

PRIMUS TELECOMMUNICATIONS GROUP INC  
Form S-3/A  
December 23, 2003

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As filed with the Securities and Exchange Commission on December 23, 2003

Registration No. 333-110234

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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Amendment No. 1**

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**

(State or other jurisdiction of incorporation or organization)

**54-1708481**

(I.R.S. Employer Identification No.)

**1700 Old Meadow Road, Suite 300**

**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**

**1700 Old Meadow Road, Suite 300**

**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.  
Cooley Godward LLP  
One Freedom Square  
11951 Freedom Drive  
Reston, Virginia 20190  
Tel: (703) 456-8000**

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.

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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, other than securities offered only in connection with dividend or interest reinvestment plans, 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 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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**The information contained in this prospectus is not complete and may be changed. These securities may not be sold 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 an offer to buy these securities in any state where the offer or sale is not permitted.**

**Subject to Completion. Dated December 23, 2003**

### PROSPECTUS

22,616,990 Shares

## Primus Telecommunications Group, Incorporated

### Common Stock

The selling security holders identified in this prospectus are selling up to an aggregate of 22,616,990 shares of Primus Telecommunications Group, Incorporated common stock. Primus will not receive any of the proceeds from the sale by the selling security holders.

Certain selling security holders' shares are subject to the terms of lock-up agreements with Primus, which will generally prohibit

the resale of 13,540,008 of such shares through July 30, 2004; and

the resale of an additional 3,576,982 of such shares through January 14, 2004.

See "Plan of Distribution - Lock Up Agreements".

Primus common stock is listed on the Nasdaq National Market under the symbol PRTL. The last reported sales price of the common stock, as reported on the Nasdaq National Market on December 22, 2003, was \$9.65 per share.

**Investing in the common stock involves a high degree of risk. See Risk Factors, beginning on page 6.**

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**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

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The date of this prospectus is December , 2003

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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 common stock 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 is a global, facilities-based telecommunications services provider offering international and domestic voice, Internet and data services to business and residential retail customers and other carriers located primarily in the United States, Australia, Canada, the United Kingdom and western Europe. Our focus is to service the demand for high quality, competitively priced 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 and data traffic.

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

19 domestic and international gateway switching systems (the hardware/software devices that direct the voice traffic across the network) throughout North America, Australia, Europe and Japan;

approximately 250 connection points to our network, or points of presence, within our principal service regions and other markets;

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

global network and data centers that use a high-bandwidth network standard and Internet-based protocol to connect with the network (ATM + IP).

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We offer our customers a wide range of services, including:

international and domestic long distance services;

voice-over-Internet protocol (VoIP) services;

prepaid calling cards (including services which allow transmission of mobile voice traffic over our land-based network), toll-free services and reorigination services;

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

local services, primarily in Australia and Canada;

ATM+IP broadband services; and

managed and shared Web hosting services and applications.

The services we offer can be characterized as three main products:

voice

data/Internet, and

voice-over-Internet protocol services.

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Summary net revenue, including percentage break-down, information with respect to our products, by operating segment and geographic region are as follows (in thousands):

### Net Revenue by Product Segment

	Year Ended December 31						Nine Months Ended September 30			
	2000	%	2001	%	2002	%	2002	%	2003	%
Voice	\$ 1,077,728	90%	\$ 930,635	86%	\$ 854,840	83%	\$ 629,122	83%	\$ 803,572	85%
Data/Internet	\$ 99,696	8%	\$ 112,836	10%	\$ 111,416	11%	\$ 85,041	11%	\$ 93,711	10%
VoIP	\$ 21,998	2%	\$ 39,004	4%	\$ 57,800	6%	\$ 42,281	6%	\$ 51,665	5%
<b>Total Net Revenue</b>	<b>\$ 1,199,422</b>	<b>100%</b>	<b>\$ 1,082,475</b>	<b>100%</b>	<b>\$ 1,024,056</b>	<b>100%</b>	<b>\$ 756,444</b>	<b>100%</b>	<b>\$ 948,948</b>	<b>100%</b>

### Net Revenue by Geographic Segment

Year Ended December 31

Nine Months Ended September 30

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Net Revenue	Year Ended December 31						Nine Months Ended September 30			
	2000	%	2001	%	2002	%	2002	%	2003	%
<b>North America</b>										
United States	\$ 343,027	28%	\$ 271,588	25%	\$ 212,399	20%	\$ 153,427	20%	\$ 214,121	23%
Canada	\$ 179,372	15%	\$ 172,647	16%	\$ 163,428	16%	\$ 122,241	16%	\$ 152,715	16%
Other	\$ 10,628	1%	\$ 8,876	1%	\$ 5,742	1%	\$ 4,971	1%	\$ 2,711	0%
<b>Total North America</b>	<b>\$ 533,027</b>	<b>44%</b>	<b>\$ 453,111</b>	<b>42%</b>	<b>\$ 381,569</b>	<b>37%</b>	<b>\$ 280,639</b>	<b>37%</b>	<b>\$ 369,547</b>	<b>39%</b>
<b>Europe</b>										
United Kingdom	\$ 159,683	13%	\$ 141,297	13%	\$ 139,480	14%	\$ 105,656	14%	\$ 107,117	11%
Germany	\$ 98,053	8%	\$ 99,189	9%	\$ 63,767	6%	\$ 50,790	7%	\$ 40,814	4%
Netherlands	\$ 32,882	3%	\$ 42,824	4%	\$ 79,467	8%	\$ 49,716	7%	\$ 116,074	12%
Other	\$ 68,368	6%	\$ 73,737	7%	\$ 80,955	8%	\$ 63,201	8%	\$ 58,422	6%
<b>Total Europe</b>	<b>\$ 358,986</b>	<b>30%</b>	<b>\$ 357,047</b>	<b>33%</b>	<b>\$ 363,669</b>	<b>36%</b>	<b>\$ 269,363</b>	<b>36%</b>	<b>\$ 322,427</b>	<b>33%</b>
<b>Asia-Pacific</b>										
Australia	\$ 283,311	24%	\$ 248,173	23%	\$ 259,459	25%	\$ 190,210	25%	\$ 242,638	26%
Other	\$ 24,098	2%	\$ 24,144	2%	\$ 19,359	2%	\$ 16,232	2%	\$ 14,336	2%
<b>Total Asia-Pacific</b>	<b>\$ 307,409</b>	<b>26%</b>	<b>\$ 272,317</b>	<b>25%</b>	<b>\$ 278,818</b>	<b>27%</b>	<b>\$ 206,442</b>	<b>27%</b>	<b>\$ 256,974</b>	<b>28%</b>
<b>Total Net Revenue</b>	<b>\$ 1,199,422</b>	<b>100%</b>	<b>\$ 1,082,475</b>	<b>100%</b>	<b>\$ 1,024,056</b>	<b>100%</b>	<b>\$ 756,444</b>	<b>100%</b>	<b>\$ 948,948</b>	<b>100%</b>

As of September 30, 2003, we had an accumulated deficit of \$(702.8) million and a stockholder's deficit balance of \$(118.3) million. We incurred net losses of \$(63.6) million in 1998, \$(112.7) million in 1999, \$(174.7) million in 2000, \$(306.2) million in 2001 and \$(34.6) million in 2002.

We are a Delaware corporation with our principal executive offices located at 1700 Old Meadow Road, 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. 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.

**SECURITIES TO BE OFFERED**

This prospectus relates to the offer and sale by the selling security holders referenced in this prospectus of up to an aggregate of 22,616,990 shares of our common stock. Certain selling security holders' shares are subject to the terms of lock-up agreements with Primus, which will generally prohibit the resale of 13,540,008 of such shares through July 30, 2004 and the resale of an additional 3,576,982 of such shares through January 14, 2004. For further details regarding how these shares were acquired, please see "Selling Security Holders."

You should carefully consider the information set forth under "Risk Factors" in this prospectus beginning on page 6 and all other information included or incorporated by reference in this prospectus before deciding to purchase any common stock.

## RISK FACTORS

*Any purchase of the shares of our common stock 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 common stock.*

### **Risks Related to Our Business**

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

We currently have substantial indebtedness and may incur additional indebtedness in the future. As of September 30, 2003, our total consolidated indebtedness (including obligations under capital leases and equipment financings) was \$599.0 million. The terms of certain of our outstanding 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;

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 September 30, 2003, we had an accumulated deficit of \$(702.8) million and a stockholder's deficit balance of \$(118.3) million. We incurred net losses of \$(63.6) million in 1998, \$(112.7) million in 1999, \$(174.7) million in 2000, \$(306.2) million in 2001 and \$(34.6) million in 2002. During the nine months ended September 30, 2003, we recognized net income of \$35.4 million, a substantial portion of which can be attributed to foreign currency exchange rates that favorably impacted our results. Our recent net income should not necessarily be considered to be indicative of future net income and our results could be adversely affected by currency, competitive or technology developments described in greater detail in succeeding risk factors. As a result, we cannot assure you that our net income will grow or be sustained in future periods. If we cannot sustain net income, or operating income, 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 our common stock.

***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 nine months ended September 30, 2003, the USD weakened compared to the AUD, CAD, GBP and EUR. As a result, our revenue of the subsidiaries whose local currency is the AUD, CAD and EUR increased 9%, 13% and 16% in local currency compared to the nine months ended September 30, 2002, but increased 28%, 25% and 40% in USD, respectively. Our revenue of the subsidiaries whose local currency is the GBP decreased 7% in local currency from the nine months ended September 30, 2002, but increased 1% in USD. 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.

***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 on a predictable basis and we may not be able to successfully expand this part of our business.

***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 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 prepaid calling card 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

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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 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 regional Bell operating companies (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 entity, 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 U.S. 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. 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, AT&T, 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;

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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 by the actions of our larger competitors.

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 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 in, 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.

***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

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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 September 30, 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, 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.

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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;
- 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; and

the globalization of the world's economies.

In addition, alternative services to traditional fixed wirelines 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, and 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.

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. 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:

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.

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

***Future sales of our common stock in the public market could create selling pressure on our common stock and lower our stock price.***

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

A majority of the shares of common stock that are offered by this prospectus first become eligible for resale through Rule 144 under the Securities Act on December 31, 2003; 5,000,000 shares of common stock that are offered by this prospectus first become eligible for resale through Rule 144 on November 25, 2004; and the remaining portion of the shares of common stock that are offered by this prospectus first become eligible for resale through Rule 144 on March 31, 2004, in each case subject to applicable volume limitations and other restrictions under Rule 144. In addition, the holders of the 3<sup>3</sup>/<sub>4</sub>% convertible senior notes due 2010 (the "2010 Convertible Notes") have a registration statement covering the notes and common stock (the "Note Registration Statement") that may be acquired upon conversion of the 2010 Convertible Notes on file with the SEC, which was declared effective in November 2003. Sales of a substantial amount of common stock in the public market, or the perception that these sales may occur, 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 December 15, 2003, we had 88,443,258 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 our 2010 Convertible Notes;

7,388,119 shares of common stock issuable upon the exercise of outstanding stock options;

1,428,342 shares of common stock issuable upon the conversion of our 5<sup>3</sup>/<sub>4</sub>% convertible subordinated debentures due 2007 (the "2007 Convertible Notes"); and

330,097 shares of common stock issuable upon the exercise of outstanding warrants issued in connection with the sale of our 11<sup>3</sup>/<sub>4</sub>% senior notes due 2004 (the "Warrants").

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. We have filed with the SEC an additional registration statement concerning \$200 million of debt and equity securities that we may offer 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 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. For example, from January 1, 1998 through December 31, 1999, the market price of our common stock and the Standard & Poor's Telecommunications (Long Distance) Index (Long Distance Index) increased by 137% and 110%, respectively. Subsequently, from January 1, 2000 through December 15, 2003, the market price of our

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common stock and the Long Distance Index declined by 75% and 89%, respectively. Various factors and events may cause the 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. On May 14, 2002, our common stock was delisted from the Nasdaq National Market for failure to meet the required minimum bid price necessary to maintain listing on the Nasdaq National Market, and on such date our common stock began trading on the Nasdaq SmallCap Market, which is generally a less liquid market than the Nasdaq National Market. On March 21, 2003, the listing of our common stock on the Nasdaq National Market was reinstated, after once again satisfying the minimum bid price requirements. There can be no assurance that our common stock will not decline or that future declines in the market price of our common stock will not result in our common stock being delisted from the Nasdaq National Market again or that if such delisting does occur, that there would be a liquid market for our common stock.

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

As of December 15, 2003, funds affiliated with American International Group, Inc. (AIG) beneficially owned 18.7% of our outstanding common stock. Such holders' shares of common stock are offered for sale under this prospectus. As a result of such share ownership, these holders can exercise influence over our affairs through the provisions of an agreement between such holders and us, described under "Description of Capital Stock Contractual Governance Provisions," that requires the consent of a majority of our non-management directors before we may undertake certain actions, and that provides for the right, subject to certain conditions, of the funds affiliated with AIG to nominate one member for election by stockholders to our board of directors and propose one Board observer, in each case, subject to the maintenance of certain minimum ownership levels.

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.

In addition, the applicable triggering provisions of our Rights Agreement (described in greater detail below and under "Description of Capital Stock Takeover Protections Rights Agreement") contain exceptions with respect to the acquisition of beneficial ownership of our shares by such holders and the other former holder of our Series C Convertible Preferred Stock (collectively, the "Former Series C Holders"). As a result, such holders could gain additional control over our affairs without triggering the provisions of our Rights Agreement.

***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 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.

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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. See "Description of Capital Stock Takeover Protections."

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#### **USE OF PROCEEDS**

We will not receive any proceeds from the sale of the shares of common stock offered by this prospectus. See "Selling Security Holders."

#### **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 senior notes and may be restricted by other credit arrangements entered into in the future. 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.

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## 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, 1998, 1999, 2000, 2001 and 2002 and the balance sheet data as of December 31, 1998, 1999, 2000, 2001 and 2002 have been derived from our consolidated financial statements, which have been audited by Deloitte & Touche LLP, independent auditors. The statement of operations data for the nine months ended September 30, 2002 and 2003, and the balance sheet data as of June 30, 2002 and 2003, 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.

	Year Ended December 31,					Nine Months Ended September 30,	
	1998	1999	2000	2001	2002	2002	2003
(in thousands, except per share amounts)							
<b>Statement of Operations Data:</b>							
Net revenue	\$ 421,628	\$ 832,739	\$ 1,199,422	\$ 1,082,475	\$ 1,024,056	\$ 756,444	\$ 948,948
Cost of revenue	353,016	624,599	861,181	767,841	668,643	498,244	582,190
Gross margin	68,612	208,140	338,241	314,634	355,413	258,200	366,758
<b>Operating expenses</b>							
Selling, general and administrative	79,532	199,581	330,411	303,026	254,152	187,084	254,146
Depreciation and amortization	24,185	54,957	120,695	157,596	82,239	60,067	62,713
Loss on sale of assets							804
Asset impairment write-down				526,309	22,337	570	537
Total operating expenses	103,717	254,538	451,106	986,931	358,728	247,721	318,200
Income (loss) from operations	(35,105)	(46,398)	(112,865)	(672,297)	(3,315)		