PRIMUS TELECOMMUNICATIONS GROUP INC
Form POS AM
April 21, 2005
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As filed with the Securities and Exchange Commission on April 21, 2005

Registration No. 333-109902

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

POST-EFFECTIVE AMENDMENT NO. 3 TO

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

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, Virginia 22102

(703) 902-2800

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

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)

Copies to:

Brian J. Lynch

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8300 Greensboro Drive

McLean, Virginia 22102

Tel: (703) 610-6100

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

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, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

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 delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

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 WHICH 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 COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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PROSPECTUS

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

$132,000,000

3 3/4% Convertible Senior Notes due September 15, 2010 and Shares of Common Stock Issuable upon Conversion of the Notes

This prospectus covers resales by selling securityholders of our 3 3/4% convertible senior notes due September 15, 2010 (the notes) and shares of our common stock into which the notes are convertible.

The holders of the notes may convert the notes into shares of our common stock at any time at a conversion price of $9.3234 per share which is equivalent to a conversion rate of 107.257 shares per each $1,000 principal amount of notes, subject to adjustment in specified events.

We will pay interest on the notes on March 15 and September 15 of each year. The first interest payment will be made on March 15, 2004.

Upon the occurrence of a change of control, holders of the notes may require us to repurchase some or all of their notes for cash, common stock or a combination of cash and common stock.

The notes are our senior unsecured obligations and rank equally in right of payment with all of our existing and future senior debt and senior in right of payment to all of our existing and future subordinated debt. The notes are effectively subordinated to all of our existing and future secured debt to the extent of the value of the collateral securing such debt and structurally subordinated to all existing and future debt and other liabilities of our subsidiaries.

Prior to this offering, the notes have been eligible for trading on the PORTAL Market of the Nasdaq Stock Market. Notes sold by means of this prospectus are not expected to remain eligible for trading on the PORTAL Market. We do not intend to list the notes for trading on any national securities exchange or on the Nasdaq National Market.

Our common stock currently trades on the Nasdaq National Market under the symbol PRTL. The last reported sale price on April 19, 2005 was $1.53 per share.

See <u>Risk Factors</u> beginning on page 6 of this prospectus to read about factors you should consider before buying the notes or our common stock.

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.

The date of this prospectus is April 21, 2005

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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 notes, the common stock issuable upon conversion of the notes 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.

PRIMUS

Primus Telecommunications Group, Incorporated and our subsidiaries (which, except as expressly noted otherwise, we refer to as we us or Primus in this prospectus), are an integrated telecommunications services provider offering a portfolio of international and domestic voice, wireless, Internet, voice-over-Internet protocol (VOIP), data and hosting services to business and residential retail customers and other carriers located primarily in the United States, Australia, Canada, the United Kingdom and Europe. Our focus is to service the demand for high quality, competitively priced international communications services that is being driven by the globalization of the world s economies, the worldwide trend toward telecommunications deregulation and the growth of 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 domestic and international gateway switching systems (the hardware/software devices that direct the voice traffic across the network) in North America, Australia, Europe and Japan;

approximately 250 interconnection points to our network, or points of presence (POPs), within our service regions and other markets;

undersea and land-based fiber optic transmission line systems that we own or lease and that carry voice and data traffic across the network; 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.

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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 the traditional network;
- wholesale and retail VOIP services;
- wireless services;
- prepaid calling cards, 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.

Generally, we price our services competitively with the major carriers operating in our principal service regions. We expect to continue to generate net revenue from internal growth through sales and marketing efforts focused on customers with significant communications needs (international and domestic voice, wireless, VOIP, Internet and data), including SMEs, multinational corporations, residential customers, particularly ethnic customers, and other telecommunications carriers and resellers, as well as acquisitions.

In February 2004, we announced a strategy to transform the company from its core business of long distance voice and dial-up Internet service provider (ISP) services into an integrated provider of local, VOIP, broadband and wireless services. To this end, we have introduced new strategic initiatives in local, wireless, broadband digital subscriber line (DSL) and VOIP services and have been accelerating the implementation of these initiatives throughout the second half of 2004, including the initial phases of a DSL network build-out in Australia. We believe these efforts will enhance our bundled service capabilities, and as a result, reduce the competitive vulnerability of our core retail long distance and dial-up ISP businesses. They should also provide us with long-term growth potential in local, wireless and broadband markets where we have previously not been a significant provider.

We are a Delaware corporation with our principal executive offices located at 7901 Jones Branch Drive, Suite 900, McLean, Virginia 22102. Our telephone number is (703) 902-2800 and our web site address is www.primustel.com. We make available free of charge through the Investors section of our web site our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). We include our web site address in this prospectus only as an inactive textual reference and do not intend it to be an active link to our web site.

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SECURITIES TO BE OFFERED

This prospectus relates to the offer and sale by the selling securityholders referenced in this prospectus of the following securities:

$132,000,000 convertible senior notes due September 15, 2010 and

shares of our common stock issuable upon conversion of the notes.

We issued and sold the notes in September 2003 to Lehman Brothers Inc., and Harris Nesbitt Corp., who are referred to in this prospectus as the initial purchasers, in transactions that were exempt from the registration requirements of the Securities Act of 1933. The initial purchasers believed that the persons to whom they resold the notes were qualified institutional buyers, as defined in Rule 144A under the Securities Act.

The following is a summary of the material terms and considerations concerning the securities offered under this prospectus.

Issuer	Primus Telecommunications Group, Incorporated.
Securities Offered	$132.0 million aggregate principal amount of 3 3/4% Convertible Senior Notes due 2010.
Maturity	September 15, 2010, unless earlier converted or repurchased, at your option, upon a change of control.
Interest Rate	3 3/4% per year. Interest will be payable semi-annually on March 15 and September 15 of each year, commencing March 15, 2004. The initial interest payment will include accrued interest from September 15, 2003.
Conversion Rights	Holders may convert their notes into our common stock at any time prior to the close of business on the business day prior to the maturity date of the notes, unless previously repurchased, at a conversion price of $9.3234 per share (equal to a conversion rate of 107.257 shares per $1,000 principal amount of notes), subject to adjustment as described under Description of the Notes Conversion Rights.
Sinking Fund	None.
Change of Control Put Right	Upon a change of control of Primus, each holder may require us to repurchase all or a portion of the notes held by it at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest thereon to, but excluding, the repurchase date. We may elect to pay the repurchase price with cash, our common stock or the common stock of the acquiring entity or its parent, or a combination of cash and common stock. If we pay the repurchase price in common stock, the common stock will be valued at 95% of the average closing sales price of the common stock on the Nasdaq National Market (or other national securities exchange on which the common stock is principally traded) for the five consecutive trading days ending on the third trading day prior to the repurchase date. See Description of the Notes Repurchase at Option of Holders Upon a Change of Control.
Events of Default	If there is an event of default on the notes, the principal amount of the notes, plus accrued and unpaid interest to the date of acceleration, may be declared immediately due and payable subject to certain

	conditions set forth in the indenture. These amounts automatically become due and payable in the case of certain types of bankruptcy or insolvency events of default involving Primus.
Ranking	The notes are our unsecured and unsubordinated obligations and rank equally in right of payment with all of our existing and future senior debt and rank senior in right of payment to all of our existing and future subordinated debt. In addition, the notes are effectively subordinated to all of our existing and future secured debt to the extent of the value of the collateral securing such debt, and structurally subordinated to all existing and future debt and other liabilities of our subsidiaries, including trade payables. The indenture governing the notes does not limit the amount of additional indebtedness that we can incur, assume or guarantee, nor does the indenture limit the amount of indebtedness and other liabilities that any subsidiary can incur, assume or guarantee. See Risk Factors Our high level of debt may adversely affect our financial and operating flexibility, Risk Factors Our high level of debt may adversely affect our ability to satisfy our obligations under the notes and Description of the Notes Ranking.
Use of Proceeds	We will not receive any proceeds from the sale of the notes or the shares of common stock offered by this prospectus. See Selling Securityholders.
Risk Factors	You should carefully consider the information set forth under Risk Factors in this document beginning on page 6 and all other information included or incorporated by reference in this document before deciding to purchase any notes.

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RISK FACTORS

Any purchase of the notes or the shares of our common stock issuable upon conversion of the notes 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 notes. 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 the notes or our common stock would likely decline, and you may lose all or part of the money you paid to buy the notes.

Risks Related to Our Business

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

We currently have substantial indebtedness and we and our subsidiaries may incur additional indebtedness in the future. As of December 31, 2004, our total consolidated indebtedness (including obligations under capital leases and equipment financings) was $559.4 million. After adding the effect of the $100 million term loan borrowing we completed on February 18, 2005, total consolidated indebtedness, pro forma as of December 31 2004 (Pro Forma Debt), would equal $659.4 million. The indenture governing the notes does not limit the incurrence of additional indebtedness. In addition, the terms of 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, 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 our 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 us being more highly leveraged than many of our competitors, which may place us at a competitive disadvantage;
- could discourage potential acquirors from making offers to acquire us; and
- will make us more vulnerable in the event of a downturn in our business.

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

As of December 31, 2004, we had an accumulated deficit of $(695.7) million and a stockholder s deficit balance of $(108.8) million. We incurred net losses of $(174.7) million in 2000, $(306.2) million in 2001, $(34.6) million in 2002 and $(10.6) million in 2004. During the year ended December 31, 2003, we recognized net income of $54.8 million, a substantial portion of which can be attributed to foreign currency exchange rates that favorably impacted our results.

If we cannot attain and sustain net income or operating profitability, we may not be able to meet our debt service or working capital requirements. These developments could have a material adverse impact on the trading prices of the notes and our common stock. See our discussion of free cash flow at note 2 to Selected Financial Data.

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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 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 by fluctuations in the following exchange rates: USD/Australian dollar (AUD), USD/Canadian dollar (CAD), USD/British pound (GBP), and USD/Euro dollar (EUR). In the year ended December 31, 2004, the USD weakened compared to the AUD, CAD, GBP and EUR. As a result, our revenue of the subsidiaries whose local currency is AUD, CAD, GBP and EUR increased (decreased) 1%, 6%, 37% and (29)% in local currency compared to the year ended December 31, 2003, but increased (decreased) 14%, 14%, 54% and (22)% in USD, respectively. Due to the large percentage of our operations conducted outside of the United States, strengthening of the USD relative to one or more of the foregoing currencies could have an adverse impact on our future results of operations. We historically have not engaged in hedging transactions and 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 income (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 the 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.

We have limited experience in delivering new product initiatives and in providing bundled local, wireless, broadband, DSL, Internet, data and VOIP services.

During 2004, we accelerated initiatives to provide wireless, broadband, VOIP and local wireline services in certain markets where we operate. 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 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 and traditional voice services. Therefore, future operations involving these individual or bundled services may not succeed in this new competitive environment, we may not be able to expand successfully and we may experience margin pressure. As a result, there can be no assurance that we will maintain or increase revenues or that we will be able to generate income from operations or net income in the future or on any predictable basis.

Pricing and Bundling Pressure. The long distance telecommunications, Internet, broadband, DSL, data and wireless industry is significantly influenced by the marketing and pricing decisions of the larger long distance industry, Internet access, broadband, DSL 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. Our competitors

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in our core markets include, among others: AT&T, MCI, Sprint, 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, CallNet, Allstream (formerly AT&T Canada) and the major wireless companies in Canada; and BT, Cable & Wireless United Kingdom, MCI, Colt Telecom, Energis and the major wireless carriers in the United Kingdom. Customers frequently change long distance 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 we are and have substantially greater financial, technical and marketing resources, larger networks, a broader portfolio of service offerings, greater control over 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 could have a material adverse effect on our net revenue per minute, results of operations and financial condition if increases in telecommunications usage and potential cost declines do not result from, or are insufficient to offset the effects of, such price decreases. Many 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.

Given our limited experience with, and the intense competition in, the Internet connectivity and data business, we may not be able to successfully operate or expand this part of our business.

Since 1999, we have been targeting businesses and residential customers for Internet and data services through the Primus brand and other businesses. We have been expanding and intend to continue to expand our offering of Internet, data and VoIP services worldwide. We anticipate offering a broad range of Internet protocol-based data and voice communications over our global broadband ATM+IP network. Currently, we provide Internet access services to business and residential customers in the United States, Australia, Canada, Japan, India, Brazil, and Spain, and offer Internet transmission services in the Indian Ocean/Southeast Asia regions through our earth stations in India.

Our experience with these services and these markets is limited. Furthermore, the market for dial-up and broadband Internet connectivity and related services is extremely competitive. Our primary competitors include incumbent operators, cable companies and other Internet service providers (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 we will experience increased competition from traditional telecommunications carriers and cable companies that expand into the market for Internet services. Therefore, our future operations involving these services may not generate operating or net income or positive free cash flow on a predictable basis and we may not be able to successfully expand this part of our business. See our discussion of free cash flow at note 2 to Selected Financial Data.

If we do not operate our network efficiently and generate additional traffic, we may not be able to achieve our operational growth goals.

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

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network. If we fail to generate additional traffic on our network, if we experience technical or logistical impediments to our ability to migrate traffic 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.

Our potential future growth may place a significant strain on our resources and, if not managed effectively, could result in operational inefficiencies and other difficulties.

Our continued growth and expansion may place a significant strain on our management, operational and financial resources, and increase demand on our systems and controls. We have expanded our retail operations through our recent acquisition of the small- and medium-sized enterprise (SME) voice customer base of Cable & Wireless (C&W) in the United States and the expansion of our VMNS product, particularly in Europe. To manage our growth effectively, we must continue to implement and improve our operational and financial systems and controls, purchase and utilize other transmission facilities, and expand, 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 our customer support, billing and management information systems, 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. In addition, our operating and financial control systems and infrastructure could be inadequate to ensure timely and accurate financial reporting.

The integration of our recent and future 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 gross margins, improve service quality and enhance our ability to introduce new products and services. During 2002 and 2003, to further this growth strategy, we purchased the U.S.-based SME voice customers of C&W and made small purchases of businesses and assets to complement our Canadian-based operations. Future acquisitions may be pursued to further our strategic objectives, including those described above.

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 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 long distance telecommunications and data industry is intensely competitive with relatively limited barriers to entry in the more deregulated countries where we operate and with numerous entities competing for the same customers. Recent and pending deregulation in various countries may encourage new entrants to

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compete, including ISPs, cable television companies and utilities. 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, AT&T, MCI and other long distance carriers have been allowed to enter the local telephone services market, and any 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 such as ours. Currently, there are significant 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 to effectively retain our existing customer base and generate new customers, either through our network or our own VoIP offerings, may be adversely affected by accelerated competition arising as a result of VoIP initiatives. As competition intensifies as a result of deregulatory, market or technological developments, our results of operations and financial condition could be adversely affected.

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 could cause significant pricing pressures that could adversely affect our net revenues per minute, results of operations and financial condition.

The long distance telecommunications and data industry is significantly influenced by the marketing and pricing decisions of the larger long distance industry and Internet access business participants. Prices in the long-distance industry have declined 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. Our competitors in our core markets include, among others: AT&T, MCI, Sprint, the RBOCs and the major wireless carriers in the United States; Telstra, SingTel Optus and Telecom New Zealand in Australia; Telus, BCE, CallNet and Allstream (formerly AT&T Canada) in Canada; and British Telecommunications plc. (BT), Cable & Wireless UK, MCI, Colt Telecom, Energis and the major wireless carriers in the United Kingdom. Customers frequently change long distance providers and ISPs in response to the offering of lower rates or promotional incentives by competitors. Generally, customers can switch carriers 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 likely to become similar to the intense competition in the United States. Many of our competitors are significantly larger than we are and have:

- substantially greater financial, technical and marketing resources;
- larger networks;
- a broader portfolio of service offerings;
- greater control over transmission lines;
- stronger name recognition and customer loyalty;
- long-standing relationships with our target customers; and

lower 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, including most recently, AT&T, MCI, Sprint, the RBOCs and the major wireless carriers, have

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introduced pricing and product bundling strategies that provide for fixed, low rates for calls within the United States. This strategy could have a material adverse effect on our net revenue per minute, results of operations and financial condition if increases in telecommunications usage and potential cost declines do not result from, or are insufficient to offset the effects of, such price decreases. Many 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 materialize, we may not be able to compete successfully in the future.

Furthermore, recent and pending deregulation in various countries may encourage new entrants to compete, including ISPs, cable television companies and utilities. 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, AT&T, MCI and other long distance carriers have been allowed to enter the local telephone services market, and any 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 cost structure, service quality, network diversity, results of operations and financial condition.

We primarily connect our customers telephone calls 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. Moreover, we lease transmission lines from some vendors that currently are subject to tariff controls and other price constraints, which in the future may be changed.

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

We have significant international operations and, as of December 31, 2003, derive more than 75% of our 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, the incumbent carriers are likely to:

- control access to, and pricing of, the local networks;
- enjoy better brand recognition and brand and customer loyalty; 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 its switches within its territory. 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, tariffs, customs, duties and other trade barriers;

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- 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.

These general risks present potentially significant risk to us in the aggregate because we derive such a large percentage of our revenues from outside of the United States.

Our ability to operate and grow our international operations successfully could be adversely impacted by these risks and uncertainties.

Rapid changes in the telecommunications industry could adversely affect our competitiveness and our financial results.

The telecommunications industry is changing rapidly due to:

- deregulation;
- privatization;
- technological improvements;
- availability of alternative services such as wireless and VoIP;
- expansion of infrastructure; and

- the globalization of the world s economies.

In addition, alternative services to traditional fixed wireline services, such as wireless and VoIP services, are a substantial competitive threat. If we do not adjust our contemplated plan of development to meet changing market conditions, 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 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.

Terrorist attacks and other acts of violence or war may affect the market on which our securities trade, the markets in which we operate, our operations and our profitability.

We are a U.S.-based corporation with significant international operations. Terrorist attacks, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, subsequent worldwide terrorist actions, including apparent action against companies operating abroad may negatively affect our operations and your investment in Primus. We cannot assure you that there will not be further terrorist attacks that impact our employees, network facilities or support systems, either in the United States or in any of the other countries in which we operate. Certain losses resulting from these types of events are uninsurable and others are not likely to be covered by our insurance.

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Terrorist attacks may directly impact our business operations through damage or harm to our employees, network facilities or support systems, increased security costs or the general curtailment of voice or data traffic. Any of these events could result in increased volatility in or damage to Primus and the United States and worldwide financial markets and economies. They also could result in a continuation of the current economic uncertainty in the United States or abroad, which could have a material adverse effect on our operating results and financial condition.

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. Recent widespread regulatory changes in the United Kingdom and potential future regulatory, judicial, legislative and government policy changes in other jurisdictions where we operate could have a material adverse effect on us and 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 the following:

- United States common carrier requirements not to unreasonably discriminate among customers and to charge just and reasonable rates;

- general uncertainty regarding the future regulatory classification of VoIP telephony; 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 our operating costs may increase;

- general changes in access charges, universal service and regulatory fee payments would affect our cost of providing long distance services; and

- general changes in access charges and contribution payments could adversely affect our cost of providing long distance wireless and other services.

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

We are subject to competitive risks related to intellectual property and proprietary rights. 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 intellectually 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. The loss of, or 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 harm our business. These licenses are on standard commercial terms made generally available by the companies providing the licenses. The cost and terms of these licenses individually are not material to our business.

Risks Related to an Investment in the Notes

Our high level of debt may adversely affect our ability to satisfy our obligations under the notes.

We cannot assure you that we will be able to meet our debt service obligations. A default in our debt obligations, including a breach of any restrictive covenant imposed by the terms of our indebtedness, could result in the acceleration of a substantial portion of our indebtedness. In such a situation, it is unlikely we would be able to fulfill our obligations under the notes or otherwise repay the accelerated indebtedness or make other required payments. Even in the absence of an acceleration of our indebtedness, a default under the terms of our indebtedness could have an adverse impact on our ability to satisfy our debt service obligations, including our obligations under the notes, and on the trading price of the notes and our common stock.

We may not be able to pay interest and principal on the notes if we do not receive distributions from our subsidiaries.

We are a holding company with no operations of our own 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 our own credit arrangements, are our sources of funds to meet our cash needs, including the payment of expenses and principal and interest on the notes. Our subsidiaries are legally distinct from us and have no obligations to pay amounts due with respect to the notes or to otherwise make funds available to us. Our subsidiaries will not guarantee the notes. 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 notes and other indebtedness and in our ability to use cash flow from one subsidiary to cover shortfalls in working capital at another subsidiary.

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

Creditors of a holding company, such as the holders of the notes, and the holding company itself generally will have subordinate claims against the assets of a particular subsidiary as compared to the creditors of that subsidiary. Accordingly, the notes will be structurally subordinated to all existing and future debt and other liabilities of our subsidiaries, including trade payables. As of December 31, 2004, our subsidiaries had outstanding debt and other liabilities (including trade payables, but excluding intercompany loans) of approximately $572.8 million. After adding the effect of the $100 million term loan borrowing we completed on February 18, 2005, total subsidiary consolidated indebtedness as of December 31, 2004 would equal $672.8 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 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, our claims would be subordinate to any secured indebtedness of such subsidiary and any indebtedness of such subsidiary that is senior to our claims. We have no significant assets other than cash and the stock of, and intercompany loans payable by, our subsidiaries. If we or any of our subsidiaries were to enter into a bank credit facility or similar arrangement, we expect that the stock of the subsidiaries would be pledged to secure any such credit facility or arrangement, in which case, any claims you may have as a noteholder against the stock of the subsidiaries would be subordinate to claims of the lenders under such credit facility or arrangement.

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Our ability to repurchase notes with cash upon a change of control may be limited.

In certain circumstances involving a change of control of Primus, the holders of the notes may require us to repurchase some or all of the holders notes. If we are unable to pay some or all of the repurchase price in common stock, we will have to pay such repurchase price in cash. We cannot assure you that we 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. Our 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 our other indebtedness. In such a situation, we would be required to repay our other indebtedness in addition to being required to repurchase the notes at the option of the holders (to the extent we cannot satisfy our repurchase obligations in common stock). We may not have or be able to raise sufficient funds to satisfy all of our 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.

We cannot assure you that any liquid market will develop for the notes or that holders of the notes will be able to sell their notes, and we cannot provide assurances concerning the price at which the holders will be able to sell their notes. Before this offering, the trading market for the notes has been limited to trading in PORTAL, which terminated as of the date of this prospectus. Although the initial purchasers of the notes have advised us 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. We do not intend to apply for listing of the notes on any securities exchange or other stock 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 our common stock and our 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.

Transfers of the notes and common stock issuable upon conversion of the notes may be restricted.

We will have the right, pursuant to the registration rights agreement, to suspend the use of the shelf registration statement in certain circumstances. In the event of such a suspension, you would not be able to sell any notes or shares of common stock issuable upon conversion of the notes.

Risks Relating to an Investment in our Common Stock Issuable upon Conversion of the Notes

Future sales of our common stock in the public market could lower our stock price.

Significant future sales of our common stock in the public market, including in particular the shares offered under the Common Stock Resale Registration (defined below) and the Shelf Registration Statement (defined below), could lower our stock price and impair our ability to raise funds in new stock offerings.

Of the 22,616,990 shares of common stock that were issued upon conversion of our Series C Preferred Stock that have been registered for resale on a separate registration statement (the Common Stock Resale Registration), the original Series C Holders still hold 16,540,008 shares, which additionally may be sold through Rule 144 under the Securities Act. In addition, we registered for sale up to $200 million in a wide range of debt and equity securities, including our common stock, that we may from time to time sell (the Shelf Registration Statement). Sales of a substantial amount of common stock in the public market, or the perception that these sales may occur through this registration statement and/or the Common Stock Resale Registration or Shelf Registration Statement, could create selling pressure on our common stock and 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.

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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 March 31, 2005, we had 90,081,403 outstanding shares of our common stock that were subject to dilution by:

14,157,925 shares of common stock, subject to potential adjustment issuable upon conversion of the notes;

8,516,616 shares of common stock issuable upon the exercise of outstanding stock options; and

1,348,008 shares of common stock issuable upon the conversion of our 5 $^{3}/4$