

PRIMUS TELECOMMUNICATIONS GROUP INC  
Form POS AM  
June 04, 2007  
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As filed with the Securities and Exchange Commission on June 4, 2007

Registration No. 333-110241

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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POST-EFFECTIVE AMENDMENT NO. 1

TO FORM S-3 BY FORM S-1

## REGISTRATION STATEMENT

*UNDER*

*THE SECURITIES ACT OF 1933*

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# PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**4813**  
(Primary Standard Industrial  
Classification Code Number)  
**7901 Jones Branch Drive, Suite 900**

**54-1708481**  
(I.R.S. Employer  
Identification Number)

**McLean, Virginia 22102**

**(703) 902-2800**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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**K. Paul Singh**

*Chairman, President and Chief Executive Officer*

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**7901 Jones Branch Drive, Suite 900**

**McLean, Virginia 22102**

**(703) 902-2800**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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*Copies to:*

**Brian J. Lynch, Esq.**

**Hogan & Hartson L.L.P.**

**8300 Greensboro Drive**

**McLean, Virginia 22102**

**(703) 610-6100**

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**Approximate date of commencement of proposed sale to the public:**

From time to time after the effective date of this Registration Statement.

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If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d), under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this prospectus is not complete and may be changed. We may not sell these securities or accept an offer to buy these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting offers to buy these securities in any state where such offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED June \_\_, 2007**

**PROSPECTUS**

**\$200,000,000**

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**Common Stock**

**Preferred Stock**

**Depositary Shares**

**Debt Securities**

**Warrants**

From time to time, we may sell common stock, preferred stock, debt securities and/or warrants. Any preferred stock that we sell may be sold either as shares of preferred stock or represented by depositary shares.

We will provide the specific terms of these securities in one or more supplements to this prospectus. You should read this prospectus, the information incorporated by reference in this prospectus and any prospectus supplement carefully before you invest.

Our common stock is traded on the over-the-counter bulletin board under the symbol PRTL.OB. The last reported sales price of the common stock, as reported on the over-the-counter bulletin board on May 15, 2007 was \$0.70 per share. The applicable prospectus supplement will contain information, where applicable, as to any other listing on the Nasdaq Market or any securities market or other exchange of the securities, if any, covered by the prospectus supplement.

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**INVESTING IN OUR SECURITIES INVOLVES RISKS. SEE RISK FACTORS BEGINNING ON PAGE 5.**

**THIS PROSPECTUS MAY NOT BE USED TO OFFER OR SELL ANY SECURITIES UNLESS ACCOMPANIED BY A PROSPECTUS SUPPLEMENT.**

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The securities may be sold directly by us to investors, through agents designated from time to time or to or through underwriters or dealers. For additional information on the methods of sale, you should refer to the section entitled "Plan of Distribution" in this prospectus. If any underwriters are involved in the sale of any securities with respect to which this prospectus is being delivered, the names of such underwriters and any applicable commissions or discounts and over-allotment options will be set forth in a prospectus supplement. The price to the public of such securities and the net proceeds we expect to receive from such sale will also be set forth in a prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

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The date of this prospectus is June \_\_, 2007

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You should rely only on the information contained or incorporated by reference into this prospectus or any applicable prospectus supplement. We have not authorized anyone to provide you with different information. We are not making an offer of the securities to be sold under this prospectus in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this prospectus or any applicable prospectus supplement is accurate as of any date other than the date on the front cover of this prospectus or the prospectus supplement, or that the information contained in any document incorporated by reference is accurate as of any date other than the date of the document incorporated by reference, regardless of the time of delivery of this prospectus or any sale of a security.

**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, using a shelf registration process. Under this shelf registration process, we may sell common stock, preferred stock, debt securities and warrants under this prospectus in one or more offerings up to a total dollar amount of \$200,000,000. Any preferred stock that we sell may be sold either as shares of preferred stock or be represented by depositary shares. This prospectus provides you with a general description of the securities we may offer. Each time we sell any securities under this prospectus, we will provide a prospectus supplement that will contain more specific information about the terms of those securities. We may also add, update or change in a prospectus supplement any of the information contained in this prospectus or in documents we have incorporated by reference into this prospectus. This prospectus, together with the applicable prospectus supplements and the documents incorporated by reference into this prospectus, includes all material information relating to this offering. You should carefully read both this prospectus and the applicable prospectus supplement together with the additional information described under **Where You Can Find More Information** before buying securities in this offering.

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**SUMMARY**

*This summary highlights some of the information in this prospectus. Because this is only a summary, it does not contain all of the information that may be important to you. To understand this prospectus, the securities offered hereunder and our business, you should read the entire prospectus, particularly Risk Factors and the consolidated financial statements and related notes incorporated by reference into this prospectus. References in this prospectus to we, us, our, PRIMUS or the Company refer to Primus Telecommunications Group, Incorporated together with its consolidated subsidiaries, unless otherwise noted.*

Primus Telecommunications Group, Incorporated is an integrated telecommunications services provider offering a portfolio of international and domestic voice, wireless, Internet, voice-over-Internet protocol (VOIP), data and hosting services to business and residential retail customers and other carriers located primarily in the United States, Australia, Canada, the United Kingdom and western Europe. PRIMUS's 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.

PRIMUS targets customers with significant telecommunications needs, including small- and medium-sized enterprises (SMEs), multinational corporations, residential customers, and other telecommunications carriers and resellers. PRIMUS provides services over its global network, which consists of:

15 carrier-grade international gateway and domestic switching systems (the hardware/software devices that direct the voice traffic across the network) in the United States, Canada, Australia, Europe and Japan;

approximately 350 interconnection points to the Company's network, or points of presence (POPs), within its service regions and other markets;

undersea and land-based fiber optic transmission line systems that PRIMUS owns or leases 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 the Company's partners in over 150 countries.

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

international and domestic long distance services over the traditional network;

wholesale and retail VOIP services;

wireless services;

prepaid services, toll-free services and reorigination services;

dial-up, dedicated and high-speed Internet access;

local voice services;

ATM+IP broadband services; and

managed and shared Web hosting services and applications.

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Generally, PRIMUS prices its services competitively or at a discount with the major carriers and service providers operating in its principal service regions. PRIMUS seeks to continue to generate net revenue through sales and marketing efforts focused on customers with significant communications needs (international and domestic voice, wireless, VOIP, high speed and dial-up Internet and data), including SMEs, multinational corporations, residential customers, and other telecommunications carriers and resellers. PRIMUS also seeks growth opportunities through acquisitions.

Since 2005, we have selectively targeted opportunities to participate in growth areas for telecommunications local, wireless, broadband, and VOIP, which we call our new products or new product initiatives. Our approach in these areas has common elements: focus on bundling services to end-user customers; leverage our existing global voice, data and Internet network; and utilize established distribution channels and back-office systems.

### **Other Information**

PRIMUS was incorporated in Delaware in 1994. The principal executive offices of PRIMUS is located at 7901 Jones Branch Drive, Suite 900, McLean, Virginia 22102, and the telephone number at that address is (703) 902-2800.

### **The Securities We May Offer**

We may offer shares of common stock and preferred stock, various series of debt securities, as referenced on the cover page of this prospectus, and warrants to purchase any of such securities with a total value of up to \$200 million from time to time under this prospectus at prices and on terms to be determined by market conditions at the time of offering. Any preferred stock that we may offer may be offered either as shares of preferred stock or be represented by depositary shares. This prospectus provides you with a general description of the securities we may offer. Each time we offer a type or series of securities, we will provide a prospectus supplement that will describe the specific amounts, prices and other important terms of the securities, including, to the extent applicable:

the specific issuer or issuers of the securities;

designation or classification;

aggregate principal amount or aggregate offering price;

maturity;

original issue discount, if any;

rates and times of payment of interest or dividends, if any;

redemption, conversion, exchange or sinking fund terms, if any;

conversion or exchange prices or rates, if any, and, if applicable, any provisions for changes to or adjustments in the conversion or exchange prices or rates and in the securities or other property receivable upon conversion or exchange;

ranking;



restrictive covenants, if any;

voting or other rights, if any; and

important federal income tax considerations.

The prospectus supplement also may add, update or change information contained in this prospectus or in documents we have incorporated by reference into this prospectus.

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**This prospectus may not be used to offer or sell any securities unless accompanied by a prospectus supplement.**

We may sell the securities directly to or through agents, underwriters or dealers. We, and our agents or underwriters, reserve the right to accept or reject all or part of any proposed purchase of securities. If we do offer securities through agents or underwriters, we will include in the applicable prospectus supplement:

the names of those agents or underwriters;

applicable fees, discounts and commissions to be paid to them;

details regarding over-allotment options, if any; and

the net proceeds to us.

**Common Stock.** We may issue shares of our common stock from time to time. Holders of our common stock are entitled to one vote per share for the election of directors and on all other matters that require stockholder approval. Subject to any preferential rights of any outstanding preferred stock, in the event of our liquidation, dissolution or winding up, holders of our common stock are entitled to share in the assets remaining after payment of liabilities and the liquidation preferences of any outstanding preferred stock. Our common stock does not carry any preemptive rights enabling a holder to subscribe for, or receive shares of, any class of our common stock or any other securities convertible into shares of any class of our common stock, or any redemption rights.

**Preferred Stock.** We may issue shares of our preferred stock from time to time, in one or more series. Under our certificate of incorporation, our board of directors has the authority, without further action by stockholders, to designate up to 2,455,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges, qualifications and restrictions granted to or imposed upon the preferred stock, including dividend rights, conversion rights, voting rights, rights and terms of redemption, liquidation preference and sinking fund terms, any or all of which may be greater than the rights of the common stock. To date, our board of directors has designated 1,044,950 of the 2,455,000 authorized shares of preferred stock, including 455,000 shares as Series A Junior Participating Preferred Stock, 30,000 shares as Series B Junior Participating Preferred Stock ( Series B Preferred ) and 559,950 shares as Series C Convertible Preferred Stock ( Series C Preferred ).

We will fix the rights, preferences, privileges, qualifications and restrictions of the preferred stock of each series that we sell under this prospectus and applicable prospectus supplements in the certificate of designation relating to that series. We will reflect in the prospectus supplement any certificate of designation that describes the terms of the series of preferred stock we are offering before the issuance of the related series of preferred stock. We urge you to read the prospectus supplements related to the series of preferred stock being offered, as well as the complete certificate of designation that contains the terms of the applicable series of preferred stock.

**Depository Shares.** We may elect to offer fractional shares of preferred stock rather than full shares of preferred stock and, in that event, will issue receipts for depository shares. Each of these depository shares will represent a fraction, which will be set forth in the applicable prospectus supplement, of a share of the applicable series of preferred stock.

Any depository shares that we sell under this prospectus will be evidenced by depository receipts issued under a deposit agreement between us and a depository with whom we deposit the shares of the applicable series of preferred stock that underlie the depository shares that are sold. A form of deposit agreement, including a form of depository receipt, has been filed as an exhibit to the registration statement

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of which this prospectus is a part, and supplements to those forms containing other terms of any depositary shares that we sell under this prospectus will be included in a prospectus supplement that we will file with the SEC. We urge you to read the prospectus supplements related to any depositary shares being sold, as well as the complete deposit agreement and depositary receipt.

***Debt Securities.*** We may issue debt securities from time to time, in one or more series, as either senior or subordinated debt or as senior or subordinated convertible debt. The senior debt securities will rank equally with unsubordinated debt outstanding and may be secured or unsecured. The subordinated debt securities will be subordinate and junior in right of payment, to the extent and in the manner described in the instrument governing the subordinated debt, to all or some portion of our indebtedness. Any convertible debt securities that we issue will be convertible into or exchangeable for our common stock or other securities. Conversion may be mandatory or at your option and would be at prescribed conversion rates.

The debt securities will be issued under one or more documents called indentures, which are contracts between us and a trustee for the holders of the debt securities. In this prospectus, we have summarized certain general features of the debt securities. We urge you, however, to read the prospectus supplements related to the series of debt securities being offered, as well as the complete indentures that contain the terms of the debt securities. Indentures have been filed as exhibits to the registration statement of which this prospectus is a part, and supplemental indentures and forms of debt securities containing the terms of debt securities being offered will be summarized in prospectus supplements we will file in the future with the SEC.

***Warrants.*** We may issue warrants for the purchase of our common stock, preferred stock, depositary shares and/or debt securities in one or more series, from time to time. We may issue warrants independently or together with common stock, preferred stock, depositary shares and/or debt securities, and the warrants may be attached to or separate from those securities.

The warrants will be evidenced by warrant certificates issued under one or more warrant agreements, which are contracts between us and an agent for the holders of the warrants. In this prospectus, we have summarized certain general features of the warrants. We urge you, however, to read the prospectus supplements related to the series of warrants being offered, as well as the complete warrant agreements and warrant certificates that contain the terms of the warrants. Forms of warrant agreements and warrant certificates relating to warrants for the purchase of common stock, preferred stock, depositary shares and debt securities have been filed as exhibits to the registration statement of which this prospectus is a part, and complete warrant agreements and warrant certificates containing the terms of the warrants being offered will be incorporated by reference into the registration statement of which this prospectus is a part from reports we file in the future with the SEC.

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**RISK FACTORS**

*Any purchase of the securities offered under this prospectus involves a high degree of risk. You should consider carefully the following information about these risks, together with the information under the caption "Forward-Looking Information" and the other information contained in or incorporated by reference to this prospectus before you decide to buy the securities. If any of the following risks actually materializes, our business, financial condition, results of operations and future growth prospects would likely be materially adversely affected. In these circumstances, the market price of our securities would likely decline, and you may lose all or part of the money you paid to buy the securities.*

**Risks Related to PRIMUS's Business**

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

In performing an internal control assessment at the end of 2006, our management identified a material weakness in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, that adversely affects a company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. For a discussion of the material weaknesses identified by our management, see "Controls and Procedures." 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; or (4) the loss or impairment of investor confidence in our Company.

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

There are substantial risks and uncertainties in our future operating results, particularly as aggressive pricing and bundling strategies by certain incumbent carriers and ILECs have intensified competitive pressures in the markets where we operate, and/or if we have insufficient financial resources to market our services. The aggregate anticipated margin contribution from our new products may not be adequate in amount or timing to offset the declines in margin from our legacy long distance voice and dial-up ISP business. In addition, regulatory decisions could have a material adverse impact on our operations and outlook. See also information under "Management's Discussion and Analysis of

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Financial Condition and Results of Operations Liquidity and Capital Resources Short- and Long-Term Liquidity Considerations and Risks incorporated by reference in this prospectus from our reports on Form 10-K and 10-Q filed with the SEC (the Incorporated SEC Filings ) 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 may incur additional indebtedness in the future. As of March 31, 2007, our total consolidated indebtedness (including obligations under capital leases and equipment financings) was \$699 million. The terms of the notes and our other indebtedness limit, but do not prohibit, the incurrence of additional indebtedness.

The level of our indebtedness:

could make it difficult for us to make required payments of principal and interest on our outstanding debt and future debt, including the notes;

could limit our ability to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements or other purposes;

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;

could limit our flexibility in planning for, or reacting to, changes in our business;

results in our being more highly leveraged than many of our competitors, which may place us at a competitive disadvantage;

will make us more vulnerable in the event of a downturn in our business; and

could limit our ability to sell assets partially or fund our operations due to covenant restrictions.

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

As of December 31, 2006, we had an accumulated deficit of \$(1,088.0) million. We incurred net losses of \$(34.6) million in 2002, \$(10.6) million in 2004, \$(154.4) million in 2005, and \$(238.0) million in 2006. During the year ended December 31, 2003, we recognized net income of \$54.8 million, of which \$39.4 million is the positive impact of foreign currency transaction gains. We cannot assure you that we will recognize net income, or reverse net revenue declines, in future periods. If we cannot generate net income or operating profitability, we may not be able to meet our debt service or working capital requirements.

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***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. Future operations involving these individual or bundled services may not succeed in this new competitive environment. Therefore, we may not be able to operate or expand successfully; we may experience margin pressure; we may face quarterly revenue and operating results variability; we may have limited resources to develop and to market the new services; and we may have heightened difficulty in establishing future revenues or results. As a result, there can be no assurance that we will reverse recent revenue declines or maintain or increase revenues or be able to generate income from operations or net income in the future or on any predictable or timely basis.

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

In June 2005, the FCC adopted new rules requiring VOIP providers interconnected to the public switched telephone network (PSTN) to provide E911 service in a manner similar to traditional wireline carriers by November 2005. LINGO, a subsidiary of ours which sells VOIP services, was unable 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 April 19, 2007, approximately 10% of our LINGO customers were without E911 service. We also participated in a legal challenge to these rules, but the U.S. Court of Appeals for the District of Columbia Circuit denied our petition for review of the FCC's rules on December 15, 2006.

LINGO's current services are more limited than the E911 services offered by traditional wireline telephone companies. These limitations may cause significant delays, or even failures, in callers' receipt of the emergency assistance they need as required by the FCC. We have notified our customers of the differences between our Emergency Calling Service and E911 services and those available through traditional telephony providers and have received affirmative acknowledgement from substantially all of our customers. Nevertheless, injured customers may attempt to hold us responsible for any loss, damage, personal injury or death suffered as a result of our failure to comply with the FCC mandated E911 service. Our resulting liability could be significant.

In addition, 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 or penalties or injunctions prohibiting LINGO from providing service in some markets.

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

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

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

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

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encounter delays or cost-overruns or suffer other adverse consequences in implementing new systems when required. In addition, our operating and financial control systems and infrastructure could be inadequate to ensure timely and accurate financial reporting.

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

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

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

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



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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.

***A deterioration in our relationships with facilities-based carriers could have a material adverse effect upon our cost structure, service quality and network diversity.***

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

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

We have significant international operations and, as of March 31, 2007, derived 80% of our net revenues by providing services outside of the United States. In international markets, we are smaller than the principal or incumbent telecommunications carrier that operates in each of the foreign jurisdictions where we operate. In these markets, incumbent carriers are likely to control access to, and pricing of, the local networks; enjoy better brand recognition and brand and customer loyalty; generally offer a wider range of product and services; and have significant operational economies of scale, including a larger backbone network and more correspondent agreements. Moreover, the incumbent carrier may take many months to allow competitors, including us, to interconnect to our switches within our territory, and we are dependent upon their cooperation in migrating customers onto our network. There can be no assurance that we will be able to obtain the permits and operating licenses required for us to operate; obtain access to local transmission facilities on economically acceptable terms; or market services in international markets. In addition, operating in international markets generally involves additional risks, including unexpected changes in regulatory requirements, taxes, tariffs, customs, duties and other trade barriers, difficulties in staffing and managing foreign operations, problems in collecting accounts receivable, political risks, fluctuations in currency exchange rates, restrictions associated with the repatriation of funds, technology export and import restrictions, and seasonal reductions in business activity. Our ability to operate and grow our international operations successfully could be adversely impacted by these risks and uncertainties particularly in light of the fact that we derive such a large percentage of our revenues from outside of the United States.

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

A significant portion of our net revenue is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the United States dollar (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 a significant portion of our net revenue and incur a significant portion of our operating costs outside the United States, and changes in exchange rates have had and may have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused by fluctuations in the following exchange rates: USD/Australian dollar (AUD), USD/Canadian dollar (CAD), USD/British pound (GBP), and USD/Euro (EUR). See "Quantitative and Qualitative Disclosures about Market Risk" incorporated by reference in this prospectus from the Incorporated SEC Filings. Due to the large

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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 and, except for the forward currency exchange contract required by the new Canadian credit facility in the second quarter of 2007, do not currently contemplate engaging in hedging transactions to mitigate foreign exchange risks. 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, 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.

***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

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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. 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 VOIP emergency calling services in a manner required by the FCC that is not yet available commercially on a nation-wide basis and the ability to access broadband networks owned and operated by others; if regulators decide that VOIP is a regulated telecommunications service, our VOIP services may be subject to burdensome regulatory requirements and fees, we may be obligated to pay carriers additional interconnection fees and operating costs may increase; (3) general changes in access charges, universal service and regulatory fee payments would affect our cost of providing long distance services; (4) the ultimate regulatory resolution regarding efforts by Telstra in Australia to increase prices and charges and to build a new broadband network that could adversely impact our current DSL network; and (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. Any adverse developments implicating the foregoing could materially adversely affect our business, financial condition, result of operations and prospects.

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*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.

### **Risks Related to an Investment in the Senior Notes**

*Our holding company structure may limit your recourse to our subsidiaries' assets.*

Creditors of a holding company, such as the holders of senior notes offered under this prospectus, and the holding company itself (i.e., PRIMUS) generally will have subordinate claims against the assets of a particular subsidiary as compared to the creditors of that subsidiary. Accordingly, the senior notes offered under this prospectus will be structurally subordinated to all existing and future debt and other liabilities of our subsidiaries, including trade payables. As of March 31, 2007, PRIMUS's subsidiaries had outstanding debt and other liabilities (including trade payables, but excluding intercompany loans) of approximately \$540 million. Our right to receive assets of any subsidiary upon the liquidation or reorganization of that subsidiary (and the consequent rights of the holders of the notes to participate in those assets) will be subject to existing liens and security obligations and will be structurally subordinated to the claims of that subsidiary's creditors. Even if we are recognized as a creditor of that subsidiary as a result of an intercompany loan, such claims would be subordinate to any secured indebtedness of such subsidiary and any indebtedness of such subsidiary that is senior to such claims. Each of PRIMUS and Holding has no significant assets other than cash and the stock of, and intercompany loans payable by, their respective subsidiaries. Moreover, our subsidiaries (and we) are party to credit facility and indenture arrangements whereby the stock of most of our subsidiaries are pledged to secure such credit facility and indenture obligations and any claims you may have as a debtholder against the stock of the subsidiaries would be subordinate to claims of the lenders under such credit facility or indenture arrangements.

*We may not be able to pay interest and principal on the senior notes offered under this prospectus if we do not receive distributions from our subsidiaries.*

Each of PRIMUS and Holding has no independent operations and no significant assets other than the stock of, and intercompany loans payable by, our operating subsidiaries, and cash. Dividends, intercompany loans and other permitted payments from our direct and indirect subsidiaries, and credit arrangements, are our sources of funds to meet our cash needs, including the payment of expenses and principal and interest on senior notes under this prospectus. Our subsidiaries are legally distinct from us and have no obligations to pay amounts due with respect to the senior notes under this prospectus or to otherwise make funds available to us. Many of our subsidiaries are organized in jurisdictions outside the United States. Their ability to pay dividends, repay intercompany loans or make other distributions may be restricted by, among other things, the availability of funds, the terms of various credit arrangements entered into by them, as well as statutory and other legal restrictions. Additionally, payments from our subsidiaries may result in adverse tax consequences. If we do not receive dividends, distributions and other payments from our subsidiaries, we would be restricted in our ability to pay interest and principal on the debt securities offered under this prospectus and other indebtedness and in our ability to use cash flow from one subsidiary to cover shortfalls in working capital at another subsidiary.

*Holding's ability to repurchase notes with cash upon a change of control may be limited.*

In certain circumstances involving a Change of Control (as defined below under "Description of the Notes—Certain Definitions"), the holders of the notes may require Holding to repurchase some or all of the

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holders' notes. No assurances can be made that Holding or PRIMUS will have sufficient financial resources at such time or would be able to arrange financing to pay the repurchase price of the notes in cash. Holding's or PRIMUS's ability to repurchase the notes in cash in such event may be limited by law, by the indenture or by the terms of other agreements. In addition, a Change of Control may trigger repayment obligations under the terms of other indebtedness. Holding and PRIMUS may not have, or be able to raise, sufficient funds to satisfy all of their repayment or repurchase obligations.

*If an active trading market for the notes does not develop, then the market price of the notes may decline or you may not be able to sell your notes.*

No assurances can be made that any liquid market will develop for the notes or that holders of the notes will be able to sell their notes, and no assurances can be made concerning the price at which the holders will be able to sell their notes. Before this offering, there has been no trading market for the notes. Holding has applied for the notes to be approved for trading in the PORTAL<sup>SM</sup> Market. Although the initial purchasers of the notes have advised Holding that they intend to make a market in the notes, they are not obligated to do so. The initial purchasers could stop making a market at any time without notice. Accordingly, no market for the notes may develop, and any market that develops may not last. Neither Holding nor PRIMUS intends to apply for listing of the notes on any securities exchange or other stock market (other than the PORTAL<sup>SM</sup> Market). The liquidity of the trading market and the trading price of the notes may be adversely affected by declines in the trading price of PRIMUS's common stock and its other public debt securities, by changes in our financial performance or prospects and by changes in the financial performance of or prospects for companies in our industry generally.

### **Risks Relating to an Investment in PRIMUS Common Stock**

*Future issuances of common stock could adversely impact our earnings per share and create selling pressure on our common stock, which could adversely affect our stock price.*

As of April 30, 2007, we had 114,132,540 outstanding shares of our common stock that were subject to dilution by:

46.9 million shares of common stock, subject to potential adjustment, issuable upon exchange of our subsidiary's 5% Exchangeable Senior Notes;

7.8 million shares of common stock issuable upon the exercise of outstanding stock options;

23.2 million shares issuable upon the conversion of the 2006 Step Up Convertible Notes; and

8.3 million shares issuable upon conversion of the 2003 Convertible Senior Notes.

We may also issue a significant number of additional shares of common stock as consideration for future acquisitions or other investments or for other purposes. Under this prospectus, we may sell up to an aggregate of \$200 million of debt and equity securities from time to time. Future issuances of common stock could adversely impact our earnings per share by diluting our outstanding common stock, which could adversely affect our stock price. Sales of a substantial amount of newly issued common stock in the public market, or the perception that these sales may occur, could adversely affect the market price of our common stock prevailing from time to time in the public market and could impair our ability to raise funds in additional stock offerings.

*The market price of our common stock may decline and fluctuate significantly.*

In recent years, the market prices for securities of companies in the telecommunications industry have declined substantially and have been highly volatile. Various factors and events may cause the

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market price of our common stock to decline or fluctuate significantly. Such factors and events include the liquidity of the market for our common stock, variations in our quarterly operating results and our growth strategies, regulatory, technological or other changes (both domestic and international) affecting the telecommunications industry generally, our competitors' business developments, changes in the cost of telecommunications service or other operating costs and changes in general market conditions.

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

As of March 31, 2007, funds affiliated with American International Group, Incorporated (AIG Entities) beneficially owned approximately 14.5% 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 (who we refer to as the Former Series C 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, among other things, provide for their right to nominate a candidate for election by our stockholders to the board of directors and nominate one non-voting board observer, in each case subject to the maintenance of certain minimum ownership levels of our common stock and the board's right to exercise its fiduciary duties.

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

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

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

### ***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.

### ***Anti-takeover provisions could impede or discourage a third party acquisition.***

We are a Delaware corporation and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of our company, even if a change in control would be beneficial to our existing stockholders. In addition, our board of directors has the power, without stockholder approval, to designate the terms of one or more series of preferred stock and issue

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shares of preferred stock, which could be used defensively if a takeover is threatened. We also have adopted a Rights Agreement, commonly known as a poison pill, that entitles our stockholders to acquire additional shares of our common stock, or a potential acquirer of our company, at a substantial discount from their market value in the event of an attempted takeover, unless such stockholders' rights are earlier redeemed or exchanged by us in the discretion of our board of directors. Our by-laws provide for a classified board of directors serving staggered three-year terms and restrictions on who may call a special meeting of stockholders, and our certificate of incorporation prohibits stockholder action by written consent. The indentures governing our outstanding notes and public debt require that we offer to repurchase such debt or notes upon a change of control. Lastly, all options issued under our stock option plans automatically vest upon a change of control. Our incorporation under Delaware law, our board of directors' ability to create and issue a new series of preferred stock, the acceleration of the vesting of options, the existence of our Rights Agreement, the requirement to repurchase senior notes and the notes, and certain provisions of our certificate of incorporation or by-laws could impede a merger, takeover or other business combination involving our company or discourage a potential acquirer from making a tender offer for our common stock, which, under certain circumstances, could reduce the market value of our common stock.

**Table of Contents****RATIO OF EARNINGS TO FIXED CHARGES**

The following table presents the historical ratios of earnings to fixed charges of PRIMUS for the periods indicated:

	Quarter Ended						
	Fiscal Year Ended December 31,					March 31,	
	2006	2005	2004	2003	2002	2007	2006
Ratio of earnings to fixed charges (1)	<1	<1	<1	1.91	<1	<1	<1

(1) The ratio of earnings to fixed charges is computed by dividing pre-tax income from continuing operations (before adjustment for minority interest in consolidated subsidiaries and loss from equity investees) by fixed charges. Fixed charges consist of interest charges, whether expensed or capitalized, and that portion of rental expense PRIMUS believes to represent interest.

For the years ended December 31, 2006, 2005, 2004 and 2002, earnings were insufficient to cover fixed charges by \$243.9 million, \$153.5 million, \$7.8 million and \$25.1 million, respectively. For the quarter ended March 31, 2007 and 2006, earnings were insufficient to cover fixed charges by \$7.8 million and \$15.5 million, respectively.

**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 our board of directors and will depend on our earnings, capital requirements and financial condition. Dividends are also restricted by certain of the indentures governing our outstanding notes and may be restricted by other credit arrangements entered into in the future. See Risks Related to an Investment in our Debt Securities. We may not be able to pay interest and principal on the notes if we do not receive distributions from our subsidiaries. Our board of directors presently intends to retain all earnings, if any, for use in our business operations, and accordingly, our board of directors does not expect to declare or pay any dividends in the foreseeable future.

**SELECTED FINANCIAL DATA**

The following selected financial data should be read in conjunction with our consolidated and consolidated condensed financial statements, the notes thereto, and with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in documents incorporated by reference into this prospectus. The statement of operations data for the years ended December 31, 2006, 2005, 2004, 2003 and 2002 and the balance sheet data as of December 31, 2006, 2005, 2004, 2003 and 2002 have been derived from our consolidated financial statements, which have been audited by Deloitte & Touche LLP, independent registered public accounting firm. The statement of operations data for the three months ended March 31, 2007 and 2006, and the balance sheet data as of March 31, 2007 and 2006, have been derived from the unaudited consolidated condensed financial statements which, in management's opinion, include all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the information set forth therein. You should not rely on interim results as being indicative of results we may expect for the full year.



**Table of Contents****Statement of Operations Data:**

	Year Ended December 31,					Three Months Ended	
	2006	2005	2004	2003	2002	March 31, 2007	2006
	(in thousands, except per share amounts)						
NET REVENUE	\$ 1,007,255	\$ 1,173,018	\$ 1,337,129	\$ 1,277,725	\$ 1,018,464	\$ 227,945	\$ 268,521
OPERATING EXPENSES							
Cost of revenue (exclusive of depreciation included below)	662,186	778,227	814,400	780,998	665,945	145,096	178,662
Selling, general and administrative	286,189	377,794	391,457	340,424	252,537	68,813	76,262
Depreciation and amortization	47,536	86,562	91,699	85,006	81,553	6,578	17,598
Loss on sale or disposal of assets	16,097	13,364	1,941	804		8	1,012
Asset impairment write-down	209,248*		1,624	2,130	22,337		
Total operating expenses	1,221,256	1,255,947	1,301,121	1,209,362	1,022,372	220,495	273,534
INCOME (LOSS) FROM OPERATIONS	(214,001)	(82,929)	36,008	68,363	(3,908)	7,450	(5,013)
INTEREST EXPENSE	(54,169)	(53,436)	(50,523)	(60,733)	(68,303)	(13,439)	(13,678)
ACCRETION ON DEBT DISCOUNT	(1,732)					(298)	(392)
CHANGE IN FAIR VALUE OF DERIVATIVES EMBEDDED WITHIN CONVERTIBLE DEBT	5,373						2,523
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	7,409*	(1,693)	(10,982)	12,945	36,675	(5,959)	2,613
INTEREST INCOME AND OTHER INCOME (EXPENSE)	3,693	2,282	11,108	(1,659)	(786)	1,497	568
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	10,633	(17,628)	6,588	39,394	8,486	2,975	(2,012)
INCOME (LOSS) BEFORE INCOME TAXES	(242,794)	(153,404)	(7,801)	58,310	(27,836)	(7,774)	(15,391)
INCOME TAX BENEFIT (EXPENSE)	(4,866)	(3,808)	(5,686)	(5,701)	3,598	(1,005)	(1,249)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(247,660)	(157,212)	(13,487)	52,609	(24,238)	(8,779)	(16,640)
INCOME FROM DISCONTINUED OPERATIONS, net of tax	2,287	2,832	2,906	1,259	608	179	942
GAIN ON SALE OF DISCONTINUED OPERATIONS, net of tax	7,415*					5,958	
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(237,958)	(154,380)	(10,581)	53,868	(23,630)	(2,642)	(15,698)
EXTRAORDINARY ITEM				887			
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(237,958)	(154,380)	(10,581)	54,755	(23,630)	(2,642)	(15,698)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE					(10,973)		

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NET INCOME (LOSS)	(237,958)	(154,380)	(10,581)	54,755	(34,603)	(2,642)	(15,698)
ACCREDITED AND DEEMED DIVIDEND ON CONVERTIBLE PREFERRED STOCK				(1,678)			
<b>INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS</b>	<b>\$ (237,958)</b>	<b>\$ (154,380)</b>	<b>\$ (10,581)</b>	<b>\$ 53,077</b>	<b>\$ (34,603)</b>	<b>\$ (2,642)</b>	<b>\$ (15,698)</b>
BASIC INCOME (LOSS) PER COMMON SHARE FROM CONTINUING OPERATIONS	\$ (2.20)	\$ (1.65)	\$ (0.15)	\$ 0.74	\$ (0.38)	\$ (0.08)	\$ (0.15)
BASIC INCOME FROM DISCONTINUED OPERATIONS	0.02	0.03	0.03	0.02	0.01		
BASIC GAIN ON SALE OF DISCONTINUED OPERATIONS EXTRAORDINARY ITEM	0.06			0.01		0.06	
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE					(0.17)		
<b>BASIC INCOME (LOSS) PER COMMON SHARE</b>	<b>\$ (2.12)</b>	<b>\$ (1.62)</b>	<b>\$ (0.12)</b>	<b>\$ 0.77</b>	<b>\$ (0.54)</b>	<b>\$ (0.02)</b>	<b>\$ (0.15)</b>
DILUTED INCOME (LOSS) PER COMMON SHARE FROM CONTINUING OPERATIONS	\$ (2.20)	\$ (1.65)	\$ (0.15)	\$ 0.55	\$ (0.38)	\$ (0.08)	\$ (0.15)
DILUTED INCOME FROM DISCONTINUED OPERATIONS	0.02	0.03	0.03	0.01	0.01		
DILUTED GAIN ON SALE OF DISCONTINUED OPERATIONS EXTRAORDINARY ITEM	0.06			0.01		0.06	
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE					(0.17)		
<b>DILUTED INCOME (LOSS) PER COMMON STOCKHOLDERS</b>	<b>\$ (2.12)</b>	<b>\$ (1.62)</b>	<b>\$ (0.12)</b>	<b>\$ 0.57</b>	<b>\$ (0.54)</b>	<b>\$ (0.02)</b>	<b>\$ (0.15)</b>

**Table of Contents****Balance Sheet Data:**

	2006	2005	December 31, 2004	2003	2002	March 31, 2007	March 31, 2006
	(in thousands)						
Total assets	\$ 392,250	\$ 641,089	\$ 758,600	\$ 751,164	\$ 724,588	\$ 432,545	\$ 624,334
Total long-term obligations (including current portion)	\$ 644,074	\$ 635,212	\$ 559,352	\$ 542,451	\$ 600,988	\$ 699,212	\$ 625,027
Convertible preferred stock	\$	\$	\$	\$	\$ 32,297	\$	\$
Total stockholders' deficit	\$ (468,255)	\$ (236,334)	\$ (108,756)	\$ (96,366)	\$ (200,123)	\$ (478,448)	\$ (246,504)

\* Refer to discussion in Notes 16, 17 and 18 of the Notes to Consolidated Financial Statements incorporated by reference to our Annual Report on Form 10-K filed with the SEC on March 30, 2007 for more information.

For a narrative discussion of our results of operations, financial condition, capital resources and liquidity, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations which is contained in the Incorporated SEC Filings.

**CONTROLS AND PROCEDURES****Evaluation of Disclosure Controls and Procedures.**

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of December 31, 2006 and March 31, 2007. Based on these evaluations, as a result of the material weakness described below, our principal executive officer and our principal financial officer have concluded that, as of the end of the periods covered by these reports, our disclosure controls and procedures were not effective. Disclosure controls and procedures mean our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

**Evaluation of Internal Control Over Financial Reporting.**

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

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**Changes in Internal Control.**

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of March 31, 2007. Based on th