PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-K
March 17, 2008
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File No. 0-29092

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

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

(Address of principal executive offices)	(Zip Code)

(703) 902-2800

(Registrant s telephone number, including area code)

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

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

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

Common Stock, par value $.01 per share

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

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

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

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

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

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨

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

Non-affiliates of Primus Telecommunications Group, Incorporated held 100,137,820 shares of Common Stock as of June 30, 2007. The fair market value of the stock held by non-affiliates is $100,137,820 based on the sale price of the shares on June 30, 2007.

As of February 29, 2008, 142,632,540 shares of Common Stock, par value $.01, were outstanding.

Documents Incorporated by Reference:

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

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PART I

ITEM 1. BUSINESS

General

We are an integrated facilities based 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.

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

- 18 carrier-grade international gateway and domestic switching systems (the hardware/software devices that direct voice traffic across the network) in the United States, Canada, Europe and the Asia-Pacific region;
- approximately 500 interconnection points to the Company s network, or points of presence (POPs), which includes digital subscriber line access multiplexers (DSLAMs), which is equipment that allows digital traffic to flow over copper wiring, within its service regions and other markets;
- undersea and land-based fiber optic transmission line systems that we own or lease and that carry voice and data traffic across the network; and
- global network and data centers that use a high-bandwidth network standard (asynchronous transfer mode) and Internet-based protocol (ATM+IP) to connect with the network. The global VOIP network is based on routers and gateways with an open network architecture which connects our partners in over 150 countries.

The services we offer can be classified into three main product categories: voice, data/Internet and VOIP services. Within these three main product categories, we offer our customers a wide range of services, including:

- international and domestic long distance services over traditional networks;
- wholesale and retail VOIP services, including hosting of commercial VOIP systems;
- high-speed, dedicated and dial-up Internet access;
- local voice services;
- ATM+IP broadband services;

- data center services, including collocation, Internet access and managed services;
- wireless services; and
- prepaid services, toll-free services and reorigination services.

Generally, we price our services competitively or at a discount with the major carriers and service providers operating in our principal service regions.

Over the past few years we have selectively targeted opportunities to participate in growth areas for telecommunications broadband, VOIP, local, wireless, data and hosting. We have sought to accomplish this objective by enhancing investment in network infrastructure to support new customers and the migration of

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existing customers onto the PRIMUS network, investing prudently in sales and marketing programs and direct sales and telemarketing personnel to increase revenue and contribution from these products, and continuing targeted investments to support increased customer retention efforts.

Operating Highlights and Accomplishments in 2007 and Subsequent Events:

We invested throughout 2007 in improving the competitive position of PRIMUS as an integrated provider of telecommunication services. The 2007 investments included the expansion of local and digital subscriber line (DSL) networks and data centers in Australia and Canada. Our 2007 net revenue from broadband, VOIP, wireless, local, data and hosting services increased by $24.7 million to $216.9 million in 2007 from $192.2 million in 2006.

Net revenue decreased by 10% to $902.2 million for the year ended December 31, 2007 from $1,002.4 million for the year ended December 31, 2006. A $37.2 million decline in wholesale services revenue and a $46.2 million decline in prepaid services revenue, in aggregate, account for 83% of the decline.

Selling, general and administrative expense in 2007 was $284.0 million (31.5% of net revenue) as compared to $284.3 million (28.4% of net revenue) in 2006, reflecting continued non-sales and marketing cost reductions being applied towards an increase in sales and marketing activities, including advertising, outbound telemarketing, direct sales representatives, affinity program commissions and promotions.

Our income from operations was $31.3 million for the year ended December 31, 2007, a $245.4 million improvement over a loss from operations of ($214.1) million for the year ended December 31, 2006, which included ($225.3) million asset impairment write-down and loss on sale or disposal of assets charges.

Net cash provided by operating activities was $11.5 million for the year ended December 31, 2007 compared to $12.9 million for the year ended December 31, 2006.

We reduced debt by retiring $5.0 million principal amount of our step up convertible subordinated debentures due 2009 (Step Up Convertible Subordinated Debentures) for 6.0 million shares of our common stock and by purchasing at a discount $10.5 million principal amount of our 12 3/4% senior notes due 2009 (October 1999 Senior Notes).

In February 2007, we issued in a private transaction $57.2 million principal amount of 14 1/4% Senior Secured Notes, due 2011 (the 14 1/4% Senior Secured Notes), in exchange for $40.7 million principal amount of our outstanding October 1999 Senior Notes and $23.6 million in cash. In March 2007, we issued an additional $51.0 million principal amount of 14 1/4% Senior Secured Notes for cash with a $0.3 million discount.

In February 2007, we renegotiated the payment terms of our promissory note payable to Optus Networks Pty. Limited extending the payment schedule through December 2008 with equal monthly payments.

In February 2007, we paid off $22.7 million in principal amount of the maturing 5 3/4% convertible subordinated debentures due 2007 (2000 Convertible Subordinated Debentures).

In February 2007, we sold our Australian domain name registry and web hosting subsidiary, Planet Domain. The sale price was $6.5 million ($8.3 million Australian dollar (AUD)). We received $5.5 million in net cash proceeds from the transaction after closing adjustments.

In March 2007, our wholly owned Canadian subsidiary entered into an agreement with a financial institution to refinance an existing credit facility. The existing Canadian credit facility was scheduled to mature in April 2008, and the refinancing matures in March 2012.

In July 2007, we sold 22.5 million shares of our common stock to certain investors for $19.3 million cash.

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In August 2007, we sold our 51% interest in our German telephone system installation subsidiaries. The sale price was $0.8 million (0.6 million Euros (EUR)), which included $0.5 million (0.4 million EUR) in cash and $0.3 million (0.2 million EUR) for payment of outstanding intercompany debt. For the intercompany debt payment, we received $0.1 million (0.1 million EUR) in cash at closing. The balance owing is represented by a note receivable and will be paid in fifteen equal installment payments.

In December 2007, we paid off early at a discount our $4.9 million debt with Southern Cross Cable Limited (SCCL), which had originally financed the purchase of fiber optic capacity on an indefeasible rights of use (IRU) basis.

In the first quarter of 2008, we reduced debt by purchasing at a discount $7.0 million principal amount of our Step Up Convertible Subordinated Debentures and by purchasing at a discount $0.8 million principal amount of our October 1999 Senior Notes.

Operating Highlights and Accomplishments in 2005 and 2006:

In 2005 and 2006, we focused on a four-pronged strategy that involved driving new product revenue growth, enhancing margin, cutting and managing costs and strengthening the balance sheet.

Initiatives and results from our efforts to drive new product revenue growth, enhance margin, and cut costs:

We focused on products in the broadband, local, wireless, VOIP, data and hosting business and concentrated resources on the most promising initiatives. Our approach was focused on bundling services to end-user customers; leveraging our existing global voice, data and Internet network and utilizing established distribution channels and back-office systems.

We increased scale on these products, invested in broadband infrastructure in high density locations and began migrating customers onto our network.

We invested throughout 2006 in improving our competitive position by transforming PRIMUS into a fully integrated provider of voice, broadband, VOIP, wireless, internet and data services. This investment included the build-out of local and DSL networks in Australia and Canada. Net revenue from these growth products increased by $50.4 and $88.2 million in 2006 and 2005 respectively from $53.6 million in 2004.

As a result of cost containment efforts, efficiency improvements and reductions in prepaid services commissions, our 2006 and 2005 financial results included a $91.7 million and $13.7 million decrease in selling, general and administrative expenses, respectively.

Net cash provided by operating activities improved by $63.6 million to $12.9 million for the year ended December 31, 2006 from net cash used in operating activities of $(50.7) million for the year ended December 31, 2005. Net cash provided by (used in) operating activities decreased by $124.1 million to ($50.7) million for the year ended December 31, 2005 from $73.4 million for the year ended December 31, 2004. A major factor contributing to the 2005 decrease was the investments in developing new products and bringing them to market.

Initiatives and results from our efforts to strengthen the balance sheet:

In 2005:

We reduced certain debt in 2005 including retiring $25.6 million in principal amount of our senior notes and convertible subordinated debentures as well as payments of scheduled principal amortization. In particular, the following debt securities were retired through debt for equity exchanges during 2005: $17.0 million of the 2000 Convertible Subordinated Debentures and

$8.6 million of the October 1999 Senior Notes for 15.0 million shares of our common stock, in aggregate.

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Our direct wholly-owned subsidiary, Primus Telecommunications Holding, Inc. (PTHI), secured a six-year, $100 million senior secured term loan facility (the Facility). Terms of the Facility include pricing at the London Inter-Bank Offered Rate (LIBOR) + 6.50% and contain no financial maintenance covenants. The Facility is guaranteed by the Company and certain of PTHI s subsidiaries and is secured by certain assets of PTHI and its guarantor subsidiaries and certain pledges of stock.

In 2006:

We reduced debt by retiring $2.5 million principal amount of our October 1999 Senior Notes for 1,825,000 shares of our common stock. We extended debt maturities by exchanging $27.4 million principal amount of our 2000 Convertible Subordinated Debentures for $27.5 million principal amount of our Step Up Convertible Subordinated Debentures. We also exchanged $54.8 million principal amount of the Company s 3¾% convertible senior notes due 2010 (2003 Convertible Senior Notes) and $20.5 million in cash for $56.3 million principal amount of the 5% exchangeable senior notes due June 2010 (5% Exchangeable Senior Notes) issued by PTHI.

In January 2006, our wholly owned Canadian subsidiary entered into an Amended and Restated Loan Agreement (the Amended Agreement) related to its existing secured non-revolving term loan facility with a Canadian financial institution. The Amended Agreement, among other things, extended the maturity date to April 2008. On February 1, 2006 the Company drew the remaining $15.3 million available under the loan facility.

We adjusted the carrying value of our long-lived assets, including property and equipment and intangible assets, to their estimated fair value of $108.7 million and $34.9 million, respectively. This adjustment resulted in an aggregate asset impairment write-down of $209.2 million, consisting of the following specific asset write-downs: $151.8 million in property and equipment, $52.1 million in goodwill and $5.3 million in customer lists and other intangible assets.

In May 2006, we entered into a Share Purchase Agreement (SPA) with Videsh Sanchar Nigam Limited (VSNL), a leading international telecommunications company and member of the TATA Group, whereby VSNL purchased 100% of the stock of Direct Internet Limited (DIL), whose wholly-owned subsidiary, Primus Telecommunications Limited (PTIL), was primarily engaged in providing fixed broadband wireless Internet services to enterprise and retail customers in India. The total purchase consideration was $17.5 million. We received $13.0 million in net cash proceeds from the transaction at closing on June 23, 2006, after closing adjustments. The net assets of DIL were $8.9 million at June 23, 2006.

Strategy

We are pursuing a strategy designed to enhance the growth of broadband, VOIP, local, wireless, data and hosting services revenue and contribution, while slowing the decline in revenue and contribution from our legacy voice and dial-up Internet products. Key elements of our strategy to achieve these objectives are the following:

Provide Integrated Local and Long Distance Voice, VOIP, Broadband, Wireless, Data and Hosting Services: In 2004, we began the process to transform the Company from its core businesses of long distance voice and dial-up ISP services into an integrated provider of local and long distance voice, VOIP, broadband, wireless, data and hosting services. We have introduced new products in local, wireless, broadband, VOIP, data and hosting services that generate high margins. These efforts have enhanced our bundled service capabilities, and as a result, we believe that these efforts have reduced the competitive vulnerability of our core retail voice long distance and dial-up ISP businesses. These products will also provide us with long-term growth potential in local, VOIP, wireless, broadband, data and hosting markets where we had previously not been a significant provider.

Bundling of Traditional Voice Services with Growth Products: By bundling our traditional long distance voice services with local, broadband, wireless, data and hosting services, we seek to increase net revenue per customer and improve our competitive ability to attract and retain business and residential customers.

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Focus on Profitable Markets and Higher Margin Retail Customers and Services: We are focused on specific, large, developed markets. Our target customer base consists of SMEs, multinational corporations and residential customers, particularly ethnic customers, who have international telecommunications needs, in addition to needs for domestic voice, Internet, wireless and data services.

Maximize Cash Flow Through Our 2007-2008 Transformation Strategy: Continuing from 2007 our primary objective is to concentrate our resources on growth products that offer the most attractive returns and growth potential, such as our local, DSL, VOIP, data and hosting initiatives. Another principal focus for management during 2007 and 2008 is to develop and execute strategies to generate additional cash to fund promising projects through a combination of potential balance sheet deleveraging, opportunistic equity capital infusion, continued cost cutting and selected asset sales. We plan to continue to reduce our non-sales and marketing cost structure through increased outsourcing and/or off-shoring at lower cost locations globally; improve coordination among our business units to deliver synergy savings; and maintain an aggressive cost management program. Re-deploying the resultant savings back into sales and marketing activities with attractive payback parameters should, in turn, improve profitability.

Leverage Our Global Network Infrastructure: We have invested in developing our global, voice and data network and our product capabilities. By increasing the volume of voice and data traffic that we carry over our network, we are able to reduce transmission costs and other operating costs as a percentage of net revenue, improve service quality and enhance our ability to introduce new products and services. In addition, by leveraging multiple customer segments in different geographical regions, including retail and carrier customers, we achieve greater utilization of our network assets, because our network experiences multiple periods of peak usage throughout each day. Capital expenditures in 2008 are expected to be in the range of $30 million to $35 million (versus $45 million in 2007), a majority of which will be dedicated to expanding the footprint and capacity of our broadband, data, and hosted IP infrastructure to accommodate increased on-net traffic.

Description of Operating Markets

Our operations in each of our four primary markets are described below. Management organizes the enterprise into four geographic areas United States, Canada, Europe and Asia-Pacific. The Australian market is a substantial portion of the Asia-Pacific market. See the footnote within Item 8 Financial Statements and Supplementary Data Notes to the Consolidated Financial Statements Operating Segment and Related Information, for further information regarding our segments.

Australia. Our Australian operations represented 32% of our 2007 net revenue and offers a comprehensive range of voice, data, broadband and dial-up Internet, wireless, local, VOIP, data and hosting products, servicing both residential and business sectors. The Primus network employs Nortel DMS-100 telephone exchanges in Sydney, Melbourne, Brisbane, Perth and Adelaide operating through 66 national POPs to provide national coverage for voice services. Primus operates a prepaid calling platform as well and another platform for delivery of enhanced toll-free service. The voice network supports direct access ISDN and telephone line services across Sydney, Melbourne, Brisbane, Perth and Adelaide and some select regional areas of the country. VOIP services are offered to business and consumer customers off softswitch platforms operating in Sydney and Melbourne. Primus owns a national IP network for delivery of business and consumer Internet service. Dial-up Internet is available nationally through 66 POPs under a single access code. DSL service is provided on-net through 214 Primus DSLAMs (expanding by 40 more in 2008) and via wholesale DSLAM access providing reach to more than 800 exchanges nationally. Primus DSLAMs are capable of delivering a full suite of telecommunication products including assymmetric and symmetric IP services, telephone line, ISDN, frame relay and ATM. Primus offers ATM, frame relay, IP VPN with QOS and managed routers. Metropolitan fiber networks employing exist in Sydney, Melbourne, Brisbane, Perth and Adelaide to provide high capacity backhaul for domestic carrier interconnects, DSLAM backhaul and fiber connectivity to select customer premises.

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A data center in Melbourne, which was recently expanded, offers hosting and e-commerce applications and services while collocation facilities exist in Sydney, Brisbane, Adelaide and Perth. The amalgamation of these centers provides our Australian operations the capacity to offer multiple data service to a large portion of the country.

We market our services through a combination of direct sales to corporate and SME customers, independent agents, which market to retail business and residential customers, and telemarketing and media advertising aimed at residential customers.

We operate a call center in Melbourne that services all of Australia. We employ staff in Sydney who run our Australian Network Management Center which operates 24 hours per day, 7 days per week.

Canada. Our Canadian operations represent 29% of our 2007 net revenue. We are one of the largest alternative consumer carriers in Canada based on net revenue. We provide international and domestic long distance, local telephony, broadband and dial-up Internet, data, VOIP and wireless services to SMEs, residential customers, enterprises, government agencies and other telecommunication carriers and have sales and customer service offices in key cities throughout Canada, including Vancouver, Toronto, Ottawa, Calgary and Edmonton. We operate international gateway switches in Toronto and Vancouver and a nationwide SS7 network with signal transfer points (STPs) in Vancouver and Toronto. We maintain POPs in all major cities in Canada, and operate a nationwide integrated network backbone for our voice, data, Internet and private line services. Each of the 24 nodes on the backbone is equipped with SONET add/drop, ATM, and IP equipment to provide a complete spectrum of voice and data communications products to our customers. We operate one Nortel DMS 500 switch in Toronto and next generation IP voice switches in Toronto, Vancouver, Montreal, Ottawa, London and Winnipeg which provide on-net equal access coverage to an estimated 90% of the population of Canada. With a competitive local exchange carrier (CLEC) we have central office co-locations at 70 incumbent local exchange carriers (ILECs) central offices to provide DSL services, T1 access, network interconnection and local dial-tone via our CLEC partner. We operate a voice dial access network which consists of 70 POPs across the country. We also operate two Internet data centers in Ottawa (totaling 30,000 square feet), two Internet data centers in Toronto (totaling 16,000 square feet), a 18,000 square foot Internet data center in London, Ontario and a 3,000 square foot data center in Vancouver through which we offer shared and dedicated hosting and co-location services. We have an extensive Internet network and provide dial-up and ISDN Internet coverage to over 700 communities across Canada through a network of 51 POPs.

We market our services through a combination of direct sales to corporate and SME customers, telemarketing and media advertising aimed at residential customers and through affinity channels.

United States. Our United States operation represented 18% of our 2007 net revenue. We provide international and domestic voice, data, Internet, enterprise IP and VOIP services to SMEs, residential customers, multinational corporations and other telecommunication carriers. We operate international gateway telephone switches in the New York City area, Los Angeles, and Miami which are connected with Canada and countries in Europe, Latin America and the Asia-Pacific region through owned and leased international fiber cable systems. In 2005, we deployed a newer switch technology, our intelligent softswitch architecture, to our gateways, in New York, Los Angeles and Miami. We lease and own domestic fiber in the United States to interconnect our switches, data centers, and POPs. We use a direct sales organization to sell to business customers. Our direct sales personnel offer business customers voice, hosted IP, data and hosting products. To reach residential customers, we advertise in national and regional ethnic newspapers, other publications, and on ethnic television channels to offer competitive rates for international and domestic telephone calls, data, Internet and VOIP services. We have inbound telemarketing centers in Florida and Iowa. We also sell retail VOIP services through Web-based on-line interactive marketing. We utilize independent agents to reach and enhance sales to both business and residential customers and have a direct sales force for marketing international services to other telecommunication service providers, including long distance companies, ISPs and VOIP service providers. We maintain customer service centers in Florida, Virginia and Iowa and also outsource selected customer service functions. We operate 24-hour global network management control centers in Virginia and India which monitors our global voice, Internet and data traffic. We offer Internet access services to business and residential customers. We also provide managed and shared hosting services through our data center located in Lynn, Massachusetts. Additionally, we provide local and international long distance voice services in Puerto Rico.

Europe. We operate as a licensed carrier in the United Kingdom, Germany, France, Spain, Italy, Belgium and the Netherlands. The European market represents 20% of our 2007 net revenue. Our network consists of voice/data switches in London, Frankfurt, Paris, Milan and Madrid. Our European network interconnects with our global network. In London, Frankfurt and Paris we have data centers for hosting and other services.

Our European operation is headquartered in London. We provide voice and data services to residential customers, small businesses, public sectors and other telecommunications carriers. We maintain a European multilingual customer service call center in Glasgow, Scotland. We market our services across Europe using a combination of direct sales, agents and direct-media advertising.

Services

We offer a broad array of communications services:

International and Domestic Long Distance. We provide international long distance voice services terminating in over 240 countries, and domestic long distance voice services in our core operating markets.

VOIP Services. We offer retail and wholesale VOIP services to ISPs, telecommunications carriers worldwide, and retail customers both over the public Internet as well as direct point-to-point VOIP services over our ATM+IP network.

Internet and Data Services. We offer ATM, frame relay, private line, and broadband and dial-up Internet/IP services which are available to customers in the United States, Australia, Canada and the United Kingdom. In Australia, we offer data transfer services over ATM and frame relay networks in addition to Internet access services through DSL, dial-up, and accelerated dial-up. We also offer hosting, managed hosting, hosted IP, virtual private networking (VPN) and collocation services in our primary operating markets.

Prepaid Service. We offer prepaid services that may be used by customers for domestic and international telephone calls both within and outside of their home country.

Toll-free Services. We offer domestic and international toll-free services within selected countries in our principal service regions.

Local Switched Services. With the build-out of the Australia and Canada local and DSL networks, we offer local services as a facilities-based carrier. We also offer local service on a resale basis, primarily in Australia and Canada.

Wireless. We offer wireless services on a resale basis in Australia, Canada, the United Kingdom and Belgium.

Network

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

Switching Systems. Our network consists of 18 carrier-grade domestic and international gateway switch systems and media gateways throughout North America, Europe, and Asia-Pacific.

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

Location	Type of Switch
New York City area (two locations)	International Gateway
Miami	International Gateway
Los Angeles	International Gateway
Toronto	International Gateway
Vancouver	International Gateway
London	International Gateway
Paris	International Gateway
Frankfurt	International Gateway
Sydney	International Gateway
Milan	International Gateway
Madrid	International Gateway
Hong Kong	International Gateway
Makati City	International Gateway
Adelaide	Domestic
Brisbane	Domestic
Melbourne	Domestic
Perth	Domestic

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

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

In December 1999 and March 2000, we purchased fiber capacity, which provides us with an ATM+IP based international broadband backbone. The backbone is comprised of nearly 11,000 route miles of fiber optic cable in the United States and overseas as well as private Internet peering at select sites in the United States and overseas.

In June 2000, we purchased from AT&T Canada six rings of SONET protected OC-12 capacity across Canada. This capacity provides a national backbone network for Primus Canada.

In December 2000, we purchased domestic fiber optic capacity in Australia. The purchase agreement provided STM-1 s on the various routes linking Sydney, Melbourne, Adelaide, Perth and Brisbane, as well as several hundred regional E1 s which link the capital cities to 44 mainland/regional cities, all over a 20 year term.

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

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

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

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

Data Centers. Primus Australia and Primus Canada offer world-class data center facilities with advanced 24 x 7 customer access, onsite engineering support and help desk services; dedicated HVAC and environmental control systems; multi-stage fire suppression systems; uninterruptible power supply and backup generator; redundant data connections and services; routing and switching; shared and secure rack space; physical access technologies and practices; CCTV and video security systems; and 24 x 7 building system and network monitoring. Our Australian data center occupies approximately 15,000 square feet in Melbourne. Canada offers national data center coverage with locations in Toronto, Vancouver, London, Ontario and Ottawa, with a total combined square footage of 67,000 square feet. Additionally, we have data center facilities in the United States, Europe and Brazil.

Customers

Our residential sales and marketing strategy has traditionally targeted residential customers who generate high international and domestic long distance traffic volumes, particularly ethnic customers. We believe that such customers are attracted to us because of competitive pricing as compared to traditional carriers, and in-language customer service and support. Additionally, we offer VOIP, broadband and dial-up Internet access, local access and wireless products to our residential customers in select markets. We are expanding our local and broadband offerings to additional markets and bundling them with traditional voice services.

Our business sales and marketing efforts primarily target SMEs with significant international long distance traffic and broadband Internet needs. We also target large multinational businesses. Many of the services we provide in the United States, Australia, Canada, the United Kingdom, and Europe include long distance voice, Internet, data, hosting and the resale of wireless services.

We compete for the business of other telecommunications carriers and resellers primarily on the basis of price and service quality. Sales to other carriers and resellers help us increase the utilization of our network, obtain improved pricing and thereby reduce our fixed costs per minute of use, as well as permitting our network to be interconnected with other major carriers, thereby providing global coverage.

Business, residential and carrier revenues for the year ended December 31, 2007 were distributed 28%, 53%, and 19%, respectively, for the year ended December 31, 2006 were distributed 26%, 53%, and 21%, respectively, and for the year ended December 31, 2005 were distributed 25%, 55%, and 20%, respectively. No single customer accounted for greater than 10% of net revenue for the years ended December 31, 2007, 2006 and 2005.

Sales and Marketing

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

> *Direct Sales Force.* As of December 31, 2007, our direct sales force included 168 full-time employees who focus on business customers with substantial international traffic, including multinational businesses and international governmental organizations. They are engaged in generating new accounts and in the retention of current customers and cross selling products to current customers. A variety of products are utilized to maximize the customer s lifecycle, based on the customers current product mix. Direct sales personnel are generally compensated with a base salary plus commissions. We currently

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have sales offices in Boston (vicinity), McLean, Puerto Rico, Edmonton, Calgary, Toronto, Vancouver, Ottawa, Windsor, London, Glasgow, Frankfurt, Madrid, Barcelona, Paris, Brisbane, Melbourne, Perth, Sydney and Tokyo. In addition, approximately 34 full-time sales representatives focus on residential consumers, and 20 direct sales representatives exclusively sell services to other long distance carriers and resellers.

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

Telemarketing. We employ full-time inbound telemarketing sales personnel, and we selectively outsource certain telemarketing functions to supplement sales efforts to residential consumers, particularly ethnic consumers, and SMEs.

Media and Direct Mail. We use a variety of print, television and radio advertising to increase name recognition and generate new customers. We reach ethnic residential customers by print advertising campaigns in ethnic newspapers, and by advertising on select radio and television programs.

Interactive Marketing. We use a variety of web-based tools, including banner ads and pop-up windows to target Internet users primarily for our retail VOIP service.

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

Management Information and Billing Systems

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

We believe that our financial reporting and billing systems are generally adequate to meet our needs in the near term. As we grow, we may need to invest additional capital to purchase hardware and software, license more specialized software and increase our capacity.

Competition

Voice

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

Privatization and deregulation have had, and are expected to continue to have, significant effects on competition in the industry. For example, as a result of legislation enacted in the United States, Regional Bell Operating Companies (RBOCs) have entered the long distance market; long distance carriers have entered the

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local telephone services market (although judicial and regulatory developments have diminished this opportunity); and cable television companies and utilities are allowed to enter both the local and long distance telecommunications markets. A consolidation of these large companies is also occurring, which could change the dynamics of pricing and marketing. In addition, competition has begun to increase in the European Union (EU) communications markets in connection with the deregulation of the telecommunications industry. In most EU countries full liberalization took place in January 1998. In addition, alternatives to wireline services, such as wireless and VOIP services, are significant competitive threats. This increase in competition adversely affects net revenue per minute and usage of traditional wireline services, and these trends are expected to continue.

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

United States. In the United States, which is among the most competitive and deregulated long distance markets in the world, competition is based on pricing, customer service, network quality and the ability to provide value-added services and the bundling of services. AT&T and Verizon are the largest suppliers of long distance services. Wireless carriers have gained significant ground particularly in the domestic long distance markets, and VOIP cable-based service providers present a growing threat.

Australia. Australia is one of the most deregulated and competitive communications markets in the Asia-Pacific region. Our principal competitors in Australia are Telstra, the dominant carrier, SingTel Optus and an affiliate of Telecom New Zealand. Recent pricing actions by Telstra present serious competitive challenges (see Government Regulation Australia).

Canada. The Canadian communications market is highly competitive and is dominated by a few established carriers whose marketing and pricing decisions have a significant impact on the other industry participants, including us. In residential markets, we compete with each of the incumbent telecommunication companies (of which the largest are those owned by BCE in eastern Canada, and Telus and MTS in western Canada) in their respective territories and the large cable companies who have launched their telecom service portfolio. We also compete against smaller resellers. In the highly competitive business market, we compete with BCE and Telus, who are both expanding beyond their traditional territories and competing with each other across the country, and with the national division of MTS (formerly Allstream), Rogers Telecom and other smaller carriers. Major wireless carriers are also a significant source of competition. In Canada the CRTC conducted a review of the regulatory framework for wholesale services and the definition of essential services. The results of the review are discussed in Government Regulation Canada of this document.

United Kingdom. Our principal competitors in the United Kingdom are British Telecommunications (BT), the dominant provider of telecommunications services in the United Kingdom, NTL/Telewest, Carphone Warehouse, Cable & Wireless UK, Colt Telecom and MCI/Verizon. Major wireless carriers are also a significant source of competition.

Internet and Data

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

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Government Regulation

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

Regulation of the telecommunications industry has and continues to change rapidly both domestically and globally. Privatization and deregulation have had, and will continue to have, significant effects on competition in the industry. Competition has increased in the EU as a result of legislation enacted at the EU level. Since 1990, a number of legislative measures were adopted that culminated in the full liberalization of telecommunications markets throughout most EU member states as of 1998. This increase in competition has and likely will continue to reduce net revenue per minute. In addition, the World Trade Organization Agreement, which reflects efforts to dismantle government-owned telecommunications monopolies throughout Europe and Asia, may affect us. In addition, bilateral and regional trade agreements, to the extent they address telecommunications matters, may also affect us. Although we believe that these deregulation efforts will create opportunities for new entrants in the telecommunications service industry, there can be no assurance that they will be implemented in a manner that would benefit us. Further the increase in providers vying for a limited market share will require us to maintain competitive rate structures.

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

United States

In the United States, our services are subject to the provisions of the Communications Act of 1934, as amended, the Federal Communications Commission (FCC) regulations, and the applicable laws and regulations of the various states and state regulatory commissions.

As a carrier offering telecommunications services to the public, we must comply with the requirements of common carriage under the Communications Act of 1934, including the offering of service on a nondiscriminatory basis at just and reasonable rates, and obtaining FCC approval prior to any assignment of authorizations or any transfer of legal or actual control of the company.

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

International Service Regulation. International common carriers like us are required to obtain authority from the FCC under Section 214 of the Communications Act of 1934. We have obtained all required authorizations from the FCC to use, on a facilities and resale basis, various transmission media for the provision of international switched services and international private line services on a non-dominant carrier basis. The FCC is considering a number of international service issues in the context of several policy rulemaking proceedings in response to specific petitions and applications filed by other international carriers. We are unable to predict how the FCC will resolve the pending international policy issues or how such resolution will affect our international business. In recent years, the FCC has taken steps to streamline regulation of international services, including detariffing of international services, where competition can provide consumers with lower rates and choices among carriers and services. To that end, with some exceptions, current FCC rules require facilities-based United States carriers, like us, with operating agreements with dominant foreign carriers, to abide by the International Settlements Policy by following uniform accounting rates, even split in settlement rates, and proportionate return of traffic,

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for agreements with carriers on certain routes. United States carrier arrangements with non-dominant foreign carriers or on a substantial number of international routes where competition exists are not subject to these requirements. We may take advantage of these more flexible arrangements with non-dominant foreign carriers, and the greater pricing flexibility that may result, but we may also face greater price competition from other international service carriers.

Domestic Service Regulation. We are considered a non-dominant domestic interstate carrier subject to minimal regulation by the FCC. We are not required to obtain FCC authority to initiate or expand our domestic interstate operations, but we are required to obtain FCC approval to transfer control or discontinue service and to file various reports and pay various fees and assessments. Among other things, interstate common carriers must offer service on a nondiscriminatory basis at just and reasonable rates. In addition, as a non-dominant carrier, we are subject to the FCC s complaint jurisdiction. In particular, we may be subject to complaint proceedings in conjunction with alleged noncompliance such as unauthorized changes in a customer s preferred carrier or violations of the FCC s Do-Not-Call telemarketing rules. We are also subject to the Communications Assistance for Law Enforcement Act (CALEA) and certain FCC regulations which require telecommunications common carriers to modify their networks to allow law enforcement authorities to perform electronic surveillance. The Do-Not-Call Registry and related restrictions set out the specific parameters for telemarketing solicitation and prohibit outbound telemarketing in some circumstances. We also are subject to the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (the CAN SPAM Act). The CAN SPAM Act requires that all senders of commercial electronic mail include a label indicating that the electronic mail is an advertisement, a disclosure notifying the recipient how to opt-out of receiving future e-mails, and the sender s physical address in the e-mail.

Our costs of providing long distance services will be affected by changes in the switched access charge rates imposed by LECs for origination and termination of calls over local facilities. FCC rules currently cap the rates that both incumbent and competitive LECs may charge for switched access, and restrain incumbent LECs ability to change their charges. The FCC continues to grant incumbent LECs greater pricing flexibility and relaxed regulation of access services in those markets where there are other providers of access services. Depending on the outcome of future FCC proceedings or litigation, the new rules promulgated by the FCC and the manner in which such rules are implemented, we may have fewer competitive choices among LECs and, as a result, could see an increase in our termination and origination costs over time.

Interstate telecommunications carriers are required to contribute to the federal Universal Service Fund (USF). The FCC is considering revising its USF mechanisms and the services considered when calculating the USF contribution. We cannot predict the outcome of these proceedings or their potential effect on our USF contributions. Some of our services are considered traditional telecommunications services and we are required to contribute a percentage of our revenue derived from those services to the USF. Certain of our services are not subject to USF, although future changes in the FCC s rules may require that we make USF contributions on these services.

Voice-over-Internet Protocol (VOIP). Our VOIP services are currently not subject to substantial regulation by the FCC or state regulatory commissions to the extent that they qualify as enhanced or information services. The FCC defines enhanced services as services that (1) employ computer processing applications that act on the format, content, code, protocol or similar aspects of the subscriber s transmitted information, (2) provide the subscriber additional, different, or restructured information, or (3) involve subscriber interaction with stored information. Our VOIP service can be classified as an enhanced service because it uses broadband connections using the public Internet and performs a net protocol conversion. Regulators are trying to determine the appropriate regulatory treatment of VOIP services because these services resemble both traditional telephony and information services.

In March 2004, the FCC released a comprehensive Notice of Proposed Rulemaking (NPRM) regarding IP-enabled services, including VOIP service. The NPRM addresses the regulatory classification of, and jurisdiction over, VOIP and how to preserve key public policy. While the FCC has yet to resolve comprehensively the regulatory classification of IP-enabled services, and this proceeding remains open, the FCC has issued several decisions that affect the regulatory treatment of VOIP services like ours. The FCC continues to examine the appropriate regulatory treatment of VOIP. Changes to, and further clarifications of, the treatment of VOIP services could result in the imposition of burdensome regulation and fees on some of our services and/or increase certain of our operating costs. For example, if the FCC were to determine that our VOIP service is properly classified as a telecommunications service, this could have a material adverse effect on the Company s VOIP business and operating results.

In November 2004, the FCC ruled that services provided by a particular VOIP provider are interstate in nature, and not subject to entry regulations of the various state Public Service Commissions. While the decision was specific to the VOIP offering of a particular company, our VOIP service shares many of the same characteristics. The FCC ruling was appealed by several states and on March 21, 2007, the United States Court of Appeals for the 8^{th} Circuit affirmed the FCC ruling.

In August 2005, the FCC determined that VOIP services like ours must ensure that their equipment can accommodate law enforcement wiretaps under CALEA. We believe that our VOIP products are capable of complying with these requirements. We cannot predict whether law enforcement or the FCC will find our service in compliance with CALEA, nor can we predict whether we may be subject to fines or penalties if we are found to be not in compliance with CALEA.

In June 2005, the FCC adopted new rules requiring VOIP providers like us to provide emergency 911 service in a manner similar to traditional telecommunications carriers by November 2005. We contracted with a third-party provider that is a market leader in emergency 911 service solutions to provide these services. Our ability to expand our VOIP services in the future may depend upon the ability of our third-party provider to provide enhanced 911 (E911) access or the outcome of these legal proceedings. Similar to many companies that offer VOIP services like ours, we cannot offer VOIP E911 services that route emergency calls in a manner consistent with the FCC rules for all of our customers. The Company is addressing this issue with its VOIP E911 solutions provider. The FCC may determine that the Company s VOIP E911 solution for some of its customers does not satisfy the requirements of the VOIP E911 Order because, in some instances, we will not be able to connect our subscribers directly to an emergency call center. In this case, the FCC could require the Company to disconnect a significant number of subscribers. The effect of such disconnections or any enforcement action initiated by the FCC or other state agency against the Company could have a material adverse effect on the Company s financial position, results of operations and cash flows.

On June 1, 2007, the FCC released an NPRM Proceeding to consider whether it should impose additional VOIP E911 obligations on interconnected VOIP providers including consideration of a requirement that interconnected VOIP providers automatically determine the physical location of their customer rather than allowing customers to manually register their location. The Notice includes a tentative conclusion that all interconnected VOIP service providers that allow customers to use their service in more than one location must utilize automatic location technology that meets the same accuracy standards applicable to providers of commercial mobile radio services (mobile phone service providers). We cannot predict the outcome of this proceeding nor its impact on us at this time.

In July 2006, the FCC adopted rules requiring that certain VOIP services contribute to the USF. Certain of our VOIP services are now subject to USF obligations. The U.S. Court of Appeals for the District of Columbia ruled that the FCC was within its authority when it required interconnected VOIP service providers to contribute to the USF, though it struck down the provision of the order which required pre-approval of traffic studies by the FCC and the provision that required double contributions to the fund for two quarters from our underlying carriers wholesale charges.

On April 2, 2007, the FCC released an order extending the application of customer proprietary network information, or CPNI, rules to interconnected VOIP providers, like us. CPNI includes information such as the phone numbers called by a consumer; the frequency, duration, and timing of such calls; and any add-on services or features purchased by consumers like caller id. The new CPNI requirements are aimed at establishing more stringent security measures for access to a customer s CPNI data in the form of enhanced passwords for on-line access and call-in access to account information as well as customer notification of account or password changes. Effective December 8, 2007, we were required to implement internal processes in order to be compliant with all of the FCC s CPNI rules. This may impose additional compliance costs on us and reduce our profitability or cause us to increase the retail price for our services. We may be subject to enforcement actions including, but not limited to, fines, cease and desist orders, or other penalties if we are not able to comply with these new CPNI obligations.

On June 8, 2007, the FCC released an order implementing various recommendations from its Independent Panel Reviewing the Impact of Hurricane Katrina on Communications Networks, including a requirement that certain interconnected VOIP providers submit reports regarding the reliability and resiliency of their 911 systems. At this time, we are not subject to these reporting requirements but may become subject in future years.

On June 15, 2007, the FCC expanded the disability access requirements of Sections 225 and 255 of the Communications Act, which applied to traditional phone services, to providers of interconnected VOIP services and to manufacturers of specially designed equipment used to provide those services. Service providers must ensure that their equipment and service is accessible to and usable by individuals with disabilities, if readily achievable, including requiring service providers to ensure that information and documentation provided in connection with equipment or services be accessible to people with disabilities, where readily achievable, and that employee training accounts for accessibility requirements. The FCC also found that interconnected VOIP providers, like us, 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 cannot predict the impact of these rules on our business or our ability to comply with these disability access obligations. We may be subject to enforcement actions including, but not limited to, fines, cease and desist orders, or other penalties if we are not able to comply with these new disability obligations. The rules established in the Disability Access Order were scheduled to become effective on October 5, 2007, and as of that date, we were collecting and remitting fees from our customers for TRS fund contributions. 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 currently not able to route such calls in this manner, but we are working on implementing a call routing solution which will route 711 calls to the appropriate relay center as defined in the FCC s order. We may be subject to enforcement actions including, but not limited to, fines, cease and desist orders, or other penalties if we are not able to comply with these new disability provisions.

On August 6, 2007, the FCC released a Report and Order concerning the collection of regulatory fees for Fiscal Year 2007 (Regulatory Fees Order), which, for the first time, mandates the collection of such fees from interconnected VOIP service providers like us. The Regulatory Fees Order requires that interconnected VOIP providers pay regulatory fees based on reported interstate and international revenues. 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 and/or may cause us to increase the price of our retail service offerings.

State Regulation. Our intrastate long distance operations are subject to various state laws and regulations, including, in most jurisdictions, certification and tariff filing requirements. Primus Telecommunications, Inc. (PTI), our principal operating subsidiary in the United States, maintains the necessary certificate and tariff approvals, to provide intrastate long distance service in 49 states and Puerto Rico. PTI also maintains the necessary certificate to provide local services in Puerto Rico. Certain of our other subsidiaries, such as Least Cost

Routing, Inc., also maintain certificates and tariffs in some states. Some states also require the filing of periodic reports, the payment of various fees and surcharges and compliance with service standards and consumer protection rules. States often require prior approval or notification for certain stock or asset transfers or, in several states, for the issuance of securities, debt or for name changes. As a certificated carrier, consumers may file complaints against us at the public service commissions. Certificates of authority can generally be conditioned, modified, cancelled, terminated, or revoked by state regulatory authorities for failure to comply with state law and/or rules, regulations and policies of the state regulatory authorities. Fines and other penalties also may be imposed for such violations. Public service commissions also regulate access charges and other pricing for telecommunications services within each state. The RBOCs and other LECs have been seeking reduction of state regulatory requirements, including greater pricing flexibility which, if granted, could subject us to increased price competition. We may also be required to contribute to universal service funds in some states.

State Taxes and Fees Applicable to VOIP Services. In general, we do not collect or remit state or municipal taxes (such as sales and use, excise, utility user, and ad valorem taxes), fees or surcharges on the charges to our customers for the services. We do not believe that we have sufficient nexus outside of certain jurisdictions to be subject to state or municipal taxes, surcharges or other fees. Should this change or found to be otherwise, we may be subject to retroactive liability for VOIP-specific taxes, fees and surcharges in a number of states and potentially, penalties and interest. Retroactive liability for such taxes, fees or surcharges, as well as penalties and interest, may adversely impact our financial position and we would not be able to recoup any of these liabilities from our customers. If we must collect such state taxes, fees and surcharges on a going-forward basis, we will likely pass such charges through to our customers. The impact of this price increase on our customers or our inability to recoup our costs or liabilities could have a material adverse effect on the financial position, results of operations and cash flows of our VOIP business.

Other fees and charges may be applicable to our offering. Specifically, New Mexico is attempting to require providers of VOIP services, like ours, to contribute to the state universal service fund. The Nebraska Public Service Commission (PSC) found that companies like ours are subject to state USF, but a recent federal court granted a preliminary injunction to a company that provides a service similar to ours prohibiting the PSC from requiring the collection of USF suggesting that the PSC s action was contrary to the FCC s preemption of state regulation in this area. We cannot predict the final outcome of this litigation nor its impact on us at this time. The Kansas Corporation Commission recently concluded a proceeding finding that companies like us should collect and remit state USF fees. If we become subject to state USF fees in additional states or other telecommunications-related surcharges, we will likely pass such charges through to our customers. The impact of this price increase on our customers or our inability to recoup its costs or liabilities in remitting USF contributions or other factors could have a material adverse effect on our financial position, results of operations and cash flows.

Wireless Service Regulations. Through subsidiaries of TresCom International, Inc., a wholly owned subsidiary, we hold several wireless licenses issued by the FCC. As a licensee authorized to provide microwave and satellite earth station services, we are subject to Title III of the Communications Act of 1934, as amended by the Telecommunications Act of 1996, and related FCC regulations. Pursuant to Title III, foreign entities may not directly hold more than 20% of the stock or other ownership interests in an entity, including us, that holds certain types of FCC licenses, such as the wireless licenses held by the TresCom International, Inc. subsidiaries referred to above. In addition, unless granted an FCC waiver, foreign citizens and entities may not indirectly hold 25% or more of the stock or other ownership interest in such entities.

Australia

The provision of our services is subject to federal regulation in Australia. The two primary instruments of regulation are the Australian Telecommunications Act 1997 and federal regulation of anti-competitive practices pursuant to the Australian Trade Practices Act 1974. The current regulatory framework came into effect in July 1997.

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We are licensed under the Telecommunications Act 1997 to own and operate transmission facilities in Australia. Under the regulatory framework, we are not required to maintain a carriage license in order to supply carriage services to the public using network facilities owned by another carrier. Instead, with respect to carriage services, we must comply with legislated service provider rules contained in the Telecommunications Act 1997 covering matters such as compliance with the Telecommunications Act 1997, operator services, regulation of land access, directory assistance, provision of information to allow maintenance of an integrated public number database and itemized billing.

Two federal regulatory authorities exercise control over a broad range of issues affecting the operation of the Australian telecommunications industry. The Australian Communications & Media Authority (ACMA) is the authority regulating matters including the licensing of carriers and technical matters, and the Australian Competition and Consumer Commission (ACCC) has the role of promotion of competition and consumer protection and in particular dealing with carrier to carrier interconnection and network access. Telstra, the dominant carrier and former monopoly, presently challenges many of the key principles applied by the ACCC to access pricing and endeavors to have some key decisions removed from the charter of the ACCC. For example, Telstra has applied to the High Court of Australia to overturn its obligation to provide access to unbundled local loop lines (and also access to those lines pursuant to spectrum sharing). Telstra has also lodged a number of exemption applications with the ACCC submitting that it should be exempted from an obligation to provide wholesale telecommunications services on various routes and locations in Australia. Telstra has also sought judicial review of several price determinations. If Telstra is successful, for example, with regard to the pricing of access to unbundled local loop lines, the access costs imposed by Telstra could substantially and adversely impact our operating results, financial position and cash flows. The Company recently obtained a favorable determination from the ACCC regarding the pricing of access to unbundled local loops, but Telstra has appealed the decision.

We are required to comply with the terms of our own license, are subject to the greater controls applicable to licensed facilities-based carriers and are under the regulatory control of the ACMA and the ACCC. In addition, other federal legislation, various regulations pursuant to delegated authority and legislation, ministerial declarations, codes, directions, licenses, statements of Australian government policy and court decisions affecting telecommunications carriers also apply to us.

There is no limit to the number of carriers that may be licensed. Any company that meets the relevant financial and technical standards and complies with the license application process can become a licensed carrier permitted to own and operate transmission facilities in Australia. Carriers are licensed individually, are subject to charges that are intended to cover the costs of regulating the telecommunications industry and are obliged to comply with license conditions (including obligations to comply with the Telecommunications Act 1997 and with the telecommunications access regime and related facilities access obligations). Carriers also must meet the Universal Service Obligations (USO), to assist in providing all Australians, particularly in remote areas, with reasonable access to standard telephone services and digital data services. Telstra is currently the sole universal service provider. One of our subsidiaries, Hotkey Internet Services, has been approved as a special digital service provider. Since 2000, the responsible Minister of the Australian government may make a determination of the amount of USO subsidies, with advice from the ACMA. No methodology is provided in legislation and the Minister could make a determination of a Universal Service Levy (USL) that would be material to us. However, the USL has been set previously at reasonable levels that we do not consider to have a material impact. There is a Ministerial inquiry concerning USO in which as yet there has been no indication on whether the inquiry could result in any material variation to the historical calculation of the liability. However, if the Minister were to adopt a different methodology resulting in a substantially larger amount, that methodology may adversely impact margins.

Fair Trading Practices. The ACCC enforces legislation for the promotion of competition and consumer protection, particularly rights of access (including pricing for access) and interconnection. The ACCC can issue a competition notice to a carrier which has engaged in anti-competitive conduct. Where a competition notice has been issued, the ACCC can seek pecuniary penalties, and other carriers can seek damages, if the carrier continues to engage in the specified conduct.

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The Trade Practices Act 1974 package of legislation includes a telecommunications access regime that provides a framework for regulating access rights for specific carriage services and related services through the declaration of services by the ACCC. The regime establishes mechanisms within which the terms and conditions of access can be determined. The Australian government intends that the telecommunications specific provisions in the Trade Practices Act will ensure fair competitive access to monopoly and dominant facilities and deal with anti-competitive conduct of dominant carriers such as Telstra. These provisions would also apply to any carrier who may come to own or control important infrastructure or services necessary for competition. Primus would not be considered at this stage to be a dominant carrier.

Consumer Protection. The ACCC s consumer protection role is shared with other regulators. Each state has its own Fair Trading Act administered by consumer affairs authorities and ACMA undertakes some activities in consumer protection predominantly in connection with industry codes of conduct. As a carrier we must also be a member of the Telecommunications Industry Ombudsman (TIO) Scheme. The TIO is responsible for handling complaints from consumers about carriers and Internet service providers. The TIO may impose financial penalties upon carriers that do not satisfactorily deal with consumer complaints.

Canada

We are a reseller of telecommunications services in Canada and are, therefore, largely unregulated by the Canadian Radio-television and Telecommunications Commission (CRTC). Because we do not own or operate transmission facilities in Canada, we are not subject to direct regulation by the CRTC pursuant to the Canadian *Telecommunications Act*. Therefore, we may resell long distance service, local telephone service, wireless service and Internet access without the regulation of our rates, prices or the requirement to file tariffs. In addition, as described below, as a reseller we are not subject to restrictions on foreign ownership or control.

In 2000, the CRTC implemented a revenue-based contribution regime to replace the per minute contribution charge formerly in place to support universal access. The revenue-based contribution mechanism collects from a wider base of telecommunications service providers and has lowered our contribution expenses since 2001.

In a price cap decision issued in May 2002, the CRTC lowered the prices incumbent providers can charge competitors for a range of competitor services i.e., facilities and services required by competitors to provide telecommunications services to their end-customers. Several CRTC decisions recently issued have resulted in significant savings on competitor services for resellers. One decision, dated February 3, 2005, expanded the suite and geographical reach of competitor services and significantly reduced prices in some cases. Some of the reduced rates were effective on a retroactive basis to June 1, 2002. The current Price Cap formula requires the ILECs to revise the rates of selected services (primarily local telecommunications services) yearly by the rate of inflation minus a productivity factor of 3.5%. The rates of other service groupings are frozen and others are uncapped with upward pricing constraints. The CRTC has typically relied on a four-year Price Cap Period, but in 2005 it decided to extend the current period by one year in order to complete a public proceeding to establish the parameters of the next Price Cap Period. The record of that proceeding closed on November 6, 2006 and we now await the CRTC s determinations.

On November 9, 2006, the CRTC issued a Public Notice regarding its initiation of a proceeding to consider a revised definition of essential service, and the classifications and pricing principles for essential and non-essential services made available by incumbent telephone companies, cable carriers and competitive local exchange carriers to other competitors at regulated rates (wholesale services). The proceeding ran throughout 2007 and concluded in December 2007. The CRTC issued a decision on March 3, 2008. Under the new framework, the CRTC has divided wholesale services into six categories. More than a third of wholesale services will be deregulated by 2012, including intra-exchange transport services which we used to interconnect our DSLAM collocation sites. The next largest area impact involves high speed access to business services which will be deregulated in five years.

On December 18, 2006, the Minister of Industry announced the issuing of a Policy Direction to the CRTC. The Policy Direction requires that the CRTC now take a more market-based approach to implementing the *Telecommunications Act* and outlines items for the CRTC to consider during their review regarding mandated access to wholesale services, including impediments faced by new carriers seeking to develop competing network facilities.

Competition. Long distance competition has been in place in Canada since 1990 for long distance resellers and since 1992 for facilities-based carriers. In June 1992, the CRTC issued Telecom Decision CRTC 92-12 requiring the incumbent LECs to interconnect their networks with their facilities-based, as well as reseller, competitors. Since 1994, the ILECs have been required to provide equal access, which eliminated the need for customers of competitive long distance providers to dial additional digits when placing long distance calls. The ILECs disbanded the Stentor alliance in 1999, and former Stentor companies, Bell Canada and TELUS Communications, the two largest ILECs in Canada, compete against each other. MTS, the ILEC serving the Canadian province of Manitoba, has acquired Allstream (formerly AT&T Canada Corp.) and is now competing nationally as well. The other nationwide competitor, Call-Net Enterprises Inc., which operated as Sprint Canada, was acquired by Rogers Communications Inc. in 2005. Cable TV companies, such as Rogers, Shaw and Videotron, launched their local telephone services in July 2005 and have had a great deal of success thus far. Their local service is provided either via their cable network and/or acquired CLECs (i.e., Call-Net) or on a resold basis from an underlying LEC.

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

The Competition Bureau released for comment on September 26, 2006 a Draft Information Bulletin on the Abuse of Dominance Provisions as applied to the Telecommunications Industry, in which the Bureau describes its approach in reviewing abuse of dominance complaints in telecommunications markets where the CRTC has forborne from regulating conduct. The Information Bulletin has not been finalized to date.

On December 7, 2006, the Minister of Industry tabled amendments to the Competition Act proposing that the Competition Tribunal have the power to order telecommunications service providers to pay an administrative monetary penalty of up to 15 million Canadian dollar (CAD) in cases of abuse of dominant position.

On December 11, 2006, the Minister of Industry announced a government proposal to vary the CRTC decision and put in place a revised framework to accelerate the deregulation of retail local phone service prices of the former monopoly telephone companies. As of December 2007 residential local service in most major cities in Canada have been deregulated as well as about 40% of commercial local lines.

Foreign Ownership Restrictions. Under Canada s *Telecommunications Act* and certain regulations promulgated pursuant to the Act (i.e. the Canadian Telecommunications Common Carrier Ownership and Control Regulations), foreign ownership restrictions apply to facilities-based carriers (Canadian carriers), CLECs and microwave license holders, but not to companies that do not own or operate transmission facilities such as resellers. Resellers may be wholly foreign-owned and controlled. The regulations limit the amount of foreign investment in Canadian carriers to no more than 20% of the voting equity of a Canadian carrier operating company and no more than 33 $^{1}/3$% of the voting equity of a Canadian carrier holding company. The restrictions also limit the number of seats which may be occupied by non-Canadians on the board of directors of a Canadian carrier company to 20%. In addition, under Canadian law, a majority of Canadians must occupy the seats on the board of directors of a Canadian carrier holding company. Although it is possible for foreign investors to also hold non-voting equity in a Canadian carrier, the law requires that the Canadian carrier not be controlled in fact by non-Canadians. Primus Canada, along with several other telecommunications service providers, has sought to have the Canadian government review foreign ownership restrictions with a view to lowering these restrictions or eliminating them.

In April 2003, the Industry Committee of the House of Commons recommended removing these restrictions in their entirety, for both telecommunications common carriers and for broadcasting distribution undertakings (BDUs) such as cable companies. In June 2003, however, another committee of the House of Commons (the Heritage Committee) expressed concerns that changes in ownership restrictions for either telecommunications common carriers or BDUs could have an adverse impact on the broadcasting system. In its September 2003 response to the Industry Committee s recommendation, the government acknowledged the appropriateness of the committee s conclusion that removing foreign investment restrictions would benefit the telecommunications industry. However, the government also noted the concerns expressed by the Heritage Committee. The government recognized that it has a responsibility to determine how best to reconcile the conflicting recommendations of the two committees and undertook to analyze this question and be in a position to examine possible solutions by the spring of 2004. However, no solutions were brought forward in 2005 although the issue was raised once again by the Telecom Policy Review Panel, who recommended in its Final Report that the foreign ownership restrictions be relaxed. In July 2007, Industry Canada announced the creation of the Competition Policy Review Panel (the Panel). The task of the Panel is to provide recommendations to the government on how to enhance Canadian competitiveness. The Panel s duties include a sector specific review of the current telecommunications foreign ownership restrictions. Primus Canada filed a submission in favor of eliminating the restrictions and also presented options to accommodate concerns such as national security. The panel is to report back to the Minister of Industry by June 30, 2008 with any recommendations. It is premature to predict whether any recommendation to remove the restrictions for telecommunications common carriers will be implemented.

European Union

In Europe, the regulation of telecommunications is governed at a supranational level by the European Parliament, Council and Commission, consisting of members including the following countries: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom. These institutions are responsible for creating European Union-wide policies and, through legislation, have progressively developed a regulatory framework aimed at ensuring an open, competitive telecommunications market.

In February 2002, the Council agreed to a new European regulatory framework for the communications sector, which was adopted formally on March 7, 2002. The new regime comprises the following legislative texts:

- Directive 2002/21 on a common regulatory framework for electronic communications networks and services (Framework Directive);
- Directive 2002/20 on the authorization of electronic communications networks and services (Authorization Directive);
- Directive 2002/19 on access to, and interconnection of, electronic communications networks and associated facilities (Access Directive); and
- Directive 2002/22 on universal service and users rights relating to electronic communications networks and services (Universal Service Directive).

EU member states were obligated to implement these directives by July 25, 2003. As of December 31, 2007, these directives have not materially affected our business operations in Europe.

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One of the requirements of the Authorization Directive is that no company seeking to provide electronic communications networks or services is required to obtain prior authorization, although such a company could be required to notify relevant regulatory authorities in the member states where it intends to operate.

This regulatory framework is currently under review by the European Commission. A number of proposed changes have been adopted, including the desire to create a European level telecom market body to complement national regulator, and assist in opening up markets with low levels of competition. The proposed changes are to be debated in the European Parliament and Council. Once adopted at the European level, the revised rules have to be incorporated into national law before taking effect. The European Commission expects the new framework to be in place from 2010 onwards.

A further directive relating to privacy and electronic communications (Directive 2002/58) was added to the new regime. This directive aims to harmonize national laws regarding personal data protection in the electronic communications age and deals with matters including the confidentiality of billing information, the use of caller identification devices, the use of subscriber directories and unsolicited communications. The directive was supposed to be implemented by EU member states and incorporated into the regulatory regime of each member state by October 31, 2003, but as was also the case with the earlier directives referred to above, a number of member states missed this deadline. Each EU member state in which we currently conduct or plan to conduct our business has historically had a different regulatory regime, and we expect that, even with the adoption of the new EU regulatory regime, differences will continue for the foreseeable future. There may well be differences in the manner in which the new EU regulatory regime is implemented from one member state to another. The requirements for us to obtain necessary approvals have varied considerably from one country to another. We have obtained and will continue to seek to obtain interconnection agreements with other carriers within the EU. While previous EU directives have required that carriers with significant market power offer cost-based and non-discriminatory interconnection to competitors, individual EU member states have implemented this requirement differently and may continue to do so under the new EU regulatory regime. As a result, we may be delayed in obtaining or may not be able to obtain interconnection in certain countries that would allow us to compete effectively.

Further, member states must now introduce domestic legislation to implement the EC Directive on Waste Electrical and Electronic Equipment (WEEE) and the EC Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS). The WEEE seeks to implement legislation on electrical and electronic equipment in relation to its composition and levels to which it should be recycled, while making producers responsible for financing most of these activities. Information technology and telecommunications equipment is WEEE, and subject to the WEEE Directive. RoHS seeks to restrict hazardous substances in WEEE.

The Commission also is concerned with services, such as VOIP, and published a working paper applicable to VOIP based services Commission Staff Working Document of 14 June 2004 on the Treatment of VOIP under the EU Regulatory Framework- an Information and Consultation Document, which identifies various issues that can arise in relation to VOIP. The introduction of 3G mobile broadband services raised new regulatory issues and the Commission published a Communication on Mobile Broadband Services (30 June 2004-COM (2004) 447), which covers issues, such as spectrum trading.

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Employees

The following table summarizes the number of our full-time employees as of December 31, 2007, by region and classification:

	United States	Canada	Europe	Asia-Pacific	Total
Sales and Marketing	81	126	57	79	343
Technical	80	280	39	325	724
Management and Administrative	87	161	30	88	366
Customer Service and Support	22	205	21	136	384
Total	270	772	147	628	1,817

We have never experienced a work stoppage. Only some of our employees in Australia are represented by a labor union and covered by a collective bargaining agreement. We consider our employee relations to be excellent.

Other Information

Our Internet address is *www.primustel.com*. We make available free of charge through our Internet website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to the Securities Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the United States Securities and Exchange Commission (SEC).

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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 December 31, 2007, due to the material weakness 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 December 31, 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 weakness identified by our management, see Item 9A. Controls and Procedures of this Annual Report on Form 10-K for the period ended December 31, 2007. To address the 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, 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. In addition, regulatory decisions could have a material adverse impact on our competitive position, future operations and outlook. See also information under Item 7 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. The recent tightening of the credit markets could also influence our ability to raise needed capital.

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 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 sufficient 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 January 20, 2008, approximately 4.9% 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. However, at this time, management has determined the likelihood of incurring such fines or penalties to be remote.

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 911 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.

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 of this proceeding or its impact on us.

The FCC has extended CPNI rules to interconnected VOIP providers, which could limit our marketing efforts.

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 were required to adhere to specific CPNI rules when using CPNI for marketing purposes. Accordingly, we had to implement internal processes in order to comply with the FCC s CPNI rules. As required by the new rules, certifications were filed with the FCC regulating our compliance efforts in this regard. 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

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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 Fees 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 or cause us to increase the price of our retail service offerings and may have an adverse impact on our profitability.

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, our revenue and 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 to retain customers and are likely to continue to cause significant pricing pressures that could adversely affect our net revenues, results of operations and financial condition.

The 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, Verizon, 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

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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 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, which could impact debt covenant compliance as well.

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, 2007, we had an accumulated deficit of $(1,074.8) 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 and 2007, we recognized net income of $54.8 million and $15.7 million, respectively, of which $39.4 million and $32.7 million, respectively are 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 sufficient 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

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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, financial condition, and cash flows.

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.

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, financial condition, and cash flows.

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

We have significant international operations and, for the year ended December 31, 2007, derived 82% 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 or uncertainties in regulatory requirements, taxes, tariffs, customs and duties. Given the nature of our operations and uncertainties in, or the absence of definitive regulations or interpretations concerning, the taxation of (including value added tax of) certain aspects of our business in certain international jurisdictions in which we conduct or derive (or may be construed by such authorities as conducting or deriving taxable) operations or revenue, we may become subject to assessments for taxes (which may include penalties and interest) which are either unexpected and/or have not been accrued for in our historical results of operations. This circumstance occurred during March 2008, when we concluded it was probable that assessments would be forthcoming concerning past European prepaid calling services operations (see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations; Results of operations for the year ended December 31, 2007 as compared to the year ended December 31, 2006), and it is possible that tax uncertainties concerning our international operations could arise in the future. Such developments could have adverse consequences, in addition to the foregoing, that could result in restatement of prior period results of operations and unanticipated liquidity demands. Additional operating risks and uncertainties in operating in international markets include trade barriers, difficulties in staffing and managing foreign operations, problems in collecting accounts receivable, political risks, fluctuations in currency exchange rates, restrictions 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: United States dollar (USD)/AUD, USD/CAD, USD/British pound (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 a 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 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 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; as 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.

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 February 29, 2008, funds affiliated with American International Group, Incorporated (AIG Entities) beneficially owned 13% 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, certain stockholders, other than the AIG Entities, have from time to time made filings with the SEC to report beneficial ownership of our common stock at levels in excess of 5%. Such persons have reported beneficial ownership concerning approximately 42.1 million shares, in aggregate, as of December 31, 2007, and as a result, individually or in the aggregate, could potentially exercise influence over our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We currently lease our corporate headquarters facility, which is located in McLean, Virginia. Additionally, we lease administrative, technical and sales office space, as well as space for our switches and data centers, in various locations in the countries in which we operate. Total leased space in the United States, Australia, Canada and the United Kingdom, as well as other countries in which we operate, approximates 693,000 square feet and the total annual lease costs are approximately $17.8 million. The operating leases expire at various times with the longest commitment expiring in 2018. We believe that our present administrative and sales office facilities are adequate for our anticipated operations and that similar space can be obtained readily as needed, and we further believe that the current leased facilities are adequate to house existing communications equipment.

Certain communications equipment which includes network switches and transmission lines are leased through operating leases, capital leases and vendor financing agreements.

ITEM 3. 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

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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 was not material.

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

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

None.

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PART II

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

Common Stock

Primus Telecommunications Group, Incorporated (we or us) common stock was traded on the Nasdaq Capital Market under the symbol PRTL until July 27, 2006. 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 market, both through listings on the OTC Bulletin Board and in the National Quotation Bureau Pink Sheets. On February 29, 2008, the last sale price of our common stock was $0.38. The following table provides the high and low sale prices for our common stock on the Nasdaq National Market, the Nasdaq Capital Market and the over-the-counter market for the applicable periods indicated below. These prices do not include retail markups, markdowns or commissions.

Period	High	Low
2007		
1st Quarter	$ 0.63	$ 0.35
2nd Quarter	$ 1.09	$ 0.40
3rd Quarter	$ 1.00	$ 0.55
4th Quarter	$ 0.70	$ 0.34
2006		
1st Quarter	$ 1.04	$ 0.71
2nd Quarter	$ 0.86	$ 0.56
3rd Quarter	$ 0.63	$ 0.35
4th Quarter	$ 0.60	$ 0.35

Dividend Policy

We have not paid any cash dividends on our common stock to date. The payment of dividends, if any, in the future is within the discretion of the Board of Directors and will depend on our earnings, our capital requirements and financial condition. Dividends are currently restricted by the term loan, senior secured notes and senior note indentures, and may be restricted by other credit arrangements entered into in the future by us. It is the present intention of the Board of Directors to retain all earnings, if any, for use in our business operations, and accordingly, the Board of Directors does not expect to declare or pay any dividends in the foreseeable future.

Holders

As of February 29, 2008, we had approximately 605 holders of record of our common stock.

Recent Sales of Unregistered Securities

There are no unregistered sales of securities for 2007, other than the transactions that have been previously reported in our periodic filings with the SEC.

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Stock Price Performance Graph

The graph below compares the Company s cumulative total stockholder return on our common stock with the cumulative total return of the Standard & Poor s Midcap 400 Index and the Standard & Poor s Telecommunications Index for the period from December 31, 2002 through March 20, 2003 (the period the Company was on the NASDAQ Small Cap Market) and from March 21, 2003, through March 13, 2006 (the period the Company was on the NASDAQ National Market), from March 14, 2006 through July 27, 2006 (the period the Company was on the NASDAQ Capital Market), and from July 28, 2006 through December 31, 2007 (the period the Company was on the Over-the-Counter Bulletin Board and in the National Quotation Bureau Pink Sheets). The comparison assumes $100 was invested on December 31, 2002 in our common stock and in each of the foregoing indices and assumes reinvestment of dividends. The stockholder return shown on the graph below is not indicative of future performance.

	Comparison of Cumulative Total Return For the Year Ended December 31,					
	2002	**2003**	**2004**	**2005**	**2006**	**2007**
Primus Telecommunications Group, Incorporated	$ 100.00	$ 508.00	$ 159.00	$ 37.50	$ 21.00	$ 19.50
Standard & Poor s Midcap 400 Index	$ 100.00	$ 134.02	$ 154.33	$ 171.72	$ 187.15	$ 199.68
Standard & Poor s Telecommunications Index	$ 100.00	$ 107.12	$ 128.59	$ 121.35	$ 166.01	$ 185.83

Notwithstanding anything to the contrary set forth in any of the Company s filings under the Securities Act of 1933 or the Securities Exchanges Act of 1934 that might incorporate SEC filings, in whole or in part, the above Performance Graph will not be incorporated by reference into any such filings.

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ITEM 6. SELECTED FINANCIAL DATA

The following sets forth our selected consolidated financial data for the years ended December 31, 2007, 2006, 2005, 2004, and 2003 as derived from our historical financial statements:

Statement of Operations Data:

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(in thousands, except per share amounts)				
NET REVENUE	$ 902,183	$ 1,002,379	$ 1,168,017	$ 1,332,997	$ 1,273,576
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)	554,886	659,433	775,305	812,271	778,761
Selling, general and administrative	284,016	284,307	376,007	389,738	338,588
Depreciation and amortization	30,534	47,428	86,436	91,574	84,149
Loss on sale or disposal of assets	1,464	16,097	13,364	1,941	804
Asset impairment write-down		209,248*		1,624	2,130
Total operating expenses	870,900	1,216,513	1,251,112	1,297,148	1,204,432
INCOME (LOSS) FROM OPERATIONS	31,283	(214,134)	(83,095)	35,849	69,144
INTEREST EXPENSE	(61,347)	(54,128)	(53,403)	(50,475)	(60,687)
ACCRETION ON DEBT DISCOUNT	(449)	(1,732)			
CHANGE IN FAIR VALUE OF DERIVATIVES EMBEDDED WITHIN CONVERTIBLE DEBT		5,373			
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	(7,652)*	7,409*	(1,693)	(10,982)	12,945
INTEREST AND OTHER INCOME (EXPENSE)	5,701	3,690	2,278	11,102	(1,712)
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	32,693	10,633	(12,485)	6,588	39,394
INCOME (LOSS) BEFORE INCOME TAXES	229	(242,889)	(148,398)	(7,918)	59,084
INCOME TAX BENEFIT (EXPENSE)	9,230	(4,866)	(3,809)	(5,686)	(5,701)
INCOME (LOSS) FROM CONTINUING OPERATIONS	9,459	(247,755)	(152,207)	(13,604)	53,383
INCOME FROM DISCONTINUED OPERATIONS, net of tax	145	2,382	2,970	3,023	485
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax	6,132*	7,415*			
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	15,736	(237,958)	(149,237)	(10,581)	53,868
EXTRAORDINARY ITEM					887
NET INCOME (LOSS)	15,736	(237,958)	(149,237)	(10,581)	54,755
ACCRETED AND DEEMED DIVIDEND ON CONVERTIBLE PREFERRED STOCK					(1,678)
INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ 15,736	$ (237,958)	$ (149,237)	$ (10,581)	$ 53,077
BASIC INCOME (LOSS) PER COMMON SHARE:					
Income (loss) from continuing operations	$ 0.07	$ (2.20)	$ (1.60)	$ (0.15)	$ 0.75
Income from discontinued operations	0.00	0.02	0.04	0.03	0.01
Gain from sale of discontinued operations	0.05	0.06			
Extraordinary item					0.01

Income (loss)	$ 0.12	$ (2.12)	$ (1.56)	$ (0.12)	$ 0.77
DILUTED INCOME (LOSS) PER COMMON SHARE:					
Income (loss) from continuing operations	$ 0.06	$ (2.20)	$ (1.60)	$ (0.15)	$ 0.54
Income from discontinued operations	0.00	0.02	0.04	0.03	0.00
Gain from sale of discontinued operations	0.03	0.06			
Extraordinary item					(0.00)
Income (loss)	$ 0.09	$ (2.12)	$ (1.56)	$ (0.12)	$ 0.54
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:					
Basic	128,771	112,366	95,384	89,537	68,936
Diluted	196,470	112,366	95,384	89,537	97,998

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* Refer to discussion in Notes 16, 17 and 18 of the Notes to Consolidated Financial Statements for more information.

Balance Sheet Data:

	2007	2006	December 31, 2005 (in thousands)	2004	2003
Total assets	$ 460,403	$ 392,250	$ 641,089	$ 758,600	$ 751,164
Total long-term obligations (including current portion)	$ 673,903	$ 644,074	$ 635,212	$ 559,352	$ 542,451
Total stockholders deficit	$ (447,540)	$ (468,255)	$ (236,334)	$ (108,756)	$ (96,366)

Discontinued Operations Data:

	Year Ended December 31, 2007	2006	2005	2004	2003
Net revenue	$ 3,806	$ 14,742	$ 19,380	$ 17,875	$ 14,203
Operating expenses	3,639	12,284	16,206	14,666	13,714
Income from operations	167	2,458	3,174	3,209	489
Interest expense	(25)	(47)	(38)	(51)	(46)
Interest income and other income	3	4	81	106	110
Foreign currency transaction gain (loss)		45	(58)	(27)	
Income before income tax	145	2,460	3,159	3,237	553
Income tax expense		(78)	(189)	(213)	(68)
Income from discontinued operations	$ 145	$ 2,382	$ 2,970	$ 3,024	$ 485

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

Introduction and Overview of Operations

We are an integrated facilities based telecommunications services provider offering a portfolio of international and domestic voice, wireless, Internet, voice-over-Internet protocol (VOIP), data and hosting services to customers located primarily in the United States, Australia, Canada, the United Kingdom 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.

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

Our challenge to growing net revenue in recent years has been to overcome declines in long distance voice minutes of use per customer as more customers are using wireless devices and the Internet as alternatives to the use of wireline phones. Also, product substitution (e.g., wireless/Internet for fixed line voice; 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 is resulting in greater competition from the existing wireline and wireless competitors and from more recent entrants, such as cable companies and VOIP companies, which could continue to affect adversely our net revenue per minute, as well as minutes of use.

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

Our overall margin may fluctuate based on the relative volumes of international versus domestic long distance services; carrier services versus business and residential long distance services; prepaid services versus traditional post-paid voice services; Internet, VOIP and data services versus fixed line voice services; the amount of services that are resold; and the proportion of traffic carried on our network versus resale of other carriers services. Our margin is also affected by customer transfer and migration fees. We generally pay a charge to install and transfer a new customer onto our network, and to migrate DSL and local customers. However, installing and migrating customers to our own networks, such as the local and 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. Emphasis on cost containment or the shift of expenditures from non-revenue producing expenses to sales and marketing expenses has been heightened since growth in net revenue has been under significant pressure.

2007 Results

Our 2007 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. Overall revenue declined in 2007 as compared to 2006, primarily as a result of the declining usage and pricing in

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the legacy voice business and also as we continued to prune or divest low-margin revenue streams. That revenue decline has been partially offset by the continued growth of our broadband, VOIP, local, wireless, data and hosting services revenues. In the fourth quarter, net revenue from those services was an annualized amount of approximately $233 million. Our objective is to generate increased contribution from these products, 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.

In prior periods, 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 has enabled us to provide more support for the growth products. 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. As a result, our primary focus during the second half of 2007 was and will continue to be in 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.

Through execution of our plan in 2008, we expect year over year revenue to decline in the range of 2% to 5% about half of the 10% revenue decline experienced in 2007, primarily as a result of increased investment in sales and marketing. We expect margin expansion to continue as a result of our capital expenditures in network infrastructure. The 2008 plan reflects continued reduction of non-sales and marketing expenses and a reallocation of approximately $5 million of these savings to increase our sales and marketing budget. Income from operations for 2008 will depend in part on the degree of success we achieve with our sales and marketing plans and potential opportunities to scale successful marketing campaigns through additional prudent investments. Our plan assumes currency exchange rates remain at current levels.

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 year of 2007 underscores that, while much has already been accomplished, much is yet to be done. As we move forward to 2008, we will continue to be guided by our stated strategy.

PRIMUS 2007-2008 Transformation Strategy

A) Strengthen the balance sheet opportunistically through potential deleveraging 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;

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.

While we are pursuing potential sales of assets in 2008 to generate $50 million or more in cash proceeds, the prevailing capital market turbulence combined with a weak overall economic outlook may force us to extend our time horizon if valuation multiples are not at acceptable levels. Those proceeds, if realized, could be applied to fund increased levels of investment in our growth products both organically and through acquisitions as well as to reduce debt.

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Foreign Currency

Foreign currency can have a major impact on our financial results. Currently 82% 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 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 the reported losses for Europe.

In the year ended December 31, 2007, as compared to the year ended December 31, 2006, the USD was weaker on average as compared to the CAD, AUD, EUR and GBP. The following tables demonstrate the impact of currency fluctuations on our net revenue for the year ended December 31, 2007 and 2006 (in thousands, except percentages):

Net Revenue by Location in USD

	2007 Net Revenue	2006 Net Revenue	Variance	Variance %
Canada	$ 262,412	$ 275,546	$ (13,134)	(5)%
Australia	$ 284,935	$ 301,506	$ (16,571)	(5)%
United Kingdom	$ 89,363	$ 84,397	$ 4,966	6%
Europe *	$ 84,250	$ 133,188	$ (48,938)	(37)%

Revenue by Country in Local Currencies

	2007 Net Revenue	2006 Net Revenue	Variance	Variance %
Canada (in CAD)	281,419	312,671	(31,252)	(10)%
Australia (in AUD)	340,579	400,854	(60,275)	(15)%
United Kingdom (in GBP)	46,532	45,940	592	1%
Europe * (in EUR)	61,559	106,853	(45,294)	(42)%

* Europe includes only subsidiaries whose functional currency is the EUR.

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Recent Operating Highlights and Other Events

In order to better understand our discussion of results of operations, financial condition and liquidity presented herein, we refer you to Item I Business Operating Highlights and Accomplishments concerning certain operating highlights and other events.

Critical Accounting Policies

To aid in the understanding of our financial reporting, our most critical accounting policies are described below. These policies have the potential to have a more significant impact on our financial statements, either because of the significance of the financial statement item to which they relate, or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature.

Revenue Recognition and Deferred Revenue Net revenue is derived from carrying a mix of business, residential and carrier long distance traffic, data and Internet traffic, and also from the provision of local, hosting and wireless services.

For voice and wholesale VOIP, net revenue is earned based on the number of minutes during a call and is recorded upon completion of a call, adjusted for allowance for doubtful accounts receivable, service credits and service adjustments. Revenue for a period is calculated from information received through our network switches. Customized software has been designed to track the information from the switch and analyze the call detail records against stored detailed information about revenue rates. This software provides us the ability to do a timely and accurate analysis of revenue earned in a period. Separate prepaid services software is used to track additional information related to prepaid service usage such as activation date, monthly usage amounts, fees and charges, and expiration date. Revenue on these prepaid services is recognized as service is provided until expiration when all unused minutes, which are no longer available to the customers, are recognized as revenue.

Net revenue is also earned on a fixed monthly fee basis for unlimited local and long distance plans and for the provision of data/Internet (including retail VOIP) and hosting services. Data/Internet and hosting services include monthly fees collected for the provision of dedicated and dial-up access at various speeds and bandwidths and collocation services. These fees are recognized as access and collocation is provided on a monthly basis. Additionally, service activation and installation fees are deferred and amortized over the longer of the average customer life or the contract term. We record payments received in advance for prepaid services and services to be provided under contractual agreements, such as Internet broadband and dial-up access, as deferred revenue until such related services are provided.

A portion of revenue, representing less than 1% of total revenue, is earned from the sale of wireless handsets and VOIP routers. We apply the provisions of Emerging Issues Task Force (EITF) Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables, which provides guidance on when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. We have concluded that EITF No. 00-21 requires us to account for the sale of wireless handsets and VOIP routers and the related cost of handset and router revenues as a separate unit of accounting when title to the handset or router passes to the customer. Revenue recognized is the portion of the activation fees allocated to the router or handset unit of accounting in the statement of operations when title to the router or handset passes to the customer. We defer the portion of the activation fees allocated to the service unit of accounting, and recognize such deferred fees on a straight-line basis over the contract life in the statement of operations.

Net revenue represents gross revenue, net of allowance for doubtful accounts receivable, service credits and service adjustments.

Allowance for doubtful accounts receivable Determining our allowance for doubtful accounts receivable requires significant estimates. Due to the large number of customers that we serve, it is impractical to review the creditworthiness of each of our customers, although a credit review is performed for larger carrier and retail business customers. We consider a number of factors in determining the proper level of the allowance, including historical collection experience, current economic trends, the aging of the accounts receivable portfolio and changes in the creditworthiness of our customers. Systems to detect fraudulent call activity are in place within our network, but if these systems fail to identify such activity, we may realize a higher degree of uncollectible accounts. If the estimate of uncollectible revenue was 10% higher than our current estimates, net revenue would have been reduced by approximately $1.1 million for the year ended December 31, 2007.

Cost of revenue Cost of revenue is comprised primarily of costs incurred from other domestic and foreign telecommunications carriers to originate, transport and terminate calls. The majority of our cost of revenue is variable, based upon the number of minutes of use, with transmission and termination costs being the most significant expense. Call activity is tracked and analyzed with customized software that analyzes the traffic flowing through our network switches and calculates the variable cost of revenue with predetermined contractual rates. If the domestic or foreign telecommunications carriers have tracked and invoiced the volume of minutes at levels different than what our activity shows or have invoiced at different rates, we will dispute the charges invoiced. There is no guarantee that we will prevail in such disputes. We use significant estimates to determine the level of success in dispute resolution and consider past historical experience, basis of dispute, financial status and current relationship with vendor, and aging of prior disputes in quantifying our estimates.

Valuation of long-lived assets We review intangible and other long-lived assets whenever events or changes indicate that the carrying amount of an asset may not be recoverable. We believe no such events or changes occurred in 2007. In making such evaluations, we compare the expected undiscounted future cash flows to the carrying amount of the assets. If the total of the expected undiscounted future cash flows is less than the carrying amount of the assets, we are required to make estimates of the fair value of the long-lived assets in order to calculate the impairment loss equal to the difference between the fair value and carrying value of the assets.

We make significant assumptions and estimates in this process regarding matters that are inherently uncertain, such as determining asset groups and estimating future cash flows, remaining useful lives, discount rates and growth rates. The resulting undiscounted cash flows are projected over an extended period of time, which subjects those assumptions and estimates to an even larger degree of uncertainty. While we believe that our estimates are reasonable, different assumptions could materially affect the valuation of the long-lived assets. During 2006, we completed an evaluation of our expected future cash flows compared to the carrying value of our assets based on estimates of our expected results of operations. As part of that evaluation, we derived future cash flow estimates from our historical experience and our internal business plans, which included consideration of industry trends, competitive actions, technology changes, regulatory actions, available financial resources for marketing and capital expenditures and changes in our underlying cost structure. Although we believe our estimates to be reasonable, if future cash flow estimates used in our 2006 impairment evaluation were reduced 5%, then our estimated fair value of the long-lived assets and the indefinite lived intangible assets, in aggregate, would have been reduced by approximately $7 million.

We have concluded that we have one asset group; the network. This is due to the nature of our telecommunications network which utilizes all of the POPs, switches, cables and various other components throughout the network to form seamlessly the telecommunications gateway over which our products and services are carried for any given customer s phone call or data or Internet transmission. Furthermore, outflows to many of the external network providers are not separately assignable to revenue inflows for any phone call or service plan.

We make assumptions about the remaining useful life of our long-lived assets. The assumptions are based on the average life of our historical capital asset additions, our historical asset purchase trend and that our primary assets, our network switches, have an 8-year life. Because of the nature of our industry, we also assume that the technology changes in the industry render all equipment obsolete with no salvage value after their useful lives. In certain circumstances in which the underlying assets could be leased for an additional period of time, we have included such estimated cash flows in our estimate. In 2006, if we had projected that the remaining useful lives of our long-lived assets were one-half year shorter, then our estimated fair value of the long-lived assets and the indefinite lived intangible assets, in aggregate, would have been reduced by approximately $12 million.

The estimate of the appropriate discount rate to be used to apply the present value technique in determining fair value was our weighted average cost of capital which is based on the effective rate of our long-term debt obligations at the current market values as well as the current volatility and trading value of our common stock. In 2006, if we had projected the discount rate to be 500 basis points higher, then our estimated fair value of the long-lived assets and the indefinite lived intangible assets, in aggregate, would have been approximately $15 million less.

Valuation of goodwill Under Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually (October 1 for Primus) for impairment, or more frequently, if impairment indicators arise. Intangible assets that have finite lives will be amortized over their useful lives and are subject to the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Impairment analysis for goodwill and other indefinite lived intangible assets is also triggered by the performance of a SFAS No. 144 analysis.

Our reporting units are the same as our operating segments as each segment s components have been aggregated and deemed a single reporting unit because they have similar economic characteristics. Each component is similar in that they each provide telecommunications services for which all of the resources and costs are drawn from the same pool, and are evaluated using the same business factors by management. Furthermore, segment management measures results and allocates resources for the segment as a whole and utilizes country by country financials for statutory reporting purposes.

Goodwill impairment is tested using a two-step process that begins with an estimation of the fair value of each reporting unit. The first step is a screen for potential impairment by comparing the fair value of a reporting unit with its carrying amount. The second step measures the amount of impairment loss, if any, by comparing the implied fair value of the reporting unit goodwill with its carrying amount.

In estimating fair value of our reporting units, we compare market capitalization of our common stock, distributed between the reporting units based on adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) projections, to the equivalent carrying value (total assets less total liabilities) of such reporting unit. When our carrying value of a reporting unit is a negative value, we proceed to use alternative valuation techniques. These techniques include comparing total fair value of invested capital, distributed between the reporting units based on adjusted EBITDA projections, to the equivalent carrying value (book equity plus book long-term obligations). The carrying value of each reporting unit includes an allocation of the corporate invested capital based on relative size of the reporting units intercompany payables and invested capital. Using our adjusted EBITDA projections is a judgment item that can significantly affect the outcome of the analysis, both in basing the allocation on the most relevant time period as well as in allocating fair value between reporting units.

Accounting for income taxes We recognize deferred tax assets and liabilities for the expected future tax consequences of transactions and events. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement bases and the tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. If necessary, deferred tax assets are reduced by a valuation allowance to an amount that is determined to be more likely than not recoverable. We must make significant estimates and assumptions about future taxable income and future tax consequences when determining the amount of the valuation allowance. The additional guidance provided by FIN No. 48, Accounting for Uncertainty in Income Taxes clarifies the accounting for uncertainty in income

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taxes recognized in the financial statements. Its implementation resulted in adjustments to increase our total unrecognized tax benefits by $106.4 million. Expected outcomes of current or anticipated tax examinations, refund claims and/or tax related litigation and estimates regarding additional tax liability (including interest and penalties thereon) or refunds resulting therefrom will be recorded based on the guidance provided by FIN No. 48.

At present, our subsidiaries in the major jurisdictions in which we operate have significant deferred tax assets resulting from tax loss carryforwards. With the exception of our Canadian companies, these deferred tax assets are fully offset with valuation allowances. The appropriateness and amount of these valuation allowances are based on our assumptions about the future taxable income of each affiliate or available tax planning strategies. Except in the case of our Canadian companies, if our assumptions have significantly underestimated future taxable income with respect to a particular affiliate, all or part of the valuation allowance for the affiliate would be reversed and additional income may result. With the exception of our Canadian affiliates, if our assumptions have significantly overestimated future taxable income with respect to a particular affiliate, there would be no change in the net value of the deferred tax asset and no additional income or tax expense would result. If our assumptions with respect to our Canadian affiliates have significantly overestimated future taxable income, a full or partial valuation allowance would be applied to the corresponding deferred tax assets and additional tax expense would result.

Discontinued Operations

In August 2007, we sold our 51% interest in our German telephone installation system subsidiaries. The sale price was $0.8 million (0.6 million Euros), which included $0.5 million (0.4 million Euros) in cash and $0.3 million (0.2 million Euros) for payment of outstanding intercompany debt. For the intercompany debt payment, we received $0.1 million (0.1 million Euros) in cash at closing. The balance owing is represented by a note receivable and will be paid in fifteen equal installment payments. As a result, we recorded a $0.2 million gain from sale of assets in 2007. Net assets held for sale were $0.6 million at the closing date.

In February 2007, we sold our Australian domain name registry and web hosting subsidiary, Planet Domain. The sale price was $6.5 million ($8.3 million AUD). We received $5.5 million in net cash proceeds from the transaction after closing adjustments. As a result, we recorded a $6.0 million gain from sale of assets. The net assets of Planet Domain were $0.2 million at the closing date.

In May 2006, we entered into a Share Purchase Agreement (SPA) with Videsh Sanchar Nigam Limited (VSNL), a leading international telecommunications company and member of the TATA Group, whereby VSNL purchased 100% of the stock of Direct Internet Limited (DIL), whose wholly-owned subsidiary, Primus Telecommunications India Limited (PTIL), was primarily engaged in providing fixed broadband wireless Internet services to enterprise and retail customers in India. We owned approximately 85% of the stock of DIL through an indirect wholly-owned subsidiary. The remaining approximately 15% of the stock of DIL was owned by the manager of DIL and PTIL, who had founded the predecessor companies. The total purchase consideration was $17.5 million. We received $13.0 million in net cash proceeds from the transaction at closing on June 23, 2006, after closing adjustments. Under the SPA, we agreed to certain non-compete provisions regarding the business of DIL and PTIL and a the party to the SPA for the purpose of guaranteeing indemnity obligations of our subsidiary selling the stock of DIL. The net assets of DIL were $8.9 million at June 23, 2006.

As a result of these events, our consolidated financial statements reflect the Germany telephone system installation subsidiary, Planet Domain and the India operations as discontinued operations for the year ended December 31, 2007, 2006 and 2005. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as income from discontinued operations.

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Summarized operating results of the discontinued operations for the year ended December 31, 2007, 2006 and 2005 are as follows (in thousands):

	Year Ended December 31,		
	2007	2006	2005
Net revenue	$ 3,806	$ 14,742	$ 19,380
Operating expenses	3,639	12,284	16,206
Income from operations	167	2,458	3,174
Interest expense	(25)	(47)	(38)
Interest income and other income	3	4	81
Foreign currency transaction gain		45	(58)
Income before income tax	145	2,460	3,159
Income tax expense		(78)	(189)
Income from discontinued operations	$ 145	$ 2,382	$ 2,970

Results of Operations

The following information for the years ended December 31, 2007, 2006 and 2005 reflects all the items included in consolidated statements of operations as a percentage of net revenue:

	Year Ended December 31,		
	2007	2006	2005
NET REVENUE	100.0%	100.0%	100.0%
OPERATING EXPENSES			
Cost of revenue (exclusive of depreciation included below)	61.5%	65.8%	66.4%
Selling, general and administrative	31.5%	28.4%	32.2%
Depreciation and amortization	3.4%	4.7%	7.4%
Loss on sale or disposal of assets	0.1%	1.6%	1.1%
Asset impairment write-down	0.0%	20.9%	0.0%
Total operating expenses	96.5%	121.4%	107.1%
INCOME (LOSS) FROM OPERATIONS	3.5%	(21.4)%	(7.1)%
INTEREST EXPENSE	(6.8)%	(5.4)%	(4.6)%
ACCRETION ON DEBT DISCOUNT	(0.1)%	(0.2)%	0.0%
CHANGE IN FAIR VALUE OF DERIVATIVES EMBEDDED WITHIN CONVERTIBLE DEBT	0.0%	0.5%	0.0%
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	(0.8)%	0.7%	(0.1)%
INTEREST AND OTHER INCOME	0.6%	0.5%	0.2%
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	3.6%	1.1%	(1.1)%
INCOME (LOSS) BEFORE INCOME TAXES	0.0%	(24.2)%	(12.7)%
INCOME TAX BENEFIT (EXPENSE)	1.0%	(0.5)%	(0.3)%
INCOME (LOSS) FROM CONTINUING OPERATIONS	1.0%	(24.7)%	(13.0)%
INCOME FROM DISCONTINUED OPERATIONS, net of tax	0.0%	0.2%	0.2%
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax	0.7%	0.8%	0.0%
NET INCOME (LOSS)	1.7%	(23.7)%	(12.8)%

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The following information reflects net revenue by product line for the years ended December 31, 2007, 2006 and 2005 (in thousands, except percentages) and is provided for informational purposes and should be read in conjunction with the Consolidated Financial Statements and Notes.

	2007	%	2006	%	2005	%
Voice	$ 603,169	67%	$ 713,987	71%	$ 900,494	77%
Data/Internet	179,997	20%	166,824	17%	167,922	14%
VOIP	119,017	13%	121,568	12%	99,601	9%
Total	$ 902,183	100%	$ 1,002,379	100%	$ 1,168,017	100%

Results of operations for the year ended December 31, 2007 as compared to the year ended December 31, 2006

Net revenue decreased $100.2 million or 10.0% to $902.2 million for the year ended December 31, 2007 from $1,002.4 million for the year ended December 31, 2006. Our revenue from broadband, VOIP, local, wireless, data and hosting services contributed $216.9 million for the year ended December 31, 2007, as compared to $192.2 million for the year ended December 31, 2006. Our wholesale carrier and prepaid services contributed $170.5 million and $43.7 million, respectively, for the year ended December 31, 2007, as compared to $207.7 million and $90.0 million, respectively, for the year ended December 31, 2006, causing most of the year over year decline.

United States and Other: United States and Other net revenue decreased $5.9 million or 5.1% to $109.5 million for the year ended December 31, 2007 from $115.4 million for the year ended December 31, 2006. The decrease is primarily attributed to a decrease of $8.7 million in retail voice services (for residential and small businesses and from prepaid services) and a decrease of $2.5 million in Internet services, which was partially offset by an increase of $5.5 million in retail VOIP.

Canada: Canada net revenue decreased $12.1 million or 4.4% to $262.2 million for the year ended December 31, 2007 from $274.3 million for the year ended December 31, 2006. The decrease is primarily attributed to a decrease of $9.1 million in voice, a decrease of $16.0 million in prepaid card, which was partially offset by an increase of $12.9 million from growth products, which include local, VOIP, broadband Internet, data and hosting and wireless services. The strengthening of the CAD against the USD accounted for a $16.0 million increase to revenue, which is included in the services explanation above, and which reflects changes in the exchange rates for the year ended December 31, 2007 as compared to the year ended December 31, 2006.

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

Revenue by Country (Excluding Wholesale) in USD

	For the year ended		Year-over-Year	
	December 31, 2007 Net Revenue	December 31, 2006 Net Revenue	Variance	Variance %
United States	$ 101,583	$ 111,320	$ (9,737)	(9)%
Canada	$ 262,200	$ 274,318	$ (12,119)	(4)%
Other	$ 7,918	$ 4,086	$ 3,832	94%

Europe: European net revenue decreased $27.6 million or 27.6% to $72.3 million for the year ended December 31, 2007 from $99.9 million for the year ended December 31, 2006. The decrease is primarily attributable to a decrease in low margin prepaid services of $30.3 million, partially offset by an increase of $1.2 million in retail voice services and $1.7 million in VOIP. The European prepaid services business declined primarily in Netherlands and the business has ceased operations as of December 31, 2007. The strengthening of

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the European currencies against the USD accounted for an $8.6 million increase to revenue, which is included in the above explanation, and which reflects changes in the exchange rates for the year ended December 31, 2007 as compared to the year ended December 31, 2006. The following table reflects net revenue for each major country in Europe (in thousands, except percentages):

Revenue by Country (Excluding Wholesale) in USD

	For the year ended December 31, 2007		For the year ended December 31, 2006		Year-over-Year	
	Net Revenue	% of Europe	Net Revenue	% of Europe	Variance	Variance %
United Kingdom	$ 39,037	54%	$ 28,145	28%	$ 10,892	39%
Netherlands	139	0%	34,457	34%	(34,318)	(100)%
Germany	3,385	5%	5,805	6%	(2,420)	(42)%
Spain	4,613	6%	9,648	10%	(5,035)	(52)%
France	11,038	15%	6,352	6%	4,686	74%
Italy	2,022	3%	2,839	3%	(817)	(29)%
Belgium	9,383	13%	8,635	9%	748	9%
Other	2,711	4%	4,038	4%	(1,327)	(33)%
Europe Total	$ 72,328	100%	$ 99,919	100%	$ (27,591)	(28)%

Asia-Pacific: Asia-Pacific net revenue decreased $17.3 million or 5.7% to $287.7 million for the year ended December 31, 2007 from $305.0 million for the year ended December 31, 2006. The decrease is primarily attributable to a $15.2 million decrease in residential voice services, a $6.0 million decrease in dial-up Internet services, an $8.0 million decrease in business voice services, partially offset by a $12.2 million increase in Australia DSL services. The strengthening of the AUD against the USD accounted for a $34.3 million increase to revenue, which is included in the above explanation, and which reflects changes in the exchange rates for the year ended December 31, 2007 as compared to the year ended December 31, 2006. The following table reflects net revenue for each major country in Asia-Pacific (in thousands, except percentages):

Revenue by Country (Excluding Wholesale) in USD

	For the year ended December 31, 2007		For the year ended December 31, 2006		Year-over-Year	
	Net Revenue	% of Asia-Pacific	Net Revenue	% of Asia-Pacific	Variance	Variance %
Australia	$ 284,935	99%	$ 301,506	99%	$ (16,571)	(5)%
Other	2,769	1%	3,539	1%	(770)	(22)%
Asia-Pacific Total	$ 287,704	100%	$ 305,045	100%	$ (17,341)	(6)%

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Wholesale: Wholesale net revenue decreased $37.2 million or 17.9% to $170.5 million for the year ended December 31, 2007 from $207.7 million for the year ended December 31, 2006 caused by our deemphasis on lower-margin revenue streams. The strengthening of the European currencies against the USD accounted for an $11.4 million increase to revenue, which is included in the above explanation, and which reflects changes in the exchange rates for the year ended December 31, 2007 as compared to the year ended December 31, 2006. The following table reflects net revenue for each major country (in thousands, except percentages):

Wholesale Revenue by Country in USD

	For the year ended December 31, 2007		For the year ended December 31, 2006		Year-over-Year	
	Net Revenue	% of Total Wholesale	Net Revenue	% of Total Wholesale	Variance	Variance %
United States	$ 65,216	38%	$ 80,915	39%	$ (15,699)	(19)%
United Kingdom	50,326	30%	56,251	27%	(5,925)	(11)%
Germany	21,003	12%	34,607	17%	(13,604)	(39)%
France	8,395	5%	10,481	5%	(2,086)	(20)%
Spain	11,218	6%	8,795	4%	2,423	28%
Italy	13,053	8%	11,569	6%	1,484	13%
Other	1,239	1%	5,073	2%	(3,834)	(76)%
Total	$ 170,450	100%	$ 207,691	100%	$ (37,241)	(18)%

Cost of revenue decreased $104.5 million to $554.9 million, or 61.3% of net revenue, for the year ended December 31, 2007 from $659.4 million, or 65.8% of net revenue, for the year ended December 31, 2006. We continue to shed certain low margin revenue while growing revenue from our higher margin services. We also received certain regulatory benefits with retro-active treatment in Australia which reduced our cost of revenue.

United States: United States cost of revenue decreased $13.8 million primarily due to a decrease of $9.6 million in retail voice services and a decrease of $1.4 million in Internet services.

Canada: Canada cost of revenue decreased $9.8 million primarily due to a decrease of $6.8 million in retail voice services and a decrease of $8.6 million in prepaid services. The decreases were partially offset by increases of $3.4 million in growth products, which include local, VOIP, data and hosting and wireless services and $3.0 million in Internet services. The strengthening of the CAD against the USD accounted for a $7.3 million increase to cost of revenue, which is included in the services explanation above, and which reflects changes in the exchange rates for the year ended December 31, 2007 as compared to the year ended December 31, 2006.

Europe: European cost of revenue decreased by $21.8 million. The decrease is primarily attributable to a $23.5 million decrease in low margin prepaid services, offset by a $1.2 million increase in VOIP services. The strengthening of the European currencies against the USD accounted for a $5.8 million increase to cost of revenue, which is included in the services explanation above, and which reflects changes in the exchange rates for the year ended December 31, 2007 as compared to the year ended December 31, 2006.

Asia-Pacific: Asia-Pacific cost of revenue decreased $24.0 million primarily due to a decrease of $11.0 million in residential voice services, a decrease of $1.8 million in dial-up Internet services, and a decrease of $5.4 million in business services. We also realized a $13.6 million reduction to cost of revenue from third and fourth quarter regulatory actions reflecting recovery of payments related to retroactive price reductions. These decreases were partially offset by an increase of $6.1 million for new DSL services. The strengthening of the AUD against the USD accounted for a $22.6 million increase to cost of revenue, which is included in the services explanation above, and which reflects changes in the exchange rates for the year ended December 31, 2007 as compared to the year ended December 31, 2006.

Wholesale: Wholesale cost of revenue decreased $35.3 million or 17.7% to $164.1 million for the year ended December 31, 2007 from $199.4 million for the year ended December 31, 2006. The strengthening of the European currencies against the USD accounted for an $11.0 million increase to cost of revenue, which is included in the above variance, and which reflects changes in the exchange rates for the year ended December 31, 2007 as compared to the year ended December 31, 2006.

Selling, general and administrative expense decreased $0.3 million to $284.0 million, or 31.5% of net revenue, for the year ended December 31, 2007 from $284.3 million, or 28.4% of net revenue, for the year ended December 31, 2006. The decrease in selling, general and administrative expense is attributable to a decrease of $13.2 million for agent commissions related to prepaid services, a decrease of $1.3 million in advertising expenses, a decrease of $2.3 million for general and administrative expenses, offset by a $2.4 million contingency tax accrual related to the European prepaid services business, an increase of $5.4 million for salaries and benefits, an increase of $4.0 million in sales and marketing, an increase of $2.6 million in professional fees, and an increase of $1.5 million in occupancy expenses.

United States: United States selling, general and administrative expense was stable at $58.0 million for the year ended December 31, 2007 as compared to $57.9 million for the year ended December 31, 2006. The increase of $1.2 million in advertising expenses primarily attributable to LINGO and an increase of $1.0 million in professional fees was offset by a decrease of $1.4 million in salaries and benefits expense due to cost cutting/staff reduction efforts which is net of $0.5 million of related severance expense in 2007 and a decrease of $0.9 million in sales and marketing expense primarily for agent commissions related to prepaid services.

Canada: Canada selling, general and administrative expense increased $1.8 million to $100.2 million for the year ended December 31, 2007 from $98.3 million for the year ended December 31, 2006. The increase is attributable to an increase of $2.6 million in salaries and benefits which reflects $1.4 million of severance expense on eliminated positions in 2007, an increase of $0.9 million in professional fees, an increase of $0.8 million in occupancy, an increase of $0.6 million in sales and marketing expense, and an increase of $0.6 million in general and administrative expenses. These increases were partially offset by a decrease of $3.8 million in agent commissions related to prepaid services. Canada s spending reflects an increased shift to direct sales personnel and telemarketing expenses.

Europe: Europe selling, general and administrative expense decreased $8.3 million to $33.8 million for the year ended December 31, 2007 from $42.1 million for the year ended December 31, 2006. The decrease is mainly attributable to a decrease of $8.4 million in sales and marketing expense primarily for agent commissions related to prepaid services, decrease of $1.2 million in salaries and benefits expense which is net of $0.7 million of severance expense in 2007, and a decrease of $1.3 million in general and administrative expenses, offset by a $2.4 million contingency tax accrual related to the European prepaid services business.

Asia-Pacific: Asia-Pacific selling, general and administrative expense increased $5.3 million to $83.2 million for the year ended December 31, 2007 from $77.9 million for the year ended December 31, 2006. The increase is attributable to an increase of $9.1 million in salaries and benefits expense primarily for increased direct sales, sales support, telemarketing and customer care personnel, which includes $0.5 million of severance expense in 2007 and an increase of $1.2 million in occupancy, offset by a decrease of $3.1 million in advertising and a decrease of $2.0 million in general and administrative expenses.

Wholesale: Wholesale selling, general and administrative expense increased $0.8 million or 10.0% to $8.9 million for the year ended December 31, 2007 from $8.1 million for the year ended December 31, 2006.

Depreciation and amortization expense decreased $16.9 million to $30.5 million for the year ended December 31, 2007 from $47.4 million for the year ended December 31, 2006. The decrease consisted of a decrease in depreciation expense of $14.6 million and a decrease in amortization expense of $2.3 million. The decrease is primarily due to the asset impairment recognized in the second quarter 2006.

Loss on sale or disposal of assets decreased $14.6 million to $1.5 million for the year ended December 31, 2007 from $16.1 million for the year ended December 31, 2006. In 2006, we recognized a charge associated with the sale or disposal of specific long-lived assets which were taken out of service. The charge included $8.9 million in the United States, $2.2 million in the United Kingdom, $2.0 million in Japan, $1.8 million in Canada and $1.2 million in various other countries and is comprised of network fiber, peripheral switch equipment, software development costs and other network equipment.

Asset impairment write-down was $209.2 million for 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 of debt discount, increased $5.9 million to $61.8 million for the year ended December 31, 2007 from $55.9 million for the year ended December 31, 2006. The increase is the result of $14.0 million from issuance of our 14 $^{1}/4$% Senior Secured Notes, offset by an $8.1 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 early 2007 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 year ended 2006. Our Step Up Convertible Subordinated Debentures, 2000 Convertible Subordinated Debentures and 2003 Convertible Senior Notes contained embedded derivatives that required bifurcation from the debt host from February 27 to June 20, 2006. 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 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. On June 20, 2006, the embedded derivatives no longer qualified for bifurcation. We estimated that the embedded derivatives had a June 20, 2006 (the final valuation date) fair value of $10.3 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 $0.88 on February 27, 2006, causing the overall value of the derivative instrument to decline. As a result, during the year ended December 31, 2006, we recognized a gain of $5.4 million from the change in estimated fair value of the embedded derivatives.

Gain (loss) on early extinguishment or restructuring of debt was a $7.7 million loss for the year ended December 31, 2007 comparing to $7.4 million gain for the year ended December 31, 2006. In 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 included deferred financing cost and discount write-offs. We also 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. The losses were offset by our open market purchases of $10.5 million principal amount of our October 1999 Senior Notes resulting in a $0.3 million gain on early extinguishment of debt including the write-off of related deferred financing costs and a $0.5 million gain on forgiveness of equipment financing in Brazil.

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 by $22.1 million to $32.7 million for the year ended December 31, 2007 from $10.6 million for the year ended December 31, 2006. The 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) decreased to a benefit of $9.2 million for the year ended December 31, 2007 from $4.9 million expense for the year ended December 31, 2006. The expense for both periods includes foreign withholding tax on intercompany interest and royalty fees owed to our United States subsidiaries by our Canadian and Australian subsidiaries. Income tax expense for 2007 also includes a $5.6 million increase of unrecognized tax benefits relating to an ongoing foreign audit and reassessment of foreign tax positions, offset by a $1.7 million release of unrecognized tax benefits as a foreign statutory audit period expired and an $11.1 million release of the Canadian deferred tax valuation allowance.

Results of operations for the year ended December 31, 2006 as compared to the year ended December 31, 2005

Net revenue decreased $165.6 million or 14.2% to $1,002.4 million for the year ended December 31, 2006 from $1,168.0 million for the year ended December 31, 2006. Our revenue from broadband, VOIP, local, wireless, Internet, data and hosting services contributed $192.2 million for the year ended December 31, 2006, as compared to $141.9 million for the year ended December 31, 2005. Our wholesale carrier and prepaid services contributed $207.7 million and $90.0 million, respectively, for the year ended December 31, 2006, as compared to $232.7 million and $184.2 million, respectively, for the year ended December 31, 2005.

United States and Other: United States and Other net revenue decreased $20.9 million or 15.3% to $115.4 million for the year ended December 31, 2006 from $136.3 million for the year ended December 31, 2005. The decrease is primarily attributed to a decrease of $21.9 million in retail voice services (including declines in residential and small business voice services and prepaid services), a decrease of $3.6 million in prepaid services, a decrease of $3.0 million in Internet services, and a decrease of $1.0 million in wireless services, which was partially offset by an increase of $6.9 million in retail VOIP.

Canada: Canada net revenue increased $14.7 million or 5.6% to $274.3 million for the year ended December 31, 2006 from $259.7 million for the year ended December 31, 2005. The increase is primarily attributed to an increase of $21.8 million in revenue from growth products, which include local, VOIP, broadband Internet, data and hosing, and wireless services, and a $2.0 million increase in prepaid services, which was partially offset by a decrease of $9.2 million in retail voice services. The strengthening of the CAD against the USD accounted for a $17.5 million increase to revenue, which is included in the services explanation above, and which reflects changes in the exchange rates for the year ended December 31, 2006 as compared to the year ended December 31, 2005.

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

Revenue by Country (Excluding Wholesale) in USD

	For the year ended		Year-over-Year	
	December 31, 2006 Net Revenue	December 31, 2005 Net Revenue	Variance	Variance %
United States	$ 111,320	$ 132,940	$ (21,620)	(16)%
Canada	$ 274,319	$ 259,661	$ 14,658	6%
Other	$ 4,086	$ 3,324	$ 762	23%

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Europe: European net revenue decreased $94.0 million or 48.5% to $99.9 million for the year ended December 31, 2006 from $193.9 million for the year ended December 31, 2005. The decrease is primarily attributable to a decrease in low margin prepaid services of $66.6 million in the Netherlands, $20.3 million in the United Kingdom and $4.5 in Sweden, and a $2.4 million decrease in retail voice services. The European prepaid services business declined primarily in Netherlands as a result of restructuring the business and shedding unprofitable revenue and associated costs. The strengthening of the European currencies against the USD accounted for a $1.5 million increase to revenue, which is included in the above explanation, and which reflects changes in the exchange rates for the year ended December 31, 2006 as compared to the year ended December 31, 2005. The following table reflects net revenue for each major country in Europe (in thousands, except percentages):

Revenue by Country (Excluding Wholesale) in USD

	For the year ended December 31, 2006		For the year ended December 31, 2005		Year-over-Year	
	Net Revenue	% of Europe	Net Revenue	% of Europe	Variance	Variance %
United Kingdom	$ 28,145	28%	$ 45,015	23%	$ (16,870)	(37)%
Netherlands	34,457	34%	102,182	53%	(67,725)	(66)%
Germany	5,805	6%	9,915	5%	(4,110)	(41)%
Spain	9,648	10%	9,317	5%	331	4%
France	6,352	6%	6,892	4%	(540)	(8)%
Italy	2,839	3%	2,847	1%	(8)	(0)%
Other	12,673	13%	17,721	9%	(5,048)	(28)%
Europe Total	$ 99,919	100%	$ 193,889	100%	$ (93,970)	(48)%

Asia-Pacific: Asia-Pacific net revenue decreased $40.5 million or 11.7% to $305.0 million for the year ended December 31, 2006 from $345.5 million for the year ended December 31, 2005. The decrease is primarily attributable to a $27.6 million decrease in residential voice services, a $21.4 million decrease in dial-up Internet services, a $2.5 million decrease in business voice services, and a $1.2 million decrease in prepaid services, partially offset by a $13.1 million increase in Australia DSL services. The weakening of the AUD against the USD accounted for a $4.7 million decrease to revenue, which is included in the above explanation, and which reflects changes in the exchange rates for the year ended December 31, 2006 as compared to the year ended December 31, 2005. The following table reflects net revenue for each major country in Asia-Pacific (in thousands, except percentages):

Revenue by Country (Excluding Wholesale) in USD

	For the year ended December 31, 2006		For the year ended December 31, 2005		Year-over-Year	
	Net Revenue	% of Asia-Pacific	Net Revenue	% of Asia-Pacific	Variance	Variance %
Australia	$ 301,506	99%	$ 340,650	99%	$ (39,144)	(11)%
Other	3,540	1%	4,850	1%	(1,311)	(27)%
Asia-Pacific Total	$ 305,046	100%	$ 345,500	100%	$ (40,455)	(12)%

Wholesale: Wholesale net revenue decreased $25.0 million or 10.7% to $207.7 million for the year ended December 31, 2006 from $232.7 million for the year ended December 31, 2005. The strengthening of the CAD and European and other currencies against the USD accounted for a $0.9 million increase to revenue, which is included in the above variance, and which reflects changes in the exchange rates for the year ended December 31, 2006 as compared to the year ended December 31, 2005. The following table reflects net revenue for each major country (in thousands, except percentages):

Wholesale Revenue by Country in USD

	For the year ended December 31, 2006		For the year ended December 31, 2005		Year-over-Year	
	Net Revenue	% of Total Wholesale	Net Revenue	% of Total Wholesale	Variance	Variance %
United States	$ 80,915	39%	$ 70,762	30%	$ 10,153	14%
United Kingdom	56,251	27%	68,844	30%	(12,593)	(18)%
Germany	34,607	17%	38,743	17%	(4,136)	(11)%
France	10,481	5%	12,455	5%	(1,974)	(16)%
Spain	8,795	4%	8,554	4%	241	3%
Italy	11,569	6%	21,340	9%	(9,771)	(46)%
Other	5,073	2%	12,005	5%	(6,932)	(58)%
Total	$ 207,691	100%	$ 232,703	100%	$ (25,012)	(11)%

Cost of revenue decreased $115.9 million to $659.4 million, or 65.8% of net revenue, for the year ended December 31, 2006 from $775.3 million, or 66.4% of net revenue, for the year ended December 31, 2005. We continue to shed certain low margin revenue while growing revenue from our new services. Additionally service install and migration fees in Canada and Australia were less than the prior year period as fewer customers from other carriers were migrated on-net in Australia and Canada.

United States: United States cost of revenue decreased $11.5 million primarily due to a decrease of $9.4 million in retail voice services, a decrease of $1.8 million in prepaid services, a decrease of $1.7 million for Internet services and a decrease of $0.9 million in wireless services. The decreases were partially offset by an increase of $1.1 million in VOIP services.

Canada: Canada cost of revenue increased $5.3 million primarily due to an increase of $8.1 million in new products, which include local, VOIP and wireless services and customer migration fees and $2.3 million in Internet and hosting and data services. The increases were partially offset by a decrease in retail voice services of $5.2 million. The strengthening of the CAD against the USD accounted for an $8.1 million increase to cost of revenue, which is included in the services explanation above, and which reflects changes in the exchange rates for the year ended December 31, 2006 as compared to the year ended December 31, 2005.

Europe: European cost of revenue decreased by $65.9 million. The decrease is primarily attributable to a $62.4 million decrease in low margin prepaid services including a decrease of $42.6 million in Netherlands, $15.5 million in the United Kingdom and $4.4 million in Sweden. Wireless services decreased $5.0 million primarily in the United Kingdom. The decreases were offset by an increase of $0.9 million in retail voice services. The strengthening of the European currencies against the USD accounted for a $1.5 million increase to cost of revenue, which is included in the services explanation above, and which reflects changes in the exchange rates for the year ended December 31, 2006 as compared to the year ended December 31, 2005.

Asia-Pacific: Asia-Pacific cost of revenue decreased $23.3 million primarily due to a decrease of $18.9 million in residential voice services, a decrease of $12.6 million in dial-up Internet services, and a decrease of $3.9 million in business services. These decreases were partially offset by an increase of $10.8 million for new DSL services including customer migration fees and an increase of $2.0 million in VOIP and other services. Weakening of the AUD against the USD accounted for a $3.1 million decrease to cost of revenue, which is included in the services explanation above, and which reflects changes in the exchange rates for the year ended December 31, 2006 as compared to the year ended December 31, 2005.

Wholesale: Wholesale cost of revenue decreased $20.4 million or 9.3% to $199.4 million for the year ended December 31, 2006 from $219.8 million for the year ended December 31, 2005. The strengthening of the CAD and European currencies against the USD accounted for a $1.0 million increase to cost of revenue, which is included in the above variance, and which reflects changes in the exchange rates for the year ended December 31, 2007 as compared to the year ended December 31, 2006.

Selling, general and administrative expenses decreased $91.7 million to $284.3 million, or 28.4% of net revenue, for the year ended December 31, 2006 from $376.0 million, or 32.2% of net revenue, for the year ended December 31, 2005. The decrease in selling, general and administrative expenses is attributable to a decrease of $41.1 million in sales and marketing expenses primarily for agent commissions related to prepaid services, a decrease of $22.0 million in salaries and benefits, a decrease of $12.2 million in advertising expenses for new products, a decrease of $7.2 million in professional fees, a decrease of $6.0 million for general and administrative expenses, a decrease of $1.8 million in travel and entertainment and a decrease of $1.4 million in occupancy expenses.

United States: United States selling, general and administrative expenses decreased $35.3 million to $57.9 million for the year ended December 31, 2006 from $93.3 million for the year ended December 31, 2005. The decrease is attributable to a decrease of $11.1 million in advertising expenses primarily attributable to LINGO, a decrease of $8.2 million in salaries and benefits expense due to cost cutting/staff reduction efforts which is net of $0.3 million of related severance expense in 2006, a decrease of $6.3 million in sales and marketing expense primarily for agent commissions related to low margin prepaid services, a decrease of $6.1 million in professional fees which includes savings related to Sarbanes-Oxley compliance and consulting support of the LINGO and wireless businesses, a decrease of $2.4 million in general and administrative expenses and a decrease of $1.3 million in occupancy and travel and entertainment expenses.

Canada: Canada selling, general and administrative expense increased $0.7 million to $98.3 million for the year ended December 31, 2006 from $97.6 million for the year ended December 31, 2005. The increase is attributable to an increase of $3.3 million in advertising, an increase of $1.2 million in professional fees and an increase of $0.6 million in occupancy and travel and entertainment expenses. These increases were partially offset by a decrease of $2.1 million in sales and marketing expense, a decrease of $1.3 million in salaries which is net of $0.9 million of severance expense in 2006 and a decrease of $1.0 million in general and administrative expenses.

Europe: Europe selling, general and administrative expense decreased $43.5 million to $42.1 million for the year ended December 31, 2006 from $85.6 million for the year ended December 31, 2005. The decrease is attributable to a decrease of $32.8 million in sales and marketing expense primarily for agent commissions related to low margin prepaid services, a decrease of $4.4 million in salaries and benefits expense which is net of $1.1 million of severance expense in 2006, a decrease of $2.4 million in professional fees, a decrease of $1.3 million in travel and entertainment expenses, a decrease of $1.4 million in general and administrative expenses and a decrease of $1.0 million in occupancy expenses.

Asia-Pacific: Asia-Pacific selling, general and administrative expense decreased $15.4 million to $77.9 million for the year ended December 31, 2006 from $93.3 million for the year ended December 31, 2005. The decrease is attributable to a decrease of $9.3 million in salaries and benefits expense which is net of $0.3 million of severance expense in 2006, a decrease of $4.3 million in advertising and a decrease of $1.8 million in general and administrative expenses.

Wholesale: Wholesale selling, general and administrative expense increased $1.8 million or 28.8% to $8.1 million for the year ended December 31, 2006 from $6.3 million for the year ended December 31, 2005.

Depreciation and amortization expense decreased $39.0 million to $47.4 million for the year ended December 31, 2006 from $86.4 million for the year ended December 31, 2005. The decrease consisted of a

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decrease in depreciation expense of $27.6 million and a decrease in amortization expense of $11.4 million. The decrease is primarily due to the asset impairment recognized in the second quarter 2006.

Gain or loss on sale or disposal of assets was a loss of $16.1 million for the year ended December 31, 2006. We recognized a charge associated with the sale or disposal of specific long-lived assets which were taken out of service. The charge includes $8.9 million in the United States, $2.2 million in the United Kingdom, $2.0 million in Japan, $1.8 million in Canada and $1.2 million in various other countries and is comprised of network fiber, peripheral switch equipment, software development costs and other network equipment. Loss on disposal of assets was $13.4 million for the year ended December 31, 2005. We recognized a charge associated with the disposal of specific long-lived assets which were taken out of service. The charge included $8.9 million in the United Kingdom, $3.1 million in the United States, $1.3 million in Germany and $0.1 million in Spain and was comprised of network fiber, peripheral switch equipment, software development costs and other network equipment.

Asset impairment write-down was $209.2 million for 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 of debt discount, increased $2.5 million to $55.9 million for the year ended December 31, 2006 from $53.4 million for the year ended December 31, 2005. The increase is the result of $8.2 million from changes in the variable interest rate of our Senior Secured Term Loan Facility, the issuance of our $27.5 million Step Up Convertible Subordinated Debentures and capital leases. This is offset by a $5.7 million decrease due to interest saved from exchanges of $54.8 million of 2003 Convertible Senior Notes for cash and 5% Exchangeable Senior Notes, and $2.5 million of October 1999 Senior Notes for stock, deferred offering costs amortization changes and other interest.

Change in fair value of derivatives embedded within convertible debt was a gain of $5.4 million for the year ended 2006. Our Step Up Convertible Subordinated Debentures, 2000 Convertible Subordinated Debentures and 2003 Convertible Senior Notes contained embedded derivatives that required bifurcation from the debt host from February 27 to June 20, 2006. 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 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. On June 20, 2006, the embedded derivatives no longer qualified for bifurcation. We estimated that the embedded derivatives had a June 20, 2006 (the final valuation date) fair value of $10.3 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 $0.88 on February 27, 2006, causing the overall value of the derivative instrument to decline. As a result, during the year ended December 31, 2006, we recognized a gain of $5.4 million from the change in estimated fair value of the embedded derivatives.

Gain (loss) on early extinguishment or restructuring of debt was $7.4 million gain for the year ended 2006 as compared to ($1.7) million loss for the year ended 2005. 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. We had a ($1.7) million loss on early extinguishment of debt for the year ended December 31, 2005. The $1.7 million loss resulted from the exchange of our common stock for the extinguishment of $17.0 million in principal amount of the 2000 Convertible Subordinated Debentures and $8.6 million in principal amount of the October 1999 Senior Notes including the write-off of deferred financing costs.

Foreign currency transaction gain (loss) was a gain of $10.6 million for the year ended December 31, 2006 as compared to a loss of ($12.5) million for the year ended December 31, 2005. 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 expense increased to $4.9 million for the year ended December 31, 2006 from $3.8 million for the year ended December 31, 2005. The expense for both periods primarily consists of foreign withholding tax on intercompany interest and royalty fees owed to our United States subsidiaries by our Canadian and Australian subsidiaries.

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, expansion of data center facilities, interest and principal payments on outstanding debt and other obligations, 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 $11.5 million for the year ended December 31, 2007 as compared to net cash provided by operating activities of $12.9 million for the year ended December 31, 2006. For the year ended December 31, 2007, net income, net of non-cash operating activity, provided $13.2 million of cash. In addition, cash was increased by a reduction in accounts receivable of $5.3 million and a reduction in other assets of $2.3 million. In 2007, we used $1.6 million to increase prepaid expenses and other current assets, $2.7 million to reduce accounts payable, $6.2 million to reduce accrued interconnection costs, $2.3 million to reduce our deferred revenue, accrued expenses, accrued income taxes and other liabilities and $1.2 million to reduce our accrued interest. For the year ended December 31, 2006, net loss, net of non-cash operating activity, provided $19.9 million of cash. In addition, cash was increased by a reduction in accounts receivable of $14.8 million, increases in deferred revenue, accrued expenses, accrued income taxes and other liabilities of $3.8 million, and a reduction in prepaid expenses and other current assets of $9.4 million. In 2006, we used $36.6 million to reduce our accounts payable and accrued interconnection costs.

Net cash used in investing activities was $39.5 million for the year ended December 31, 2007 compared to $17.9 million for the year ended December 31, 2006. Net cash used in investing activities during the year ended December 31, 2007 included $44.7 million of capital expenditures, $0.7 million to increase restricted cash, and $0.2 million to acquire an additional 39% of a subsidiary, offset by $6.1 million net cash proceeds from the disposition of our Australian Planet Domain subsidiary and a German subsidiary. Net cash used by investing activities during the year ended December 31, 2006 included $33.0 million of capital expenditures primarily for additions to our DSL networks in Australia and Canada and back office support systems, offset by a $2.4 million decrease in restricted cash and $12.9 million net cash proceeds from the disposition of our India operations.

Net cash provided by financing activities was $41.5 million for year ended December 31, 2007 as compared to net cash provided by financing activities of $25.5 million for the year ended December 31, 2006. During the year ended December 31, 2007, net cash provided by financing activities consisted of $102.7 million from the issuance of debt, $75.2 million principal amount of 14 $^{1}/_{4}$% Senior Secured Notes for $69.2 million in net cash, $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 22.5 million shares of our 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 $10.5 million principal amount of our October 1999 Senior Notes, the repayment in full of a $29.9 million Canadian loan facility and a $4.9 million capital lease financing, and $12.4 million principal payments of capital leases, leased fiber capacity, financing facilities and other long-term obligations. During the year ended December 31, 2006, net cash provided by financing activities consisted of $32.4 million from the issuance of $24.1 million 5% Exchangeable Senior Notes for $17.7 million in cash, net of $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, net of $0.2 million in financing costs; $5.0 million from the sale of 6.7 million shares of our common stock pursuant to a subscription agreement with an existing stockholder; partially offset by $11.9 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 December 31, 2007, we had $81.3 million of unrestricted cash and cash equivalents. We believe that our existing cash and cash equivalents, will be sufficient to fund our debt service requirements, other fixed obligations (such as capital leases, vendor financing and other long-term obligations), and other cash needs for our operations for at least the next twelve months.

During 2007 we successfully executed a number of liquidity-enhancing initiatives. 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 generating a fourth quarter 2007 annualized revenue run-rate of $233 million. Tapping that full potential will require a greater investment in sales and marketing over the next year. Such an investment seems justified given our need for revenue and profitability growth from these services to compensate for the corresponding declines from our high-margin legacy long distance voice and dial-up Internet businesses. However, we expect overall revenue to decline in 2008 as compared to 2007, particularly as a result of expected declines 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.

We will continue to have significant debt service obligations during the next year and on a long-term basis. After recent debt buybacks (see the Subsequent Events note of the Consolidated Financial Statements), we have $19.5 million principal amount of 12 $^{3}/4$% Senior Notes and $15.5 million principal amount of Step Up Convertible Subordinated Debentures coming due in 2009. Our company strategies related to meeting our 2009 obligations and other cash needs are to strengthen the balance sheet opportunistically through potential deleveraging transactions and equity capital infusions; to improve significantly 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; to 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 opportunistically to sell non-strategic assets and businesses and use the proceeds either to accelerate growth of high-margin products or to strengthen the balance sheet.

The recent degradation of the credit markets has not directly impacted the Company s financial results. However, the environmental change in the overall markets has influenced the prices at which the Company s debt trades and may provide future opportunities to repurchase such debt at deeper discounts. In the near-term and because of the state of the credit markets, we expect that raising further capital would prove difficult; however, we believe that opportunities will become available to us when we require.

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.

As of December 31, 2007, we have $35.3 million in future minimum purchase obligations, $64.2 million in future operating lease payments and $673.9 million of indebtedness. At December 31, 2007, approximately $116.5 million of unrecognized tax benefits have been recorded as liabilities in accordance with FIN No. 48. We are uncertain as to if or when such amounts may be settled, so we have not included these amounts in the table below. Included in the unrecognized tax benefits not included in the table below, we have recorded a liability for potential penalties and interest of $6.0 million. 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	Senior Notes	Convertible and Exchangeable Senior Notes (2)	Step Up Subordinated Debentures	Senior Secured Notes	Purchase Obligations	Operating Leases	Total
2008	$ 7,947	$ 12,528	$ 3,524	$ 21,384	$ 5,713	$ 1,714	$			