERS EQUITY (DEFICIT):						
Common stock	1,426					1,426
Additional paid-in capital	718,634		1,161,930	306,151	(1,468,081)	718,634
Retained earnings (accumulated deficit)	(1,074,622)	61,793	(1,070,871)	(377,230)	1,386,308	(1,074,622)
Accumulated other comprehensive loss	(91,900)		(91,099)	(82,275)	173,374	(91,900)
Total stockholders equity (deficit)	(446,462)	61,793	(40)	(153,354)	91,601	(446,462)
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 96,454	$ 185,387	$ 547,932	$ 426,484	$ (784,726)	$ 471,531

38

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED BALANCE SHEET

(in thousands)

	December 31, 2006					
	PTGI	**IHC**	**Guarantor Subsidiaries**	**Non Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 3,764	$	$ (35)	$ 60,588	$	$ 64,317
Accounts receivable			16,987	101,025		118,012
Prepaid expenses and other current assets	789		1,156	22,333		24,278
Total current assets	4,553		18,108	183,946		206,607
INTERCOMPANY RECEIVABLES	83,361	59,082	617,133	31,625	(791,201)	
INVESTMENTS IN SUBSIDIARIES	(4,854)		(129,392)		134,246	
RESTRICTED CASH			855	7,560		8,415
PROPERTY AND EQUIPMENT Net			18,333	93,349		111,682
GOODWILL				34,893		34,893
OTHER INTANGIBLE ASSETS Net				2,762		2,762
OTHER ASSETS	3,717		9,098	15,076		27,891
TOTAL ASSETS	$ 86,777	$ 59,082	$ 534,135	$ 369,211	$ (656,955)	$ 392,250
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)						
CURRENT LIABILITIES:						
Accounts payable	$ 838	$	$ 4,240	$ 65,508	$	$ 70,586
Accrued interconnection costs			23,825	25,117		48,942
Deferred revenue			1,170	17,145		18,315
Accrued expenses and other current liabilities	1,111		10,600	35,273		46,984
Accrued income taxes	1,460	2,919	167	13,375		17,921
Accrued interest	4,169		8,766	692		13,627
Current portion of long-term obligations	22,702		3,920	10,375		36,997
Total current liabilities	30,280	2,919	52,688	167,485		253,372
INTERCOMPANY PAYABLES	353,815		90,572	346,814	(791,201)	
LONG-TERM OBLIGATIONS	170,937		395,806	40,334		607,077
OTHER LIABILITIES			(77)	133		56
Total liabilities	555,032	2,919	538,989	554,766	(791,201)	860,505
COMMITMENTS AND CONTINGENCIES						
STOCKHOLDERS EQUITY (DEFICIT):						
Common stock	1,138					1,138
Additional paid-in capital	692,941		1,161,930	306,235	(1,468,165)	692,941
Retained earnings (accumulated deficit)	(1,082,853)	56,163	(1,088,104)	(417,070)	1,449,011	(1,082,853)
Accumulated other comprehensive loss	(79,481)		(78,680)	(74,720)	153,400	(79,481)
Total stockholders equity (deficit)	(486,255)	56,163	(4,854)	(185,555)	134,246	(468,255)
	$ 86,777	$ 59,082	$ 534,135	$ 369,211	$ (656,955)	$ 392,250

TOTAL LIABILITIES AND
STOCKHOLDERS EQUITY (DEFICIT)

39

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

(in thousands)

	For the Nine Months Ended September 30, 2007					
	PTGI	**IHC**	**Guarantor Subsidiaries**	**Non Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$ 14,222	$ 5,630	$ 25,733	$ 45,548	$ (76,911)	$ 14,222
Adjustments to reconcile net income to net cash provided by operating activities:						
Provision for doubtful accounts receivable			1,058	6,300		7,358
Stock compensation expense			184			184
Depreciation and amortization			2,803	18,485		21,288
Loss on sale or disposal of assets				(5,447)		(5,447)
Accretion of debt (premium) discount	1,151	(740)				411
Equity in net gain of subsidiary	(23,224)		(53,687)		76,911	
Deferred income taxes			(860)			(860)
Loss on early extinguishment or restructuring of debt	2,269	5,135	108	398		7,910
Unrealized foreign currency transaction gain on intercompany and foreign debt	(8,417)	(6,418)	(2,552)	(15,242)		(32,629)
Changes in assets and liabilities, net of acquisitions:						
(Increase) decrease in accounts receivable			3,125	(2,832)		293
(Increase) decrease in prepaid expenses and other current assets	123		(158)	2,633		2,598
(Increase) decrease in other assets	680	35	1,715	(1,117)		1,313
(Increase) decrease in intercompany balance	52,724	(111,354)	37,216	21,414		
Increase (decrease) in accounts payable	589		(1,841)	4,081		2,829
Decrease in accrued interconnection costs			(5,723)	(2,522)		(8,245)
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities, accrued income taxes and other liabilities	(1,019)	1,124	615	(1,737)		(1,017)
Increase (decrease) in accrued interest	(1,865)	5,183	(4,733)	(628)		(2,043)
Net cash provided by (used in) operating activities	37,233	(101,405)	3,003	69,334		8,165
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of property and equipment			(973)	(28,744)		(29,717)
Cash from disposition of business, net of cash disposed				6,140		6,140
Cash used for business acquisitions, net of cash acquired			(200)			(200)
Increase (decrease) in restricted cash			541	(881)		(340)
Net cash provided by investing activities			(632)	(23,485)		(24,117)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Proceeds from issuance of long-term obligations		101,405		7,870		109,275
Deferred financing costs				(6,570)		(6,570)
Principal payments on other long-term obligations	(58,057)		(2,192)	(4,618)		(64,867)
Proceeds from sale of common stock	19,170					19,170
Net cash provided by (used in) financing activities	(38,887)	101,405	(2,192)	(3,318)		57,008
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				3,351		3,351
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,654)		179	45,882		44,407

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,764		(35)	60,588		64,317
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,110	$	$ 144	$ 106,470	$	$ 108,724

40

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

(in thousands)

	For the Nine Months Ended September 30, 2006					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income (loss)	$ (235,531)	$ 13,137	$ (297,763)	$ (163,685)	$ 448,311	$ (235,531)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Provision for doubtful accounts receivable			1,184	9,972		11,156
Stock compensation expense			481			481
Depreciation and amortization			7,924	33,822		41,746
(Gain) loss on sale or disposal of assets			9,245	(2,334)		6,911
Asset impairment write-down			47,952	161,296		209,248
Accretion of debt discount	1,344					1,344
Equity in net loss of subsidiary	235,392		212,919		(448,311)	
Change in estimated fair value of embedded derivatives	(5,373)					(5,373)
Loss on early extinguishment or restructuring of debt	(10,374)		2,965			(7,409)
Other				(1,595)		(1,595)
Unrealized foreign currency transaction gain on intercompany and foreign debt	(4,034)		(2,723)	(2,919)		(9,676)
Changes in assets and liabilities, net of acquisitions:						
Decrease in accounts receivable			5,580	10,058		15,638
(Increase) decrease in prepaid expenses and other current assets	1,083		(7,966)	14,121		7,238
(Increase) decrease in other assets	587		10,533	(11,029)		91
Increase in intercompany balance	16,901	(7,690)	(1,592)	(7,619)		
Increase (decrease) in accounts payable	(1,722)		456	(11,270)		(12,536)
Decrease in accrued interconnection costs			(1,932)	(13,918)		(15,850)
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities, accrued income taxes and other liabilities	651	(5,447)	2,959	9,172		7,335
Decrease in accrued interest	451		(4,694)			(4,243)
Net cash provided by (used in) operating activities	(625)		(14,472)	24,072		8,975
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of property and equipment			(1,514)	(22,412)		(23,926)
Cash from disposition of business, net of cash disposed				12,947		12,947
Cash used for business acquisitions, net of cash acquired			457	(681)		(224)
Decrease in restricted cash				1,196		1,196
Net cash used in investing activities			(1,057)	(8,950)		(10,007)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Proceeds from issuance of long-term obligations			20,501	11,940		32,441
Deferred financing costs			(2,850)			(2,850)
Principal payments on other long-term obligations	(2)		(939)	(5,326)		(6,267)
Proceeds from sale of common stock	4,935					4,935
Net cash provided by financing activities	4,933		16,712	6,614		28,259
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			(458)	1,060		602
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,308		725	22,796		27,829

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,255		(446)	42,190		42,999
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 5,563	$	$ 279	$ 64,986	$	$ 70,828

Table of Contents

13. SUBSEQUENT EVENTS

In October 2007, the Company made open market purchases of $3.8 million principal amount of its October 1999 Senior Notes resulting in a $43 thousand gain on early extinguishment of debt including the write-off of related deferred financing costs.

In October 2007, the Company completed a forward currency contract, required by the Canadian Credit Agreement, which also fixed the interest rate at 9.21% per annum until maturity. The forward currency contract obligates the Company to exchange 34.3 million CAD to $35.0 million with a financial institution on March 28, 2012. The $35.0 million will be used to pay off the Canadian credit facility. The Company was required to enter a collateralization contract with the financial institution, which obligates the Company to deposit cash to a restricted account per fluctuation of the currency. On November 2, 2007, $2.0 million (1.9 million CAD) was deposited to this account.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Introduction

We are an integrated telecommunications services provider offering a portfolio of international and domestic voice, wireless, Internet, voice-over-Internet protocol (VOIP), data and hosting services to business and residential retail customers and other carriers located primarily in the United States, Australia, Canada, the United Kingdom (UK) and western Europe. Our focus is to service the demand for high quality, competitively priced communications services that is being driven by the globalization of the world s economies, the worldwide trend toward telecommunications deregulation and the growth of broadband, Internet, VOIP, wireless and data traffic.

Overview of Operations

Generally, we price our services competitively with the major carriers and service providers operating in our principal service regions. We seek to generate net revenue through sales and marketing efforts focused on customers with significant communications needs (international and domestic voice, wireless, VOIP, high speed Internet and data/hosting), including small- and medium-sized enterprises (SMEs), multinational corporations, residential customers, and other telecommunications carriers and resellers and through acquisitions.

Long distance voice minutes of use per customer continue to decline as more customers are using wireless devices and the Internet as alternatives to the use of wireline phones. Also, product substitution (e.g., wireless/Internet for fixed line voice; broadband for dial-up Internet service provider (ISP) services) has resulted in revenue declines in our legacy long distance voice and dial-up ISP businesses. Additionally, we believe that because deregulatory influences have begun to affect telecommunications markets outside the United States, the deregulatory trend will result in greater competition from the existing wireline and wireless competitors and from new entrants, such as cable companies and VOIP companies, which could continue to affect adversely our net revenue per minute, as well as minutes of use.

As the portion of traffic transmitted over leased or owned facilities increases, cost of revenue increasingly is comprised of fixed costs. In order to manage such costs, we pursue a flexible approach with respect to the expansion of our network capacity. In most instances, we initially obtain transmission capacity on a variable-cost, per-minute leased basis, then acquire additional capacity on a fixed-cost basis when traffic volume makes such a commitment cost-effective, and ultimately purchase and operate our own facilities when traffic levels justify such investment. We also seek to lower the cost of revenue through:

- optimizing the cost of traffic by using the least expensive cost routing;
- negotiating lower variable usage based costs with domestic and foreign service providers and negotiating additional and lower cost foreign carrier agreements with the foreign incumbent carriers and others;
- continuing to expand/reduce the capacity of our network when traffic volumes justify such actions; and
- increasing use of the public Internet.

Overall, carrier revenue accounted for 19% and 21% of total net revenue for the three months ended September 30, 2007 and September 30, 2006, respectively. The provision of carrier services also allows us to connect our network to all major carriers, which enables us to provide global coverage. Our overall margin may fluctuate based on the relative volumes of international versus domestic long distance services; carrier services versus business and residential long distance services; prepaid services versus traditional post-paid voice services; Internet, VOIP and data services versus fixed line voice services; the amount of services that are resold; and the proportion of traffic carried on our network versus resale of other carriers services. Our margin is also affected by customer transfer and migration fees. We generally pay a charge to install and transfer a new

43

Table of Contents

customer onto our network, and to migrate DSL and local customers. However, installing and migrating customers to our own networks, such as the DSL networks in Australia and Canada, enable us to increase our margin on such services as compared to resale of services using other carriers networks.

SG&A expenses are comprised primarily of salaries and benefits, commissions, occupancy costs, sales and marketing expenses, advertising, professional fees, and administrative costs. All SG&A expenses are expensed when incurred.

Third Quarter 2007 Results

In the first quarter 2007, based on our strengthened financial results during 2006, we successfully raised over $75 million in cash and extended our near-term debt maturities. In the second quarter, operating results modestly exceeded those in the first quarter. We exchanged $5 million of debt for equity and, in the third quarter, raised an additional $19 million in net cash proceeds through the sale of equity, thereby eliminating the accelerated maturity provisions in our 5% Exchangeable Senior Notes.

Our operating results were again accomplished in an environment of declining legacy voice and dial-up Internet revenues, a condition which we expect will continue as we attempt to moderate the decline. That revenue decline has been partially offset by the continued growth of our broadband, VOIP, local, wireless, data and hosting services revenues. In the third quarter, net revenues from those services grew 2% sequentially, reaching an annualized amount of approximately $220 million. We believe accelerated growth in these services is the necessary foundation for future success.

Growth in these products had been severely constrained by the lack of available cash for capital expenditures, and sales and marketing. However, successful execution of our recent liquidity-enhancing transactions now enables us to provide more support for the growth products. As a result, our primary focus during the second half of 2007 and into 2008 will be targeted investments to bolster the rates of growth of our broadband, VOIP, local, wireless, data and hosting services.

That investment program is expected to include the following initiatives: opening of new and expansion of existing data centers in Canada and Australia; expansion of the DSL broadband footprint and network capacity to offer higher speed DSL services in Australia; and expansion, as warranted, of our direct sales force and telemarketing capabilities in select regions. The resources to support these efforts will include both increased selling, general and administrative (SG&A) expense and capital expenditures, much of which is occurring in the latter half of 2007, while anticipated revenue and contribution is not expected to occur before 2008.

We expect those investments to result in a $10 million to $15 million increase in capital expenditures over our earlier guidance for 2007. Thus, our revised capital expenditure guidance for full year 2007 is now in the range of $40 million to $45 million.

In light of improved operating performance over the course of 2006, we announced a two-year Transformation Strategy as we entered 2007. Our performance during the first three quarters of 2007 underscores that, while much has already been accomplished, much is yet to be done. As we move forward over the balance of the period, we will continue to be guided by our stated strategy.

PRIMUS 2007-2008 Transformation Strategy

A) Strengthen the balance sheet opportunistically through potential de-levering transactions and equity capital infusions;

B) Significantly improve our non-sales and marketing cost structure through increased outsourcing and/or off-shoring at lower cost locations globally and maintain an aggressive cost management program;

Table of Contents

C) Focus on improving sales productivity and margin enhancements by leveraging our network assets and increasing the revenue mix in favor of higher margin growth services; and

D) Opportunistically sell non-strategic assets and businesses and use the proceeds either to accelerate growth of high-margin products or to strengthen the balance sheet.

Consistent with our strategy of opportunistically selling non-strategic assets and businesses, we previously announced a goal to realize between $50 million and $100 million in cash proceeds from monetizing low-margin/low-growth businesses before the end of 2008. Those proceeds, in turn, could be applied to fund increased levels of investment in our high margin growth products both organically and through acquisitions as well as to reduce debt.

We expect overall revenue to decline in 2007 as compared to 2006, primarily as a result of the declining usage and pricing in the legacy voice business and also as we continue to prune or divest low-margin revenue streams. Our objective, however, is to generate increased contribution from growth products such as broadband, VOIP, local, wireless, data and hosting, such that, over time, such contribution exceeds the declines in legacy voice and dial-up Internet products. Our future growth and profitability are dependent upon accomplishing that goal.

Foreign Currency

Foreign currency can have a major impact on our financial results. Currently in excess of 80% of our net revenue is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the United States Dollar (USD). The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive the majority of our net revenue and incur a significant portion of our operating costs from outside the United States, and therefore changes in exchange rates have had and may continue to have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the following exchange rates: USD/Canadian Dollar (CAD), USD/Australian Dollar (AUD), USD/British pound (GBP), and USD/Euro (EUR). Due to the large percentage of our revenue derived outside of the United States, changes in the USD relative to one or more of the foregoing currencies could have an adverse impact on our future results of operations. We have agreements with certain subsidiaries for repayment of a portion of the investments and advances made to these subsidiaries. As we anticipate repayment in the foreseeable future, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations. We historically have not engaged in currency hedging transactions. However, during the fourth quarter 2007, we completed a forward currency contract required by the Canadian Credit Agreement. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies. Given the current divergence in exchange rates affecting the functional currencies in our major markets as compared to the USD, we will explore whether hedging activities may provide benefit to us.

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

Table of Contents

In the three months and nine months ended September 30, 2007, as compared to the three months and nine months ended September 30, 2006, the USD was weaker on average as compared to the CAD, AUD, GBP and EUR. The following tables demonstrate the impact of currency fluctuations on our net revenue for the three months and nine months ended September 30, 2007 and 2006 (in thousands, except percentages):

Net Revenue by Location in USD

	For the three months ended September 30,				For the nine months ended September 30,			
	2007	2006	Variance	Variance %	2007	2006	Variance	Variance %
Canada	$ 66,730	$ 68,251	$ (1,521)	(2)%	$ 193,101	$ 208,935	$ (15,834)	(8)%
Australia	$ 70,744	$ 75,175	$ (4,431)	(6)%	$ 212,895	$ 229,340	$ (16,445)	(7)%
United Kingdom	$ 22,665	$ 19,876	$ 2,789	14%	$ 72,638	$ 63,203	$ 9,435	15%
Europe*	$ 21,847	$ 29,767	$ (7,920)	(27)%	$ 62,783	$ 106,685	$ (43,902)	(41)%

Net Revenue by Location in Local Currencies

	For the three months ended September 30,				For the nine months ended September 30,			
	2007	2006	Variance	Variance %	2007	2006	Variance	Variance %
Canada (in CAD)	69,284	75,257	(5,973)	(8)%	209,690	232,661	(22,971)	(10)%
Australia (in AUD)	83,572	99,387	(15,815)	(16)%	259,598	307,038	(47,440)	(15)%
United Kingdom (in GBP)	11,566	10,605	962	9%	38,354	34,881	3,474	10%
Europe* (in EUR)	15,904	23,356	(7,452)	(32)%	46,710	86,257	(39,547)	(46)%

* Europe includes only subsidiaries whose functional currency is the Euro dollar.

Critical Accounting Policies

On January 1, 2007, the Company adopted FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS Statement No. 109, Accounting for Income Taxes. FIN No. 48 requires significant judgment in determining what constitutes an individual tax position as well as assessing the outcome of each tax position. Changes in judgment as to recognition or measurement of tax positions can materially affect the estimate of the unrecognized tax benefits. Such judgment is based on more likely than not and measurement criteria, and certain tax positions are released when new information becomes available.

See Management s Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the year ended December 31, 2006 for a detailed discussion of our critical accounting policies. These policies include revenue recognition, determining our allowance for doubtful accounts receivable, accounting for cost of revenue, valuation of long-lived assets and accounting for income taxes. No other significant changes in our critical accounting policies have occurred since December 31, 2006.

Results of Operations

Results of operations for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006

Net revenue decreased $20.0 million or 8.2% to $225.3 million for the three months ended September 30, 2007 from $245.3 million for the three months ended September 30, 2006. Our revenue from broadband, VOIP, local, wireless, Internet, data and hosting services contributed $54.6 million for the three months ended September 30, 2007, as compared to $48.1 million for the three months ended September 30, 2006. Our revenue

Table of Contents

from wholesale carrier and prepaid services contributed $42.7 million and $10.8 million, respectively, for the three months ended September 30, 2007, as compared to $54.0 million and $18.5 million, respectively, for the three months ended September 30, 2006.

United States: United States net revenue decreased $7.9 million or 15.9% to $41.7 million for the three months ended September 30, 2007 from $49.6 million for the three months ended September 30, 2006. The decrease is primarily attributed to a decrease of $5.6 million in wholesale carrier, $1.5 million in retail voice services including declines in residential and small business voice services, and $0.6 million in Internet services.

Canada: Canada net revenue decreased $1.6 million or 2.2% to $66.7 million for the three months ended September 30, 2007 from $68.3 million for the three months ended September 30, 2006. The decrease is primarily attributed to a decrease of $4.4 million in prepaid services and a decrease of $1.0 million in retail voice services. These decreases were partially offset by increases of $1.6 million in data and hosting services, $0.9 million in local services and $0.7 million in Internet services. The strengthening of the CAD against the USD accounted for a $4.8 million increase to revenue, which is included in the explanations above, and which reflects changes in the exchange rates for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006.

The following table reflects net revenue for each major country in North America (in thousands, except percentages):

Revenue by Country in USD

	For the three months ended		Year-over-Year	
	September 30, 2007	September 30, 2006		
	Net Revenue	Net Revenue	Variance	Variance %
United States	$ 39,399	$ 48,572	$ (9,173)	(19)%
Canada	$ 66,730	$ 68,251	$ (1,521)	(2)%
Other	$ 2,328	$ 1,034	$ 1,294	125%

Europe: European net revenue decreased $5.6 million or 10.9% to $45.2 million for the three months ended September 30, 2007 from $50.8 million for the three months ended September 30, 2006. The decrease is primarily attributable to a $3.1 million decrease in prepaid services (including a decrease of $3.8 million in Netherlands, offset by an increase of $0.6 million in the United Kingdom), a $2.5 million decrease in wholesale carrier services and a $0.4 million decrease in retail voice services. These decreases were partially offset by an increase of $0.5 million in VOIP services. The strengthening of the European currencies against the USD accounted for a $4.0 million increase to revenue, which is included in the explanations above, when comparing the exchange rates for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006. The following table reflects net revenue for each major country in Europe (in thousands, except percentages):

Revenue by Country in USD

	For the three months ended September 30, 2007		For the three months ended September 30, 2006		Year-over-Year	
	Net Revenue	% of Europe	Net Revenue	% of Europe	Variance	Variance %
United Kingdom	$ 22,665	50%	$ 19,876	39%	$ 2,789	14%
Germany	6,688	15%	11,077	22%	(4,389)	(40)%
France	4,615	10%	4,433	9%	182	4%
Spain	3,793	8%	4,793	9%	(1,000)	(21)%
Other	7,463	17%	10,595	21%	(3,132)	(30)%
Europe Total	$ 45,224	100%	$ 50,774	100%	$ (5,550)	(11)%

47

Table of Contents

Asia-Pacific: Asia-Pacific net revenue decreased $5.1 million or 6.6% to $71.6 million for the three months ended September 30, 2007 from $76.7 million for the three months ended September 30, 2006. The decrease is primarily attributable to a $3.7 million decrease in residential voice services, a $1.1 million decrease in dial-up Internet services, a $2.4 million decrease in business voice services, partially offset by a $2.5 million increase in DSL services. The strengthening of the AUD against the USD accounted for a $9.1 million increase to revenue, which is included in the explanations above, which reflects changes in the exchange rates for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006. The following table reflects net revenue for each major country in Asia-Pacific (in thousands, except percentages):

Revenue by Country in USD

	For the three months ended September 30, 2007		For the three months ended September 30, 2006		Year-over-Year	
	Net Revenue	% of Asia-Pacific	Net Revenue	% of Asia-Pacific	Variance	Variance %
Australia	$ 70,744	99%	$ 75,175	98%	$ (4,431)	(6)%
Japan	857	1%	1,513	2%	(656)	(43)%
Asia-Pacific Total	$ 71,601	100%	$ 76,688	100%	$ (5,087)	(7)%

Cost of revenue decreased $21.2 million to $136.5 million, or 60.6% of net revenue, for the three months ended September 30, 2007 from $157.7 million, or 64.3% of net revenue, for the three months ended September 30, 2006.

United States: United States cost of revenue decreased $7.7 million primarily due to a decrease of $5.8 million in wholesale carrier, $1.5 million in retail voice services, and $1.2 million in Internet, VOIP and wireless services, in aggregate.

Canada: Canada cost of revenue decreased $0.2 million primarily due to a decrease of $2.9 million in prepaid services. The decrease was partially offset by an increase of $0.7 million in retail voice services, $0.7 in local services and $1.3 million in Internet, data and hosting, VOIP and wireless services, in aggregate. The strengthening of the CAD against the USD accounted for a $2.1 million increase to cost of revenue, which is included in the explanations above, and which reflects changes in the exchange rates for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006.

Europe: European cost of revenue decreased by $5.0 million. The decrease is primarily attributable to a $3.0 million decrease in prepaid services, and a decrease of $2.3 million in wholesale carrier services. The strengthening of the European currencies against the USD accounted for a $3.4 million increase to cost of revenue, which is included in the explanations above, and which reflects changes in the exchange rates for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006.

Asia-Pacific: Asia-Pacific cost of revenue decreased $8.3 million primarily due to a decrease of $3.1 million in residential voice services, a decrease of $2.0 million in business services, and a decrease of $0.3 million in Internet service. These decreases were partially offset by an increase of $1.1 million in DSL services. Overall, Australia benefited by approximately $3 million from a gain reflecting recovery of payments related to retroactive price reductions. The strengthening of the AUD against the USD accounted for a $6.0 million increase to cost of revenue, which is included in the explanations above, and which reflects changes in the exchange rates for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006.

Selling, general and administrative expenses increased $1.2 million to $72.8 million, or 32.3% of net revenue, for the three months ended September 30, 2007 from $71.6 million, or 29.2% of net revenue, for the three months ended September 30, 2006. The increase in selling, general and administrative expenses is attributable to a $5.1 million increase from the weakening of the USD and $1.0 million for severance payments, offset by a $1.9 million decrease in commissions primarily on prepaid services, a $0.7 million decrease in advertising expenses, and a $1.1 million decrease in general administrative expenses.

Table of Contents

United States: United States selling, general and administrative expenses decreased $0.2 million to $15.6 million for the three months ended September 30, 2007 from $15.8 million for the three months ended September 30, 2006. The decrease is attributable to a decrease of $0.7 million in salaries and benefits expenses and a decrease of $0.2 million in sales and marketing expenses, offset by an increase of $0.4 million in general and administrative expenses and an increase of $0.2 million in advertising expenses.

Canada: Canada selling, general and administrative expense increased $0.6 million to $26.6 million for the three months ended September 30, 2007 from $26.0 million for the three months ended September 30, 2006. The increase is attributable to an increase of $0.9 million in salaries and benefits expenses primarily for severance payments, an increase of $0.2 million in advertising expenses, an increase of $0.2 million in occupancy and an increase of $0.2 million in professional fees, offset by a decrease of $1.1 million in sales and marketing expenses, primarily in commissions on prepaid services. The strengthening of the CAD against the USD accounted for a $1.8 million increase to selling, general and administrative expenses, which is included in the explanations above, and which reflects changes in the exchange rates for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006.

Europe: Europe selling, general and administrative expense decreased $0.3 million to $8.9 million for the three months ended September 30, 2007 from $9.2 million for the three months ended September 30, 2006. The decrease is attributable to a decrease of $0.8 million in general and administrative expenses, offset by a $0.4 million increase in salaries and benefits expenses and a $0.2 million increase in advertising expenses. The strengthening of the European currencies against the USD accounted for a $0.7 million increase to selling, general and administrative expenses, which is included in the explanations above, and which reflects changes in the exchange rates for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006.

Asia-Pacific: Asia-Pacific selling, general and administrative expense increased $1.0 million to $21.7 million for the three months ended September 30, 2007 from $20.7 million for the three months ended September 30, 2006. The increase is attributable to an increase of $2.6 million in salaries and benefits expenses for outbound telemarketing, customer care, additional direct sales and support headcount and customer winback costs, offset by a $1.3 million decrease in advertising and a $0.8 million decrease in general and administrative expenses. The strengthening of the AUD against the USD accounted for a $2.4 million increase to selling, general and administrative expenses, which is included in the explanations above, and which reflects changes in the exchange rates for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006.

Depreciation and amortization expense increased $0.4 million to $7.3 million for the three months ended September 30, 2007 from $7.0 million for the three months ended September 30, 2006. The increase consists of an increase in depreciation expense of $0.5 million and a decrease in amortization expense of $0.1 million.

Interest expense, including accretion on debt discount, increased $2.9 million to $15.8 million for the three months ended September 30, 2007 from $13.0 million for the three months ended September 30, 2006. The increase is primarily a result of $4.6 million in interest from issuance of our 14 1/4 % Senior Secured Notes, offset by a $1.8 million decrease mainly resulting from reductions in our October 1999 Senior Notes with a stated interest of 12 3/4 % and the retirement in full of our 2000 Convertible Subordinated Debentures with a stated interest rate of 5 3/4 %.

Gain (loss) on early extinguishment or restructuring of debt was a $0.4 million gain for the three months ended September 30, 2007. In third quarter 2007, we completed open market purchases of $3.2 million principal amount of our October 1999 Senior Notes resulting in a $43 thousand gain on early extinguishment of debt including the write-off of related deferred financing costs. We also recognized a $0.5 million gain on forgiveness of equipment financing. The gains were partially offset by costs on restructuring of debt related to our 14 1/4% Senior Secured Notes and 5% Exchangeable Senior Notes.

Table of Contents

Foreign currency transaction gain increased $8.3 million to $12.2 million for the three months ended September 30, 2007 from $3.9 million for the three months ended September 30, 2006. This 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 the subsidiaries functional currency.

Income tax benefit (expense) increased to ($2.2) million for the three months ended September 30, 2007 from ($1.2) million for the three months ended September 30, 2006. Both periods include foreign withholding tax on intercompany interest and royalty fees owed to a United States subsidiary by our Canadian and Australian subsidiaries. The three months ended September 30, 2007 also includes a $1.3 million increase of unrecognized tax benefits related to an ongoing foreign audit.

Results of operations for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006

Net revenue decreased $83.4 million or 10.9% to $679.7 million for the nine months ended September 30, 2007 from $763.0 million for the nine months ended September 30, 2006. Our revenue from broadband, VOIP, local, wireless, Internet and data and hosting services contributed $158.0 million for the nine months ended September 30, 2007, as compared to $133.1 million for the nine months ended September 30, 2006. Our revenue from wholesale carrier and prepaid services contributed $131.2 million and $35.7 million, respectively, for the nine months ended September 30, 2007, as compared to $160.9 million and $74.8 million, respectively, for the nine months ended September 30, 2006.

United States: United States net revenue decreased $12.5 million or 8.5% to $133.1 million for the nine months ended September 30, 2007 from $145.6 million for the nine months ended September 30, 2006. The decrease is primarily attributed to a decrease of $6.9 million in retail voice services, a decrease of $7.7 million in wholesale carrier services, and a decrease of $1.7 million in Internet services. These decreases were partially offset by an increase of $1.2 million in retail VOIP and an increase of $2.0 million in other services.

Canada: Canada net revenue decreased $15.8 million or 7.6% to $193.1 million for the nine months ended September 30, 2007 from $208.9 million for the nine months ended September 30, 2006. The decrease is primarily attributed to a $10.0 million decrease in retail voice service, a $12.3 million decrease in prepaid services and a $0.9 million decrease in wholesale carrier services. These decreases were partially offset by an increase of $6.4 million in growth products which include $1.4 million in Internet, $3.3 million in data and hosting, $0.5 million in VOIP and $1.1 million in wireless services. The strengthening of the CAD against the USD accounted for a $5.3 million increase to revenue, which is included in the services explanation above, when comparing the exchange rates for the nine months ended September 30, 2007 to the nine months ended September 30, 2006.

The following table reflects net revenue for each major country in North America (in thousands, except percentages):

Revenue by Country in USD

	For the nine months ended September 30, 2007 Net Revenue	September 30, 2006 Net Revenue	Year-over-Year Variance	Variance %
United States	$ 128,155	$ 142,552	$ (14,397)	(10)%
Canada	$ 193,101	$ 208,935	$ (15,834)	(8)%
Other	$ 4,994	$ 3,009	$ 1,985	66%

Europe: European net revenue decreased $36.5 million or 21.0% to $137.5 million for the nine months ended September 30, 2007 from $174.0 million for the nine months ended September 30, 2006. The decrease is primarily attributable to a decrease of $27.0 million in prepaid services (including a decrease of $30.3 million in

Table of Contents

the Netherlands, partially offset by an increase of $3.3 million in United Kingdom) and a $14.5 million decrease in wholesale carrier services. These decreases were partially offset by a $3.8 million increase in retail voice and a $1.2 million increase in VOIP services. The strengthening of the European currencies against the USD accounted for a $15.2 million increase to revenue, which is included in the services explanation above, when comparing the exchange rates for the nine months ended September 30, 2007 to the nine months ended September 30, 2006. The following table reflects net revenue for each major country in Europe (in thousands, except percentages):

Revenue by Country in USD

	For the nine months ended September 30, 2007		For the nine months ended September 30, 2006		Year-over-Year	
	Net Revenue	% of Europe	Net Revenue	% of Europe	Variance	Variance %
United Kingdom	$ 72,638	53%	$ 63,203	36%	$ 9,435	15%
Germany	18,748	13%	31,926	18%	(13,178)	(41)%
France	13,229	10%	11,938	7%	1,291	11%
Spain	11,968	9%	13,711	8%	(1,743)	(13)%
Other	20,940	15%	53,199	31%	(32,259)	(61)%
Europe Total	$ 137,523	100%	$ 173,977	100%	$ (36,454)	(21)%

Asia-Pacific: Asia-Pacific net revenue decreased $18.7 million or 8.0% to $215.9 million for the nine months ended September 30, 2007 from $234.6 million for the nine months ended September 30, 2006. The decrease is primarily attributable to a $13.4 million decrease in residential voice services, a $5.1 million decrease in dial-up Internet services, a $0.7 million decrease in prepaid services, a $8.7 million decrease in business voice and a $1.5 million decrease in wholesale carrier. These decreases were partially offset by a $9.6 million increase in Australia DSL services and a $0.9 million increase in VOIP and other services. The strengthening of the AUD against the USD accounted for a $22.8 million increase to revenue, which is included in the services explanation above, when comparing the exchange rates for the nine months ended September 30, 2007 to the nine months ended September 30, 2006. The following table reflects net revenue for each major country in Asia-Pacific (in thousands, except percentages):

Revenue by Country in USD

	For the nine months ended September 30, 2007		For the nine months ended September 30, 2006		Year-over-Year	
	Net Revenue	% of Asia-Pacific	Net Revenue	% of Asia-Pacific	Variance	Variance %
Australia	$ 212,895	99%	$ 229,340	98%	$ (16,445)	(7)%
Japan	2,992	1%	5,211	2%	(2,219)	(43)%
Asia-Pacific Total	$ 215,887	100%	$ 234,551	100%	$ (18,664)	(8)%

Cost of revenue decreased $80.0 million to $423.3 million, or 62.3% of net revenue, for the nine months ended September 30, 2007 from $503.4 million, or 66.0% of net revenue, for the nine months ended September 30, 2006.

United States: United States cost of revenue decreased $18.3 million primarily due to a decrease of $6.3 million in retail voice services, $8.3 million in wholesale carrier services, $3.0 million in VOIP service, and $1.5 million in Internet services.

Canada: Canada cost of revenue decreased $10.0 million primarily due to a decrease of $6.1 million in retail voice, $6.3 million in prepaid services and $0.9 million in wholesale carrier services. The decreases were partially offset by increases of $0.8 million in data and hosting, $0.3 million in VOIP, $0.6 million in local

51

Table of Contents

services and $0.8 million in wireless services. The strengthening of the CAD against the USD accounted for a $2.3 million increase to cost of revenue, which is included in the services explanation above, when comparing the exchange rates for the nine months ended September 30, 2007 to the nine months ended September 30, 2006.

Europe: European cost of revenue decreased by $32.7 million. The decrease is primarily attributable to an $21.8 million decrease in prepaid services (including a decrease of $24.0 million in the Netherlands offset by an increase of $2.4 million in the United Kingdom), a decrease of $13.1 million in wholesale carrier services, offset by increases of $1.4 million in retail voice services and $0.8 million in VOIP services. The strengthening of the European currencies against the USD accounted for a $12.7 million increase to cost of revenue, which is included in the services explanation above, when comparing the exchange rates for the nine months ended September 30, 2007 to the nine months ended September 30, 2006.

Asia-Pacific: Asia-Pacific cost of revenue decreased $18.9 million primarily due to residential voice services decrease of $10.1 million, a decrease of $1.3 million for dial-up Internet services, a decrease of $1.2 million in wholesale carrier, a decrease of $5.4 million for business voice services and a decrease of $6.2 million in prepaid and other services. These decreases were partially offset by an increase of $4.6 million in DSL. The strengthening of the AUD against the USD accounted for a $15.0 million increase to cost of revenue, which is included in the services explanation above, when comparing the exchange rates for the nine months ended September 30, 2007 to the nine months ended September 30, 2006.

Selling, general and administrative expense decreased $9.0 million to $210.0 million, or 30.9% of net revenue, for the nine months ended September 30, 2007 from $219.0 million, or 28.7% of net revenue, for the nine months ended September 30, 2006. The decrease in selling, general and administrative expense is attributable to a $11.1 million decrease in sales and marketing primarily in prepaid services agent commissions and promotions, a $1.8 million decrease in advertising and a decrease of $3.0 million for general and administrative expenses. These decreases were partially offset by an increase of $2.6 million in professional fees for litigation support and an increase of $3.9 million in salaries and benefits expenses.

United States: United States selling, general and administrative expense increased $0.9 million to $49.3 million for the nine months ended September 30, 2007 from $48.4 million for the nine months ended September 30, 2006. The increase is attributable to an increase of $1.5 million in professional fees and $1.2 million in advertising expense. These increases are partially offset by a decrease of $1.1 million for salaries and benefits due to a cost cutting/staff reduction effort.

Canada: Canada selling, general and administrative expense decreased $1.3 million to $73.4 million for the nine months ended September 30, 2007 from $74.7 million for the nine months ended September 30, 2006. The decrease is attributable to a decrease of $2.8 million for sales and marketing expense, offset by an increase of $0.8 million in salaries and benefits expenses. The strengthening of the CAD against the USD accounted for a $2.0 million increase to selling, general and administrative expenses, which is included in the explanations above, and which reflects changes in the exchange rates for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006.

Europe: Europe selling, general and administrative expense decreased $8.8 million to $26.8 million for the nine months ended September 30, 2007 from $35.7 million for the nine months ended September 30, 2006. The decrease is attributable to a decrease of $7.4 million for sales and marketing expense primarily for agent commissions related to prepaid services, a decrease of $0.7 million for salaries and benefits and a decrease of $1.3 million for general and administrative expenses. The strengthening of the European currencies against the USD accounted for a $3.2 million increase to selling, general and administrative expenses, which is included in the explanations above, and which reflects changes in the exchange rates for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006.

Asia-Pacific: Asia-Pacific selling, general and administrative expense increased $0.2 million to $60.5 million for the nine months ended September 30, 2007 from $60.3 million for the nine months ended September 30, 2006.

Table of Contents

The increase is attributable to an increase of $4.9 million increase in salaries and benefits, a $0.6 million increase in professional fees and a $0.4 million increase in occupancy expenses. These increases were partially offset by a decrease of $3.3 million in advertising expenses, and a decrease of $2.3 million for general and administrative expenses. The strengthening of the AUD against the USD accounted for a $5.9 million increase to selling, general and administrative expenses, which is included in the explanations above, and which reflects changes in the exchange rates for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006.

Depreciation and amortization expense decreased $19.8 million to $21.2 million for the nine months ended September 30, 2007 from $41.0 million for the nine months ended September 30, 2006. The decrease consists of a decrease in depreciation expense of $17.6 million and a decrease in amortization expense of $2.2 million primarily due to the asset impairment write-down recognized in the second quarter 2006.

Loss on sale or disposal of assets decreased $13.6 million to $0.7 million for the nine months ended September 30, 2007 from $14.3 million for the nine months ended September 30, 2006. In the second quarter of 2006, we recognized a charge associated with the sale and disposal of specific long-lived assets which were taken out of services. The charge included $9.3 million in the United States, $1.8 million in Canada, $2.2 million in the United Kingdom, $0.5 million in Denmark, $0.5 million in Australia and $0.2 million in various other countries and is comprised of network fiber, peripheral switch equipment, software development costs and other network equipment.

Fixed assets impairment write-down was $209.2 million for the nine months ended September 30, 2006. During the second quarter 2006, the Company adjusted the carrying value of its long-lived assets and indefinite lived intangible assets to their estimated fair value of $108.7 million and $34.9 million, respectively. The $209.2 million write-down consists of a write-down of $151.8 million in property and equipment, $5.3 million in customer lists and other intangible assets, and $52.1 million in goodwill under the provisions of SFAS No. 144 and SFAS No. 142.

Interest expense, including accretion on debt discount, increased $4.1 million to $46.1 million for the nine months ended September 30, 2007 from $42.0 million for the nine months ended September 30, 2006. The increase is a result of a $10.2 million increase mainly from issuance of our 14 $^{1}/4$ % Senior Secured Notes, offset by a $6.1 million decrease mainly resulting from reductions in the outstanding principal amount of our October 1999 Senior Notes with a stated interest rate of 12 $^{3}/4$ % and the retirement in full of our 2000 Convertible Subordinated Debentures with a stated interest rate of 5 $^{3}/4$%.

Change in Fair Value of Derivatives Embedded within Convertible Debt was a gain of $5.4 million for the nine months ended September 30, 2006. Our Step Up Convertible Subordinated Debentures, 2000 Convertible Subordinated Debentures and 2003 Convertible Senior Notes contain embedded derivatives that require bifurcation from the debt host. We recognized these embedded derivatives as a current liability in our balance sheet, measured them at their estimated fair value and recognized changes in the fair value of the derivative instruments in earnings. We estimated that the embedded derivatives had a June 20, 2006 (the final valuation date) estimated fair value of $10.3 million and at March 31, 2006, an estimated fair value of $13.1 million. The embedded derivatives derived their value primarily based on changes in the price and volatility of our common stock. The estimated fair value of the embedded derivatives decreased as the price of our common stock decreased. The closing price of our common stock decreased to $0.64 on June 20, 2006 from $0.77 as of March 31, 2006, causing the overall value of the derivative instrument to decline. As a result, during the six months ended June 30, 2006, we recognized a gain of $5.4 million from the change in estimated fair value of the embedded derivatives. We estimated the fair value of these embedded derivatives using a theoretical model based on the historical volatility of our common stock of 100% as of June 20, 2006.

Gain (loss) on early extinguishment or restructuring of debt was a $7.9 million loss for the nine months ended September 30, 2007 comparing to a $7.4 million gain for the nine months ended September 30, 2006. In third quarter 2007, we made open market purchases of $3.2 million principal amount of our October 1999 Senior

Table of Contents

Notes resulting in a $43 thousand gain on early extinguishment of debt including the write-off of related deferred financing costs. We also recognized a $0.5 million gain on forgiveness of equipment financing in Brazil. The gains were offset by additional costs on restructuring of debt related to our 14 1/4% Senior Secured Notes and 5% Exchangeable Senior Notes. In the second quarter 2007, we converted $5.0 million principal amount of our Step Up Convertible Subordinate Debentures to 6.0 million shares of our common stock resulting in an induced debt conversion expense of $2.3 million, which includes deferred financing cost and discount write-offs. In the first quarter 2007, we issued in a private transaction $57.2 million principal amount of the 14 1/ 4% Senior Secured Notes, in exchange for $40.7 million principal amount of the Company s outstanding October 1999 Senior Notes and $23.6 million in cash . This exchange was deemed a debt modification, resulting in a $5.1 million loss on restructuring of debt for financing costs incurred. The remaining $0.9 million of expense resulted from costs related to the early retirement of the Canadian credit facility.

In June 2006, we exchanged $54.8 million principal amount of the Company s 2003 Convertible Senior Notes and $20.5 million of cash for $56.3 million principal amount of PTHI s 5% Exchangeable Senior Notes and $11.3 million of future cash payments resulting in a gain on restructuring of debt of $4.8 million including the expensing of related financing costs. In March 2006, we exchanged $27.4 million principal amount of our 2000 Convertible Subordinated Debentures for $27.5 million principal amount of our 2006 Step Up Convertible Subordinated Debentures resulting in a gain on early extinguishment of debt of $1.5 million including the write-off of related deferred financing costs. In January 2006, we exchanged 1,825,000 shares of our common stock for the extinguishment of $2.5 million in principal amount of the October 1999 Senior Notes resulting in a $1.2 million gain on early extinguishment of debt including the write-off of related deferred financing costs.

Foreign currency transaction gain increased $21.8 million to $30.3 million for the nine months ended September 30, 2007 from $8.5 million for the nine months ended September 30, 2006. The gain or loss 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 the subsidiaries functional currency.

Income tax benefit (expense) was a $3.5 million benefit for the nine months ended September 30, 2007 compared to $3.7 million expense for the nine months ended September 30, 2006. Both periods include foreign withholding tax on intercompany interest and royalty fees owed to a United States subsidiary by our Canadian and Australian subsidiaries, and the nine months ended September 30, 2007 reflects a $5.2 million reduction of the Company s unrecognized tax benefits and a $0.7 million refund recognized by our Australian subsidiary.

Liquidity and Capital Resources

Changes in Cash Flows

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

Net cash provided by operating activities was $8.2 million for the nine months ended September 30, 2007 as compared to net cash provided by operating activities of $9.0 million for the nine months ended September 30, 2006. For the nine months ended September 30, 2007, net income, net of non-cash operating activity, provided $12.4 million of cash. In addition, cash was increased by a reduction in accounts receivable of $0.3 million, a reduction in prepaid expenses and other assets of $3.9 million and an increase of our accounts payable of $2.8 million. In 2007, we used $8.2 million to reduce accrued interconnection costs, $1.0 million to reduce our deferred revenue, accrued expenses, accrued income taxes and other liabilities and $2.0 million to reduce our accrued interest. For the nine months ended September 30, 2006, net income, net of non-cash operating activity, provided $11.4 million of cash. In addition, cash was increased by reductions in accounts receivable of

Table of Contents

$15.6 million, increases in deferred revenue, accrued expenses, accrued income taxes and other liabilities of $7.3 million, and reductions in prepaid expenses and other current assets of $7.2 million. During the nine months ended September 30, 2006, we used $28.4 million to reduce accounts payable and accrued interconnection costs.

Net cash used in investing activities was $24.1 million for the nine months ended September 30, 2007 compared to $10.0 million for the nine months ended September 30, 2006. Net cash used in investing activities during the nine months ended September 30, 2007 included $29.7 million of capital expenditures, offset by $5.9 million net cash proceeds from the disposition of our Australian Planet Domain subsidiary and German Citrus subsidiary. Net cash used by investing activities during the nine months ended September 30, 2006 included $23.9 million of capital expenditures primarily for additions to our DSL networks in Australia and Canada and back office support systems, offset by a $1.2 million decrease in restricted cash and $12.7 million net cash proceeds primarily from the disposition of our India operation.

Net cash provided by financing activities was $57.0 million for the nine months ended September 30, 2007 as compared to net cash provided by financing activities of $28.3 million for the nine months ended September 30, 2006. During the nine months ended September 30, 2007, net cash provided by financing activities consisted of $102.7 million from the issuance of $75.2 million principal amount of 14 $^1/4$ % Senior Secured Notes for $69.2 million in net cash and $35.0 million from a credit facility with a financial institution (less $1.5 million in financing costs) and $19.2 million from the sale of our 22.5 million shares of registered common stock; partially offset by the retirement in full of $22.7 million principal amount of our 2000 Convertible Subordinated Debentures, the retirement of $3.2 million principal of our October 1999 Senior Notes, the repayment in full of a $29.9 million Canadian loan facility and $5.6 million principal payments of capital leases, leased fiber capacity, financing facilities and other long-term obligations. During the nine months ended September 30, 2006, net cash provided by financing activities consisted of $32.4 million from the issuance of $24.1 million 5% Exchangeable Senior Notes for $20.6 million in cash (less $2.9 million in financing costs) and the issuance of $14.8 million through an amended and restated loan facility with a Canadian financial institution, $5.0 million, less issuance costs, from the sale of 6.7 million shares of our common stock pursuant to a subscription agreement with an existing stockholder, partially offset by $9.1 million of principal payments on capital leases, leased fiber capacity, financing facilities and other long-term obligations.

Short- and Long-Term Liquidity Considerations and Risks

As of September 30, 2007, we had $108.7 million of cash and cash equivalents. We believe that our existing cash and cash equivalents, will be sufficient to fund our debt service requirements, other fixed obligations (such as capital leases, vendor financing and other long-term obligations), and other cash needs for our operations for at least the next twelve months.

We have successfully executed a number of liquidity-enhancing initiatives that enabled us to fund fully our 2007 business plans. As a result of these transactions, we have extended our debt maturities and have added financial flexibility, subject to the limitations noted below, to make additional investments in our higher margin growth businesses, as well as to consider potentially attractive acquisitions. Broadband, VOIP, local, wireless, data and hosting services are currently generating an annualized revenue run-rate of nearly $220 million. However, we expect overall revenue to decline in 2007 as compared to 2006, particularly as a result of expected decline in our legacy voice and dial-up Internet businesses as well as our ongoing program to sell, prune or divest low-margin, or non-core revenue streams. Our challenge is to have contribution from these growth products eclipse the decline in our legacy businesses.

Table of Contents

As of September 30, 2007, we had $38.3 million in future minimum purchase obligations, $29.9 million in future operating lease payments and $689.9 million of indebtedness. Payments of principal and interest are due as follows:

Year Ending December 31,	Vendor Financing	Senior Secured Term Loan Facility (1)	Financing Facility and Other (2)	Senior Notes	Convertible and Exchangeable Notes (3)	Step Up Subordinated Debentures	Senior Secured Notes	Purchase Obligations	Operating Leases	Total
					(amounts in thousands)					
2007(as of Sept 30, 2007)	$ 2,585	$ 3,151	$ 1,086	$ 1,515	$ 1,407	$	$ 7,710	$ 7,528	$ 3,704	$ 28,686
2008	10,293	12,528	3,498	21,831	5,713	1,724	15,420	19,567	10,663	101,237
2009	4,128	12,409	3,347	49,404	5,713	24,280	15,420	6,511	7,406	128,618
2010	3,237	12,290	3,347	18,800	137,878		15,420	2,300	4,676	197,948
2011	338	94,250	3,347	18,800			115,920	1,568	1,640	235,863
Thereafter	719		35,881	282,000				784	1,834	321,218
Total Minimum Principal & Interest Payments	21,300	134,628	50,506	392,350	150,711	26,004	169,890	38,258	29,923	1,013,570
Less: Amount Representing Interest	(2,249)	(37,128)	(14,959)	(129,777)	(17,139)	(3,522)	(61,680)			(266,454)
Face Value of Long-term Obligations	19,051	97,500	35,547	262,573	133,572	22,482	108,210	38,258	29,923	747,116
Less: Amount Representing Premium (Discount)					(1,143)	(2,438)	6,071			2,490
Add: Exchangeable Notes Interest Treated as Long-Term Obligations					8,448					8,448
Book Value of Long-Term Obligation	$ 19,051	$ 97,500	$ 35,547	$ 262,573	$ 140,877	$ 20,044	$ 114,281	$ 38,258	$ 29,923	$ 758,054

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(1) For preparation of this table, we have assumed the interest rate of the Senior Secured Term Loan Facility to be 11.9%, which is the interest rate at September 30, 2007.

(2) For preparation of this table, we have assumed the interest rate of the Financing Facility to be 9.38%, which is the interest rate at September 30, 2007.

(3) For preparation of this table, we have shown separately the cash interest payments of PTHI s 5% Exchangeable Senior Notes as a portion of long-term obligations (see *Senior Notes, Senior Secured Notes, Convertible Senior Notes, Exchangeable Senior Notes, Step Up Convertible Subordinated Debentures and Convertible Subordinated Debentures* below). The interest due on the 5% Exchangeable Senior Notes in 2007, 2008, 2009 and 2010 is $1.4 million, $2.8 million, $2.8 million and $1.4 million, respectively.

We have contractual obligations to utilize network facilities from certain carriers with terms greater than one year. We generally do not purchase or commit to purchase quantities in excess of normal usage or amounts that cannot be used within the contract term. We have minimum annual purchase obligations of $7.5 million, $19.6 million, $6.5 million, $2.3 million, $1.6 million and $0.8 million in remaining 2007, 2008, 2009, 2010, 2011 and 2012 respectively.

Table of Contents

The indentures governing the senior notes, convertible senior notes, exchangeable senior notes, step up convertible subordinated debentures, convertible subordinated debentures, senior secured notes and the senior secured term loan facility, as well as other credit arrangements, contain certain financial and other covenants which, among other things, will restrict our ability to incur further indebtedness and make certain payments, including the payment of dividends and repurchase of subordinated debt and certain debt issued by us. We were in compliance with the above covenants at September 30, 2007.

We will continue to have significant debt service obligations during the rest of 2007 and on a long-term basis. From time to time, we consider the feasibility and timing of transactions that could raise capital for additional liquidity, debt reduction, refinancing of existing indebtedness and for additional working capital and growth opportunities. There can be no assurance we will be successful in any of these efforts to obtain any such financing on acceptable terms or at all. If we are successful in raising additional financing or issuing our securities in exchange for debt, securities comprising a significant percentage of our diluted capital may be issued in connection with the completion of such transactions. Additionally, if our plans or assumptions change or prove inaccurate, including those with respect to our debt levels, competitive developments, developments affecting our network or product initiatives, services, operations or cash from operating activities, if we consummate additional investments or acquisitions, if we experience unexpected costs or competitive pressures or if existing cash and any other borrowings prove to be insufficient, we may need to obtain such financing and/or relief sooner than expected. In such circumstances, there can be no assurance we will be successful in these efforts to obtain new capital at acceptable terms. Also there can be no assurance that changes in assumptions or conditions, including those referenced under Legal Proceedings and Special Note Regarding Forward-Looking Statements will not adversely affect our financial condition or short-term or long-term liquidity.

In light of the foregoing, we and/or our subsidiaries will evaluate and determine on a continuing basis, depending on market conditions and the outcome of events described herein under Special Note Regarding Forward Looking Statements, the most efficient use of our capital and resources, including investment in our network, systems and growth products, purchasing, refinancing, exchanging, tendering for or retiring certain of our outstanding debt securities in privately negotiated transactions, open market transactions or by other direct or indirect means, issuing our common stock or purchasing our common stock in the open market to the extent permitted by existing covenants.

New Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We anticipate that the adoption of this standard will not have a material impact on our results of operations, financial position and cash flows.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurement. SFAS No. 157 does not require new fair value measurements, and we do not expect the application of this standard to change our current practices. The provisions of SFAS No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We anticipate that the adoption of this standard will not have a material impact on our results of operations, financial position and cash flows.

Newly Adopted Accounting Principle

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, which is effective for fiscal years beginning after December 15, 2006. FIN No. 48 clarifies the

Table of Contents

accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS Statement No. 109, Accounting for Income Taxes. This Interpretation prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. See Item 1., Note 8 Income Taxes.

Special Note Regarding Forward Looking Statements

Certain statements in this Quarterly Report on Form 10-Q and elsewhere constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based on current expectations, and are not strictly historical statements. Forward-looking statements include, without limitation, statements set forth in this document and elsewhere regarding, among other things:

- 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 new product initiatives, including the development of broadband Internet, VOIP, wireless, local, data and hosting services, traffic development, capital expenditures, selling, general and administrative expenses, income tax expense, fixed asset and goodwill impairment charges, service introductions, cash requirements and potential asset sales;
- increased competitive pressures, declining usage patterns, and our growth products, bundled service offerings, the pace and cost of customer migration onto our networks, the effectiveness and profitability of the new products;
- financing, refinancing, de-leveraging and/or debt repurchase, restructuring, exchange or tender plans or initiatives, and potential dilution of existing equity holders from such initiatives;
- liquidity and debt service forecasts;
- assumptions regarding currency exchange rates;
- timing, extent and effectiveness of cost reduction initiatives and management s ability to moderate or control discretionary spending;
- management s plans, goals, expectations, guidance, objectives, strategies, and timing for future operations, acquisitions, asset dispositions, product plans, performance and results;
- management s assessment of market factors and competitive developments, including pricing actions and regulatory rulings; and
- ability to generate net cash proceeds over the next two years from the disposition of selective assets without material impairment to profitability.

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

- changes in business conditions causing changes in the business direction and strategy by management;

heightened competitive pricing and bundling pressures in the markets in which we operate;

accelerated decrease in minutes of use on wireline phones;

fluctuations in the exchange rates of currencies, particularly of the USD relative to foreign currencies of the countries where we conduct our foreign operations;

adverse interest rate developments affecting our variable interest rate debt;

Table of Contents

difficulty in maintaining or increasing customer revenues and margins through our new product initiatives and bundled service offerings, and difficulties in migrating and provisioning broadband and local customers to DSL networks;

inadequate financial resources to promote and to market the new product initiatives;

fluctuations in prevailing trade credit terms or revenues due to the adverse impact of, among other things, further telecommunications carrier bankruptcies or adverse bankruptcy related developments affecting our large carrier customers;

the possible inability to raise additional capital when needed, on attractive terms, or at all;

possible claims under our existing debt instruments which could impose constraints and limit our flexibility;

the inability to reduce, repurchase, refinance, exchange, tender for or restructure debt significantly, or in amounts sufficient to conduct regular ongoing operations;

the impact of the delisting of our common stock from the Nasdaq Capital Market which may impair our ability to raise capital;

further changes in the telecommunications or Internet industry, including rapid technological changes, regulatory and pricing changes in our principal markets and the nature and degree of competitive pressure that we may face;

adverse tax or regulatory rulings from applicable authorities;

enhanced broadband, DSL, Internet, wireless, VOIP, date and hosting and local and long distance voice telecommunications competition;

changes in financial, capital market and economic conditions;

changes in service offerings or business strategies, including the need to modify business models if performance is below expectations;

difficulty in retaining existing long distance wireline and dial-up ISP customers;

difficulty in migrating or retaining customers associated with acquisitions of customer bases, or integrating other assets;

difficulty in selling new services in the marketplace;

difficulty in providing broadband, DSL, local, VOIP, data and hosting or wireless services;

changes in the regulatory schemes or requirements and regulatory enforcement in the markets in which we operate;

restrictions on our ability to execute certain strategies or complete certain transactions as a result of our inexperience with new products, or limitations imposed by available cash resources, our capital structure or debt covenants;

risks associated with our limited DSL, Internet, VOIP, data and hosting and wireless experience and expertise, including effectively utilizing new marketing channels such as interactive marketing employing the Internet;

entry into developing markets;

aggregate margin contribution from the new products is not sufficient in amount or timing to offset the margin decline in our legacy long distance voice and dial-up ISP businesses;

the possible inability to hire and/or retain qualified executive management, sales, technical and other personnel;

Table of Contents

- risks and costs associated with our effort to locate certain activities and functions off-shore;
- risks associated with international operations;
- dependence on effective information systems;
- possible claims for patent infringement on products or processes employed in providing our services;
- dependence on third parties for access to their networks to enable us to expand and manage our global network and operations and to offer broadband, DSL, local, VOIP and wireless services, including dependence upon the cooperation of incumbent carriers relating to the migration of customers;
- dependence on the performance of our global standard asynchronous transfer mode and Internet-based protocol (ATM+IP) communications network;
- adverse regulatory rulings or actions affecting our operations, including the imposition of taxes and fees, the imposition of obligations upon VOIP providers to provide enhanced 911 (E911) services and restricting access to broadband networks owned and operated by others; and
- the potential further elimination or limitation of a substantial amount or all of our United States or foreign operating loss carryforwards due to future significant issuances of equity securities, changes in ownership or other circumstances, which carryforwards would otherwise be available to reduce future taxable income.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign currency can have a major impact on our financial results. Currently in excess of 80% of our net revenue is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the USD. The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive the majority of our net revenue and incur a significant portion of our operating costs from outside the United States, and therefore changes in exchange rates have had and may continue to have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the following exchange rates: USD/CAD, USD/AUD, USD/GBP, and USD/EUR. Due to the large percentage of our revenue derived outside of the United States, changes in the USD relative to one or more of the foregoing currencies could have an adverse impact on our future results of operations. We have agreements with certain subsidiaries for repayment of a portion of the investments and advances made to these subsidiaries. As we anticipate repayment in the foreseeable future, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations. We historically have not engaged in hedging transactions. However, during the fourth quarter 2007, we completed a forward currency contract required by the Canadian Credit Agreement. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies. Given the current divergence in exchange rates affecting the functional currencies in our major markets as compared to the USD, we will explore whether hedging activities may provide benefit to us.

We are exposed to financial statement gains and losses as a result of translating the operating results and financial position of our international subsidiaries. We translate the local currency statements of operations of our

60

foreign subsidiaries into USD using the average exchange rate during the reporting period. Changes in foreign exchange rates affect the reported profits and losses and cash flows and may distort comparisons from year to year. By way of example, when the USD strengthens compared to the EUR, there could be a negative or positive effect on the reported results for Europe, depending upon whether Europe is operating profitably or at a loss. It takes more profits in EUR to generate the same amount of profits in USD and a greater loss in EUR to generate the same amount of loss in USD. The opposite is also true. For instance, when the USD weakens there is a positive effect on reported profits and a negative effect on reported losses for Europe.

In the three and nine months ended September 30, 2007, as compared to the three and nine months ended September 30, 2006, the USD was weaker on average as compared to the AUD, CAD, GBP and EUR. As a result, our revenue of the subsidiaries whose local currency is AUD, CAD, GBP and EUR increased (decreased) (16)%, (8)%, 9% and (32)% in local currency compared to the three months ended September 30, 2006, but increased (decreased) (6)%, (2)%, 14% and (27)% in USD, respectively. Our revenue of the subsidiaries whose local currency is AUD, CAD, GBP and EUR increased (decreased) (15)%, (10)%, 9% and (46)% in local currency compared to the nine months ended September 30, 2006, but increased (decreased) (7)%, (8)%, 15% and (41)% in USD, respectively.

Interest rates The majority of our long-term debt obligations are at fixed interest rates at September 30, 2007. In February 2005, we obtained a $100 million senior secured loan facility, which has a variable interest rate feature. In March 2007, we entered into a senior secured credit agreement with a variable interest rate. However, that rate has been fixed in October 2007. We are exposed to interest rate risk as additional financing may be required. Our primary exposure to market risk stems from fluctuations in interest rates. We do not currently anticipate entering into additional interest rate swaps and/or similar instruments.

The interest rate sensitivity table below summarizes our market risks associated with fluctuations in interest rates in USD, which is our reporting currency. The table presents principal cash flows and related weighted average interest rates by year of expected maturity for our senior notes, senior secured notes, convertible senior notes, exchangeable senior notes, convertible subordinated debentures, leased fiber capacity, and other long-term obligations in effect at September 30, 2007. In the case of the convertible senior notes and convertible subordinated debentures the table excludes the potential exercise of the relevant redemption and conversion features and excludes an unamortized debt premium (net of discount) of $2.5 million and future cash interest payments of $8.4 million from our 5% Exchangeable Senior Notes that are treated as long term obligations (see Note 4 Long-Term Obligations).

	Year of Maturity							
	2007	2008	2009	2010	2011	Thereafter	Total	Fair Value
	(in thousands, except percentages)							
Fixed Rate	$ 2,421	$ 9,376	$ 53,767	$ 136,613	$ 108,513	$ 235,745	$ 546,435	$ 442,425
Average Interest Rate	8%	9%	10%	4%	14%	8%	9%	
Variable Rate	$ 250	$ 1,000	$ 1,000	$ 1,000	$ 94,250	$ 35,000	$ 132,500	$ 132,500
Average Interest Rate	12%	12%	12%	12%	12%	9%	11%	

ITEM 4. CONTROLS AND PROCEDURES
Evaluation of Disclosure Controls and Procedures.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, as a result of the material weakness described below, our principal executive officer and our principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective. Disclosure controls and procedures mean our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and

Table of Contents

reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Evaluation of Internal Control Over Financial Reporting.

As part of our compliance efforts relative to Section 404 of Sarbanes-Oxley Act of 2002, management assessed the effectiveness of internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on the assessment, management identified a material weakness in our internal control over accounting for income taxes. The material weakness in internal control related to a lack of personnel with adequate expertise in income tax accounting matters, a lack of documentation, insufficient historical analysis and ineffective reconciliation procedures. These deficiencies represent a material weakness in internal control over financial reporting on the basis that there is more than a remote likelihood that a material misstatement in our interim or annual financial statements due to errors in accounting for income taxes could occur and would not be prevented or detected by our internal control over financial reporting. Because of this material weakness in internal control over financial reporting, management concluded that, as of December 31, 2006, our internal control over financial reporting was not effective based on the criteria set forth by COSO.

Changes in Internal Control.

Our Principal Executive Officer and our Principal Financial Officer have concluded that there have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2007, that have materially affected, or is reasonably likely to affect materially, our internal control over financial reporting, except for the items noted below.

During the quarter ended September 30, 2007, in order to strengthen our internal controls over accounting for income taxes and help remediate the material weakness identified above, management hired a Corporate Tax Director, who has significant expertise in income tax accounting matters, and a Senior Manager of Tax for United States operations to handle all other United States tax matters. However, management believes the material weakness in internal control over financial reporting described in the first two paragraphs of this Item is still applicable as of the quarter ended September 30, 2007.

In addition, several finance functions from our United Kingdom offices and functions from our United States offices were outsourced to India during the quarter. Management believes that the respective controls remain the same with only the location having changed. Therefore, our Principal Executive Officer and our Principal Financial Officer have concluded that there have been no changes in our internal control over financial reporting related to these outsourced processes.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On January 26, 2007, a group of plaintiffs who allegedly held approximately $91 million principal amount of 8% Senior Notes due 2014 issued by Primus Telecommunications Holding, Inc., (Holding), a wholly owned subsidiary of Primus Telecommunications Group, Incorporated (Group), filed suit in the United States District Court for the Southern District of New York alleging, among other things, that Group and Holding were insolvent and that funds to be used to make a February 15, 2007 principal payment of $22.7 million to holders of Group s outstanding 2000 Convertible Subordinated Debentures had been or would be impermissibly transferred from Holding or its subsidiaries to Group. The plaintiffs allege that the intercompany transfers were or would be fraudulent conveyances or illegal dividends and that the February 15, 2007 payment by Group to holders of the 2000 Convertible Subordinated Debentures also would be a fraudulent transfer. The complaint sought declarative and injunctive relief to prevent, set aside or declare illegal or fraudulent certain transfers of funds from Holding to Group and injunctive relief to prevent certain payments or disbursements of funds by Group in respect of outstanding obligations of Group that were payable, including the $22.7 million payable by Group in respect of Group s outstanding 2000 Convertible Subordinated Debentures due February 15, 2007. Plaintiffs were allowed expedited discovery and moved for a preliminary injunction to prevent Group from making the February 15, 2007 payment. On February 14, 2007, after a three-day trial, the plaintiffs request for a preliminary injunction was denied by the court. Accordingly, on February 15, 2007, Group satisfied and paid the $22.7 million in respect of the 2000 Convertible Subordinated Debentures. On July 27, 2007, the remaining plaintiffs filed with the court their Notice of Dismissal, without prejudice, of all claims asserted against Group and Holding.

On July 16, 2007, Rates Technology, Inc. (RTI) filed a complaint in the United States District Court for the District of Delaware alleging that Lingo VoIP services and technology infringe United States Patent Nos. 5,425,085 and 5,519,769. On September 27, 2007, the Company and RTI executed a Covenant Not to Sue in which Primus, among other things, denied infringement. The amount of the settlement is not material.

We are subject to claims and legal proceedings that arise in the ordinary course of our business. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be decided unfavorably to us. We believe that any aggregate liability that may result from the resolution of these matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

A wide range of factors could materially affect our performance. In addition to factors affecting specific business operations and the financial results of those operations identified elsewhere in this report, the following factors, among others, could adversely affect our operations:

Our disclosure controls and procedures and internal control over financial reporting were determined not to be effective as of December 31, 2006, which condition still existed at September 30, 2007, due to the material weaknesses that existed in our internal control over accounting for income taxes. Our disclosure controls and procedures and internal control over financial reporting may not be effective in future periods, as a result of existing or newly identified material weaknesses in internal control over financial reporting.

In performing an internal control assessment at the end of 2006, our management identified a material weakness in our internal control over financial reporting, which condition still existed at September 30, 2007. A material weakness is a deficiency, or a combination of deficiencies, that adversely affects a company s ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. For a discussion of the material weaknesses identified by our management, see Item 9A. Controls and Procedures of our Annual Report on Form 10-K for the period ended December 31, 2006 and Item 4. Controls and Procedures in this Quarterly Report. To address the

Table of Contents

material weakness, we performed additional analysis and other post-closing procedures in order to prepare our consolidated financial statements in accordance with generally accepted accounting principles. These additional procedures were costly, time consuming and required us to dedicate a significant amount of our resources, including the time and attention of our senior management, toward the correction of these problems. Performing these additional procedures in the future, could cause delays in the filing of our periodic and annual reports to the SEC.

The delay in the filing of our periodic and annual reports could have other adverse effects on our business, including, but not limited to: (1) civil litigation or an investigation by the SEC or other regulatory authorities, which could require us to incur significant legal expenses and other costs or to pay damages, fines or other penalties; (2) covenant defaults, and potentially events of default, under our senior secured credit facilities and the indentures governing our outstanding debt securities, resulting from our failure to file timely our financial statements; (3) negative publicity; and (4) the loss or impairment of investor confidence in our Company.

If competitive pressures continue or intensify and/or the success of our new products is not adequate in amount or timing to offset the decline in results from our legacy businesses, we may not be able to service our debt or other obligations.

There are substantial risks and uncertainties in our future operating results, particularly as aggressive pricing and bundling strategies by certain incumbent carriers, ILECs and other competitors, including cable companies, have intensified competitive pressures in the markets where we operate, and/or if we have insufficient financial resources to market our services. The aggregate anticipated margin contribution from our new products may not be adequate in amount or timing to offset the declines in margin from our legacy long distance voice and dial-up ISP business. In addition, regulatory decisions could have a material adverse impact on our operations and outlook. See also information under Item 2 MD&A Liquidity and Capital Resources Short- and Long-Term Liquidity Considerations and Risks and in these Risk Factors. If adverse events referenced or described herein or therein were to occur, we may not be able to service our debt or other obligations and could, among other things, be required to seek protection under the bankruptcy laws of the United States or other similar laws in other countries.

Our high level of debt and liquidity needs may adversely affect our financial and operating flexibility.

We currently have substantial indebtedness and anticipate that we and our subsidiaries may incur additional indebtedness in the future. The level and/or terms of our indebtedness (1) could make it difficult for us to make required payments of principal and interest on our outstanding debt; (2) could limit our ability to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements or other purposes; (3) requires that a substantial portion of our cash flow, if any, be dedicated to the payment of principal and interest on outstanding indebtedness and other obligations and, accordingly, such cash flow will not be available for use in our business; (4) could limit our flexibility in planning for, or reacting to, changes in our business; (5) results in our being more highly leveraged than many of our competitors, which places us at a competitive disadvantage; (6) will make us more vulnerable in the event of a downturn in our business; and (7) could limit our ability to sell assets or fund our operations due to covenant restrictions.

Our common stock was delisted from the Nasdaq Capital Market, which could make it more difficult to sell our common stock.

Effective at the open of trading on July 28, 2006, our common stock was delisted from the Nasdaq Capital Market. Since this time, our common stock has traded in the over-the-counter (OTC) market, both through listings on the OTC Bulletin Board and in the National Quotation Bureau Pink Sheets, but our common stock is not currently listed or quoted on any recognized national or regional securities exchange or market. As a result, an investor may find it difficult to sell or obtain quotations as to the price of our common stock. Delisting could

Table of Contents

adversely affect investors perception, which could lead to further declines in the market price of our common stock. Delisting will also make it more difficult, time consuming and expensive for us to raise capital through sales of our common stock or securities convertible into our common stock.

Given our limited experience in delivering our new products and in providing bundled local, wireless, broadband, DSL, Internet, data and hosting and VOIP services, we may not be able to operate successfully or expand these parts of our business.

During the third quarter of 2004 we accelerated initiatives to become an integrated wireline, wireless and broadband service provider in order to counter competitive pricing pressures initiated by large incumbent providers in certain of the principal markets where we operate and to stem the loss of certain of our wireline and dial-up ISP customers to our competitors bundled wireless, wireline and broadband service offerings. Our experience in providing these new products in certain markets and in providing these bundled service offerings is limited. Our primary competitors include incumbent telecommunications providers, cable companies and other ISPs that have a significant national or international presence. Many of these operators have substantially greater resources, capital and operational experience than we do. We also expect that we will experience increased competition from traditional telecommunications carriers and cable companies and other new entrants that expand into the market for broadband, VOIP, Internet services, data and hosting and traditional voice services, and regulatory developments may impair our ability to compete. Therefore, future operations involving these individual or bundled services may not succeed in the competitive environment, and we may not be able to expand successfully; may experience margin pressure; may face quarterly revenue and operating results variability; may have limited resources to develop and to market the new services; and have heightened difficulty in establishing future revenues or results. As a result, there can be no assurance that we will reverse recent revenue declines or maintain or increase revenues or be able to generate income from operations or net income in the future or on any predictable or timely basis.

We may be exposed to significant liability resulting from our noncompliance with FCC Orders regarding enhanced 911 (E911) services.

In June 2005, the FCC adopted new rules requiring VOIP providers interconnected to the public switched telephone network to provide E911 service in a manner similar to traditional wireline carriers by November 2005. LINGO, a subsidiary of ours which sells such interconnected VOIP services, was unable, like many interconnected VOIP providers in the industry, to meet this deadline for all of its customers. We sought a waiver from the FCC asking for additional time to complete deploying our E911 service, and the FCC has not yet addressed our waiver petition. As of October 19, 2007, approximately 5.9% of our LINGO customers were without E911 service as required by the FCC s rules. If and to the extent that we are determined to be out of compliance with the FCC order regarding E911 services we may be subject to fines, penalties, and/or cease and desist orders prohibiting LINGO from providing service on the federal and state levels.

The FCC rules also required interconnected VOIP providers to distribute stickers and labels informing customers of the emergency service limitations associated with the service, as well as to notify and obtain affirmative acknowledgement from customers that they were aware of all of the emergency service limitations associated with the service. The FCC s Enforcement Bureau released an order providing that the Enforcement Bureau will not pursue enforcement against interconnected VOIP providers that have received affirmative acknowledgement from at least 90% of their subscribers. We have received affirmative acknowledgement from substantially all of our customers and have effectively satisfied this requirement of the rule. LINGO s current services are more limited than the E911 services offered by traditional wireline telephone companies. These limitations may cause significant delays, or even failures, in callers receipt of the emergency assistance. Despite the fact that we have notified our customers and received affirmative acknowledgement from substantially all of our customers that they understand the differences between the access we provide to emergency services as compared to those available through traditional wireline telephony providers, injured customers may attempt to hold us responsible for any loss, damage, personal injury or death suffered as a result of any failure to comply with the FCC mandated E911 service for interconnected VOIP providers. Our resulting liability could be significant.

Table of Contents

On June 1, 2007, the FCC released a Notice of Proposed Rulemaking Proceeding considering the imposition of additional VOIP E911 obligations on interconnected VOIP providers, like us. Specifically, the Commission is considering requiring interconnected VOIP providers to determine automatically the physical location of their customer rather than allowing customers to manually register their location. Moreover, the Notice includes a tentative conclusion that all interconnected VOIP service providers that allow customers to use their service in more than one location (nomadic VOIP service providers such as us) must utilize automatic location technology that meets the same accuracy standards applicable to providers of mobile phone service providers. At this time, we are unable to predict the outcome or its impact on us.

The FCC s extended CPNI rules to interconnected VoIP providers.

On April 2, 2007, the FCC extended customer proprietary network information, or CPNI, rules to interconnected VOIP providers, like us. CPNI includes information that appears on customers bills such as called telephone numbers, the frequency, duration, time and length of calls; and any services or features purchased by the consumer, like caller ID. Pursuant to the CPNI rules, interconnected VOIP providers may not use CPNI without obtaining customer consent except in limited circumstances. Moreover, interconnected VOIP providers are required to adhere to a particular customer approval processes when using CPNI outside of pre-defined limits. Effective December 8, 2007, we will be required to adhere to specific CPNI rules when using CPNI for marketing purposes. Accordingly, we must implement internal processes in order to comply with the FCC s CPNI rules. We cannot predict the impact of this change on our profitability or retail prices at this time.

We may be exposed to liability resulting from FCC Orders regarding Access for people with Disabilities.

On June 15, 2007, the FCC applied the disability access requirements of Sections 225 and 255 of the Communications Act to providers of interconnected VOIP services, like us, and to equipment manufacturers that make equipment to use with those services. Section 255 of the Communications Act requires, if readily achievable, service providers to ensure that its equipment and service is accessible to and usable by individuals with disabilities. Where readily achievable, the relevant regulations also require service providers to ensure that information and documentation provided in connection with equipment or services be accessible to people with disabilities and that employee training account for accessibility requirements. In addition, the FCC said that interconnected VOIP providers were subject to the requirements of Section 225, including contributing to the Telecommunications Relay Services, or TRS, fund and that they must offer 711 abbreviated dialing for access to relay services. At this time, we are not in compliance with these rules. We may be subject to enforcement actions including, but not limited to, fines, cease and desist orders, or other penalties. On October 10, 2007, the FCC granted a limited waiver of the 711 call handling requirement. While still mandating that interconnected VOIP providers like us are required to transmit 711 calls to a relay center, the FCC waived the requirement, for a period of six months, insofar as it requires such providers to transmit the 711 call to an appropriate relay center, meaning the relay center(s) serving the state in which the caller is geographically located or the relay center(s) corresponding to the caller s last registered address. We are working on implementing a call routing solution which will route 711 calls to the appropriate relay center as defined in the FCC s order but cannot predict whether we will be in compliance at the end of the waiver period.

Our profitability may be reduced or our retail prices may rise due to increased regulation or the imposition of additional taxes, fees and surcharges.

On August 6, 2007, the FCC released a Report and Order regarding the collection of regulatory fees for Fiscal Year 2007 (Fees Order). Pursuant to the Fees Order, the FCC mandated the collection of such fees from interconnected VOIP service providers like us. The Fees Order mandates that interconnected VOIP providers pay regulatory fees based on reported interstate and international revenues. The Regulatory Fee Order is not yet effective. Regulatory fees for Fiscal Year 2007 will be due in 2008 during a separate filing window yet to be determined. Fiscal Year 2008 fees will also be paid in 2008 during the normal regulatory fee payment window. The assessment of regulatory fees to our service will increase our costs and reduce our profitability or cause us to increase the price of our retail service offerings.

Table of Contents

We cannot predict the impact of any future laws, regulations and orders adopted either domestically or abroad on our operations and services. But increased regulation and the imposition of additional taxes, fees and surcharges increases the costs associated with providing our service and such taxes, fees and surcharges may or may not be recoverable from our customers. If we choose to absorb such costs, our profit margins would likely decrease. Moreover, even if such costs are recoverable or if we choose to maintain profitability, we may need to increase the retail price of our service that could result in making our service less competitive both with other providers of interconnected VOIP service providers and traditional providers of telecommunications services. The net effect could reduce the number of our subscribers and reduce our profit margin.

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

The long distance telecommunications, Internet, broadband, DSL, data and hosting and wireless industry is significantly influenced by the marketing and pricing decisions of the larger long distance, Internet access, broadband, DSL, data and hosting and wireless business participants. Prices in the long distance industry have continued to decline in recent years, and as competition continues to increase within each of our service segments and each of our product lines, we believe that prices are likely to continue to decrease. Competitors in our core markets include, among others: AT&T, the regional bell operating companies (RBOCs) and the major wireless carriers in the United States; Telstra, SingTel Optus and Telecom New Zealand in Australia; Telus, BCE, Allstream (formerly AT&T Canada) and the major wireless and cable companies in Canada; and BT, Cable & Wireless United Kingdom, Colt Telecom, Energis and the major wireless carriers in the United Kingdom. Customers frequently change long distance, wireless and broadband providers, and ISPs in response to the offering of lower rates or promotional incentives, increasingly as a result of bundling of various services by competitors. Moreover, competitors VOIP and broadband product rollouts have added further customer choice and pricing pressure. As a result, generally, customers can switch carriers and service offerings at any time. Competition in all of our markets is likely to remain intense, or even increase in intensity and, as deregulatory influences are experienced in markets outside the United States, competition in non-United States markets is becoming similar to the intense competition in the United States. Many of our competitors are significantly larger than us and have substantially greater financial, technical and marketing resources, larger networks, a broader portfolio of service offerings, greater control over network and transmission lines, stronger name recognition and customer loyalty, long-standing relationships with our target customers, and lower debt leverage ratios. As a result, our ability to attract and retain customers may be adversely affected. Many of our competitors enjoy economies of scale that result in low cost structures for transmission and related costs that could cause significant pricing pressures within the industry. Several long distance carriers in the United States, Canada and Australia and the major wireless carriers and cable companies, have introduced pricing and product bundling strategies that provide for fixed, low rates for calls. This strategy of our competitors could have a material adverse effect on our net revenue per minute, results of operations and financial condition if our pricing, set to remain competitive, is not offset by similar declines in our costs. Companies emerging out of bankruptcy might benefit from a lower cost structure and might apply pricing pressure within the industry to gain market share. We compete on the basis of price, particularly with respect to our sales to other carriers, and also on the basis of customer service and our ability to provide a variety of telecommunications products and services. If such price pressures and bundling strategies intensify, we may not be able to compete successfully in the future, may face quarterly revenue and operating results variability, and may have heightened difficulty in estimating future revenues or results.

Our repositioning in the marketplace places a significant strain on our resources, and if not managed effectively, could result in operational inefficiencies and other difficulties.

Our repositioning in the marketplace may place a significant strain on our management, operational and financial resources, and increase demand on our systems and controls. To manage this change effectively, we must continue to implement and improve our operational and financial systems and controls, invest in critical

Table of Contents

network infrastructure to maintain or improve our service quality levels, purchase and utilize other transmission facilities, and train and manage our employee base. If we inaccurately forecast the movement of traffic onto our network, we could have insufficient or excessive transmission facilities and disproportionate fixed expenses. As we proceed with our development, operational difficulties could arise from additional demand placed on customer provisioning and support, billing and management information systems, product delivery and fulfillment, on our support, sales and marketing and administrative resources and on our network infrastructure. For instance, we may encounter delays or cost-overruns or suffer other adverse consequences in implementing new systems when required, such as our off-shoring certain functions. In addition, our operating and financial control systems and infrastructure could be inadequate to ensure timely and accurate financial reporting.

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

As of December 31, 2006, we had an accumulated deficit of $(1,083.0) million. We incurred net losses of $(34.6) million in 2002, $(10.6) million in 2004, $(149.2) million in 2005, and $(238.0) million in 2006. During the year ended December 31, 2003, we recognized net income of $54.8 million, of which $39.4 million is the positive impact of foreign currency transaction gains. We cannot assure you that we will recognize net income, or reverse recent net revenue declines in future periods. If we cannot generate net income or operating profitability, we may not be able to meet our debt service or working capital requirements.

Integration of acquisitions ultimately may not provide the benefits originally anticipated by management and may distract the attention of our personnel from the operation of our business.

We strive to increase the volume of voice and data traffic that we carry over our existing global network in order to reduce transmission costs and other operating costs as a percentage of net revenue, improve margins, improve service quality and enhance our ability to introduce new products and services. We may pursue acquisitions in the future to further our strategic objectives. Acquisitions of businesses and customer lists, a key element of our historical growth strategy, involve operational risks, including the possibility that an acquisition does not ultimately provide the benefits originally anticipated by management. Moreover, there can be no assurance that we will be successful in identifying attractive acquisition candidates, completing and financing additional acquisitions on favorable terms, or integrating the acquired business or assets into our own. There may be difficulty in migrating the customer base and in integrating the service offerings, distribution channels and networks gained through acquisitions with our own. Successful integration of operations and technologies requires the dedication of management and other personnel, which may distract their attention from the day-to-day business, the development or acquisition of new technologies, and the pursuit of other business acquisition opportunities, and there can be no assurance that successful integration will occur in light of these factors.

We experience intense domestic and international competition which may adversely affect our results of operations and financial condition.

The local and long distance telecommunications, data, broadband, Internet, VOIP, data and hosting and wireless industries are intensely competitive with relatively limited barriers to entry in the more deregulated countries in which we operate and with numerous entities competing for the same customers. Recent and pending deregulation in various countries may encourage new entrants to compete, including ISPs, wireless companies, cable television companies, who would offer voice, broadband, Internet access and television, and electric power utilities who would offer voice and broadband Internet access. For example, the United States and many other countries have committed to open their telecommunications markets to competition pursuant to an agreement under the World Trade Organization which began on January 1, 1998. Further, in the United States, as certain conditions have been met under the Telecommunications Act of 1996, the RBOCs have been allowed to enter the long distance market, and other long distance carriers have been allowed to enter the local telephone services market (although judicial and regulatory developments have diminished the attractiveness of this opportunity), and many entities, including cable television companies and utilities, have been allowed to enter both the local service and long distance telecommunications markets.

Table of Contents

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

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

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

We have significant international operations and, for the three months ended September 30, 2007, derived 80% of our net revenues by providing services outside of the United States. In international markets, we are smaller than the principal or incumbent telecommunications carrier that operates in each of the foreign jurisdictions where we operate. In these markets, incumbent carriers are likely to control access to, and pricing of, the local networks; enjoy better brand recognition and brand and customer loyalty; generally offer a wider range of product and services; and have significant operational economies of scale, including a larger backbone network and more correspondent agreements. Moreover, the incumbent carrier may take many months to allow competitors, including us, to interconnect to our switches within our territory, and we are dependent upon their cooperation in migrating customers onto our network. There can be no assurance that we will be able to obtain the permits and operating licenses required for us to operate; obtain access to local transmission facilities on economically acceptable terms; or market services in international markets. In addition, operating in international markets generally involves additional risks, including unexpected changes in regulatory requirements, taxes, tariffs, customs, duties and other trade barriers, difficulties in staffing and managing foreign operations, problems in collecting accounts receivable, political risks, fluctuations in currency exchange rates, restrictions associated with the repatriation of funds, technology export and import restrictions, and seasonal reductions in business activity. Our ability to operate and grow our international operations successfully could be adversely impacted by these risks and uncertainties particularly in light of the fact that we derive such a large percentage of our revenues from outside of the United States.

Because a significant portion of our business is conducted outside the United States, fluctuations in foreign currency exchange rates could adversely affect our results of operations.

A significant portion of our net revenue is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the United States dollar. The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive a significant portion of our net revenue and incur a significant portion of our operating costs outside the United States, and changes in exchange rates have had and may have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused by fluctuations in the following exchange rates: USD/AUD, USD/CAD, USD/GBP, and USD/EUR. See Quantitative and Qualitative Disclosures about Market Risk. Due to the large percentage of our operations conducted outside of the United States, strengthening or weakening of the USD relative to one or more of the foregoing currencies could have an adverse impact on future results of operations. We historically have not engaged in hedging transactions. During the fourth quarter 2007, we completed a forward currency contract required by the new Canadian credit facility. In addition, the operations of affiliates and subsidiaries in foreign countries have been funded with investments and other advances denominated in foreign currencies. Historically, such investments and advances have been long-term in nature, and we accounted for any adjustments resulting from currency translation as a charge or credit to accumulated other comprehensive loss within the stockholders deficit section of our consolidated balance sheets. In 2002, agreements with certain subsidiaries were put in place for repayment of a portion of the investments and advances made to those

Table of Contents

subsidiaries. As we anticipate repayment in the foreseeable future of these amounts, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations, and depending upon changes in future currency rates, such gains or losses could have a significant, and potentially adverse, effect on our results of operations.

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

The telecommunications industry is changing rapidly due to deregulation, privatization, consolidation, technological improvements, availability of alternative services such as wireless, broadband, DSL, Internet, VOIP, data and hosting and wireless DSL through use of the fixed wireless spectrum, and the globalization of the world s economies. In addition, alternative services to traditional fixed wireline services, such as wireless, broadband, Internet and VOIP services, are a substantial competitive threat. If we do not adjust our contemplated plan of development to meet changing market conditions and if we do not have adequate resources, we may not be able to compete effectively. The telecommunications industry is marked by the introduction of new product and service offerings and technological improvements. Achieving successful financial results will depend on our ability to anticipate, assess and adapt to rapid technological changes, and offer, on a timely and cost-effective basis, services including the bundling of multiple services that meet evolving industry standards. If we do not anticipate, assess or adapt to such technological changes at a competitive price, maintain competitive services or obtain new technologies on a timely basis or on satisfactory terms, our financial results may be materially and adversely affected.

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

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

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

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

Our ability to compete depends, in part, on our ability to use intellectual property in the United States and internationally. We rely on a combination of trade secrets, trademarks and licenses to protect our

Table of Contents

intellectual property. We are also subject to the risks of claims and litigation alleging infringement of the intellectual property rights of others. The telecommunications industry is subject to frequent litigation regarding patent and other intellectual property rights. We rely upon certain technology, including hardware and software, licensed from third parties. There can be no assurance that the technology licensed by us will continue to provide competitive features and functionality or that licenses for technology currently used by us or other technology that we may seek to license in the future will be available to us on commercially reasonable terms or at all. Although our existing intellectual property are on standard commercial terms made generally available by the companies providing the licenses and, individually, their costs and terms are not material to our business, the loss of, or our inability to maintain existing licenses, could result in shipment delays or reductions until equivalent technology or suitable alternative products could be developed, identified, licensed and integrated and could cause service disruption to our customers. Such delays or reductions in the aggregate could harm our business. We also generally rely on indemnification provisions in licensing contracts to protect against claims of infringement regarding the licensed technology, which indemnification could be affected by, among other things, the financial strength of the licensor.

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

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

We are subject to potential adverse effects of regulation which may have a material adverse impact on our competitive position, growth and financial performance.

Our operations are subject to constantly changing regulation. There can be no assurance that future regulatory changes will not have a material adverse effect on us, or that regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations, any of which could have a material adverse effect upon us. As a multinational telecommunications company, we are subject to varying degrees of regulation in each of the jurisdictions in which we provide our services. Local laws and regulations, and the interpretation of such laws and regulations, differ significantly among the jurisdictions in which we operate. Enforcement and interpretations of these laws and regulations can be unpredictable and are often subject to the informal views of government officials. Potential future regulatory, judicial, legislative, and government policy changes in jurisdictions where we operate could have a material adverse effect on us. Domestic or international regulators or third parties may raise material issues with regard to our compliance or noncompliance with applicable regulations, and therefore may have a material adverse impact on our competitive position, growth and financial performance. Regulatory considerations that affect or limit our business include (1) United States common carrier requirements not to discriminate unreasonably among customers and to charge just and reasonable rates; (2) general uncertainty regarding the future regulatory classification of and taxation of VOIP telephony, the need to provide emergency calling services in a manner required by the FCC that is not yet available commercially on a nation-wide basis and the ability to access broadband networks owned and operated by others; if regulators decide that VOIP is a regulated telecommunications service, our VOIP services may be subject to burdensome regulatory requirements and fees, we may be obligated to pay carriers additional interconnection fees and operating costs may increase; (3) general changes in access charges, universal service and regulatory fee payments would affect our cost of providing long distance services; (4) the ultimate regulatory resolution regarding efforts by Telstra in Australia to increase prices and charges and to build a new broadband network that could adversely impact our current DSL network; (5) general changes in access charges and contribution payments could adversely affect our cost of providing long distance, wireless, broadband, VOIP, local and other services; and (6) regulatory proceedings in Canada evaluating whether and the extent to which regulation should mandate access to networks and interconnection. Any adverse developments implicating the foregoing could materially adversely affect our business, financial condition, result of operations and prospects.

Table of Contents

Natural disasters may affect the markets in which we operate, our operations and our profitability.

Many of the geographic areas where we conduct our business may be affected by natural disasters, including hurricanes and tropical storms. Hurricanes, tropical storms and other natural disasters could have a material adverse effect on the business by damaging the network facilities or curtailing voice or data traffic as a result of the effects of such events, such as destruction of homes and businesses.

A small group of our stockholders could exercise influence over our affairs.

As of October 31, 2007, funds affiliated with American International Group, Incorporated (AIG Entities) beneficially owned 11% of our outstanding common stock, which was acquired through the conversion of their Series C Preferred Stock. As a result of such share ownership, these holders can exercise influence over our affairs through the provisions of a certain Governance Agreement between such holders and us, dated November 4, 2003, that provide for their right to nominate a candidate for election by our stockholders to the board of directors and nominate one non-voting board observer, in each case subject to the maintenance of certain minimum ownership levels of our common stock and the board s right to exercise its fiduciary duties.

In addition, these holders significant ownership levels could have an influence on: amendments to our certificate of incorporation; other fundamental corporate transactions such as mergers and asset sales; and the general direction of our business and affairs.

Also, the applicable triggering provisions of our rights agreement with StockTrans, Inc., as Rights Agent, dated December 23, 1998 (as amended, the Rights Agreement) contain exceptions with respect to the acquisition of beneficial ownership of our shares by such holders and the other former holders of Series C Preferred Stock. As a result, such holders could gain additional control over our affairs without triggering the provisions of the Rights Agreement.

Finally, other stockholders that have acquired or will acquire a significant portion of our common stock such as three shareholders that have acquired 30.9 million shares, in aggregate, as of December 31, 2006, could potentially exercise influence over our affairs.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company s Annual Meeting of Stockholders held on June 19, 2007, the stockholders of the Company, holding 114,132,164 shares of record elected John G. Puente and Douglas M. Karp to serve as Directors of the Company for a three-year term. The voting results were as follow: 84,123,826 and 84,102,727 were in favor of Mr. Puente and Mr. Karp, respectively, and 1,080,509 and 1,101,608 were withheld for Mr. Puente and Mr. Karp, respectively. Paul G. Pizzani, David E. Hershberg, Pradman P. Kaul, K. Paul Singh, and John F. DePodesta continued as directors of the Company after the meeting, along with Messrs. Puente and Karp.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

Date:	November 9, 2007	By:	/s/ THOMAS R. KLOSTER Thomas R. Kloster *Chief Financial Officer (Principal Financial Officer)*
Date:	November 9, 2007	By:	/s/ TRACY B. LAWSON Tracy B. Lawson *Vice President Corporate Controller (Principal Accounting Officer)*

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
3.1	First amended and Restated Certificate of Incorporation of Primus; Incorporated by reference to Exhibit 3.1 of the Registration Statement on From S-8, No. 333-56557.
3.2	Certificate of Amendment to First Amended and Restated Certificate of Incorporation of Primus; Incorporated by reference to Exhibit 3.2 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004.
3.3	Amended and Restated Bylaws of Primus; Incorporated by reference to Exhibit 3.2 to the Company s Annual Report on Form 10-K for the year ended December 31, 2002.
31	Certifications.
32	Certification.*

* This certification is being furnished and will not be deemed filed for purposes of Section 18 of the Securities Exchange Act (15 U.S.C. 78r) and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the registrant specifically incorporates it by reference.

74