PRIMUS TELECOMMUNICATIONS GROUP INC
Form S-3
July 18, 2006
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As filed with the Securities and Exchange Commission on July 18, 2006

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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	**4813**	**54-1708481**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

PRIMUS TELECOMMUNICATIONS HOLDING, INC.

(Exact name of registrant as specified in its charter)

Delaware	**4813**	**20-0346064**
(State or other jurisdiction of	**(Primary Standard Industrial**	**(I.R.S. Employer**

incorporation or organization)	**Classification Code Number)**	**Identification Number)**

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, Esq.

Hogan & Hartson L.L.P.

8300 Greensboro Drive

McLean, Virginia 22102

(703) 610-6100

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

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, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ ________

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

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. ¨

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ¨

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CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be Registered	Proposed maximum price per unit(1)	Proposed maximum aggregate offering price(1)	Amount of registration fee
PRIMUS TELECOMMUNICATIONS HOLDING, INC. :				
5.00% Exchangeable Senior Notes due 2009	$ 56,323,000(2)	100%	$ 56,323,000	$ 6,027
PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED:				
Common Stock, par value $0.01 per share	59,179,963(3)	(3)	(3)	(4)
Guarantees of the 5.00% Exchangeable Senior Notes due 2009				(5)

(1) Estimated solely for the purpose of computing the registration fee.

(2) The aggregate principal amount of 5.00% Exchangeable Senior Notes due 2009 that were issued on June 28, 2006.

(3) The number of shares of PRIMUS Telecommunications Group, Incorporated registered hereunder is based upon the maximum number of shares of PRIMUS Telecommunications Group, Incorporated that are issuable (i) upon exchange of the senior notes and (ii) at the election of PRIMUS Telecommunications Group, Incorporated and subject to certain conditions, as interest payments on the senior notes. Pursuant to Rule 416 under the Securities Act, such number of shares of PRIMUS Telecommunications Group, Incorporated common stock registered hereby shall include an indeterminable number of shares of PRIMUS Telecommunications Group, Incorporated common stock that may be issued in connection with a stock split, stock dividend, recapitalization or similar event.

(4) Pursuant to Rule 457(i) under the Securities Act, no registration fee is payable with respect to the shares of PRIMUS Telecommunications Group, Incorporated common stock issuable upon exchange of the senior notes because no additional consideration will be received by the registrant upon exchange of the senior notes.

(5) Pursuant to Rule 457(n) under the Securities Act, no separate fee is payable for the guarantees.

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

Subject to Completion, Dated July 18, 2006

PROSPECTUS

PRIMUS TELECOMMUNICATIONS HOLDING, INC.

$56,323,000

5.00% Exchangeable Senior Notes due 2009

and

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

46,935,833 shares of Common Stock issuable upon exchange of the Senior Notes

and up to 12,244,130 shares of Common Stock that may be payable as interest

This prospectus relates to an aggregate principal amount of $56.3 million of 5.00% Exchangeable Senior Notes due 2009 (which are referred to in this Prospectus as senior notes) of PRIMUS Telecommunications Holding, Inc. (Holding), a wholly owned subsidiary of PRIMUS Telecommunications Group, Incorporated (PRIMUS), 46,935,833 shares of PRIMUS common stock issuable upon exchange of the senior notes and up to 12,244,130 shares of PRIMUS common stock payable, subject to certain conditions, by Holding as interest. This prospectus will be used by the selling securityholders from time to time to resell their senior notes and the shares of PRIMUS common stock issuable upon exchange of the senior notes or payable by Holding as interest on the senior notes.

The principal terms of the senior notes include the following:

Issuer:	PRIMUS Telecommunications Holding, Inc.
Interest:	Accrues from June 28, 2006 at the rate of 5% per annum, payable on each June 30 and December 30, beginning on December 30, 2006; under certain circumstances, Holding may elect to make interest payments in shares of PRIMUS common stock, in which case the shares will be valued at the greater of (1) the closing price of PRIMUS common stock on June 7, 2006 and (2) 95% of the average closing price of PRIMUS common stock for the three-day period ending on the trading day prior to the interest payment date; however, the first two interest payments must be paid in cash
Maturity Date:	

	June 30, 2010, subject to an accelerated maturity of June 30, 2009 if PRIMUS does not increase its equity in the aggregate of $25 million during the three years following issuance of the senior notes through the sale of equity for cash, equity exchanges for debt or conversions of debt into equity
Conversion Price:	$1.20 per share, subject to adjustment
Redemption Options:	If the closing bid price of PRIMUS common stock, for at least 20 trading days in any consecutive 30 trading-day period, exceeds 150% of the conversion price then in effect, Holding may elect to call the senior notes for cash at par, or Holding may elect to exchange the senior notes for shares of PRIMUS common stock at the conversion price, subject to certain conditions, including that no more than 50% of the senior notes may be exchanged by Holding within any rolling 30-day period
Ranking:	The senior notes are senior unsecured obligations of Holding and rank pari passu with the existing 8% Senior Notes due 2014 of Holding
Guarantee:	The senior notes are fully and unconditionally guaranteed by PRIMUS

The senior notes are not listed on any securities exchange. The senior notes are designated for trading in the PORTAL market. PRIMUS common stock is listed on the Nasdaq Capital Market under the symbol PRTL. The last reported sales price of the common stock, as reported on the Nasdaq Capital Market on July 17, 2006 was $0.53 per share.

See Risk Factors beginning on page 8 for information that you should consider before purchasing the securities offered by this prospectus.

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.

The date of this prospectus is July , 2006.

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You should rely only on the information contained in this prospectus or any supplement. None of PRIMUS, Holding or any selling securityholder has authorized anyone to provide you with different information. You should not assume that the information in this prospectus or any supplement is accurate as of any date other than the date on the front of such documents.

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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 senior notes and the common stock and business of PRIMUS, you should read the entire prospectus, particularly Risk Factors and the consolidated financial statements and related notes incorporated by reference into this prospectus. References in this prospectus to PRIMUS or the Company refer to PRIMUS Telecommunications Group, Incorporated together with its consolidated subsidiaries. References to Holding refer to PRIMUS Telecommunications Holding, Inc., a wholly owned subsidiary of PRIMUS.

PRIMUS

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

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

- 16 carrier-grade international gateway and domestic switching systems (the hardware/software devices that direct the voice traffic across the network) in the United States, Canada, Australia, Europe and Japan;
- approximately 350 interconnection points to the Company s network, or points of presence (POPs), within its service regions and other markets;
- undersea and land-based fiber optic transmission line systems that PRIMUS owns or leases and that carry voice and data traffic across the network; and
- global network and data centers that use a high-bandwidth network standard (asynchronous transfer mode) and Internet-based protocol (ATM+IP) to connect with the network. The global VOIP network is based on routers and gateways with an open network architecture which connects the Company s partners in over 150 countries.

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

- international and domestic long distance services over the traditional network;
- wholesale and retail VOIP services;
- wireless services;
- prepaid services, toll-free services and reorigination services;

- dial-up, dedicated and high-speed Internet access;
- local voice services;
- ATM+IP broadband services; and
- managed and shared Web hosting services and applications.

Generally, PRIMUS prices its services competitively or at a discount with the major carriers and service providers operating in its principal service regions. PRIMUS seeks to continue to generate net revenue through

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sales and marketing efforts focused on customers with significant communications needs (international and domestic voice, wireless, VOIP, high speed and dial-up Internet and data), including SMEs, multinational corporations, residential customers, and other telecommunications carriers and resellers. PRIMUS also seeks growth opportunities through acquisitions.

Holding

Holding is a wholly owned subsidiary of PRIMUS. Holding owns, directly or indirectly, all of the common stock of the operating subsidiaries of the PRIMUS group.

Other Information

PRIMUS was incorporated in Delaware in 1994. Holding was incorporated in Delaware in 2003. The principal executive offices of each of PRIMUS and Holding are located at 7901 Jones Branch Drive, Suite 900, McLean, Virginia 22102, and the telephone number at that address is (703) 902-2800.

Recent Developments

Offering of Senior Notes

Holding issued the senior notes subject to this prospectus on June 28, 2006. $32.2 million principal amount of the senior notes was issued in exchange for $54.8 million principal amount of PRIMUS s 3⁄4% convertible senior notes due 2010 and $24.1 million principal amount of the senior notes was issued for gross cash proceeds of $20.5 million.

Sale of Interests in Direct Internet Limited and Primus Telecommunications India Limited

On June 23, 2006, PRIMUS and related entities consummated the sale of their respective interests in Direct Internet Limited (DIL) and its wholly-owned subsidiary, Primus Telecommunications India Limited (PTIL), to Videsh Sanchar Nigam Limited (VSNL), a leading international telecommunications company and member of the TATA Group. In the transaction, VSNL purchased 100% of the stock of DIL and PTIL, which provide fixed broadband wireless internet services to enterprise and retail customers in India. PRIMUS, which owned approximately 85% of the stock of DIL through an indirect wholly-owned subsidiary, received $15.0 million in net cash proceeds from the transaction. Under the Sale and Purchase Agreement, PRIMUS agreed to certain non-compete provisions regarding the business of DIL and PTIL and is a party to the Sale and Purchase Agreement for the purpose of guaranteeing indemnity obligations of the PRIMUS subsidiary selling the stock of DIL. The sale of DIL and PTIL will be accounted for as discontinued operations in future filings and will not be presented pro forma as neither DIL nor PTIL, separately or in the aggregate, constitutes a significant subsidiary of Primus.

Approval of Capitalization Matters by Stockholders

At its annual meeting of stockholders held on June 20, 2006, the stockholders of PRIMUS authorized (1) an amendment to PRIMUS s certificate of incorporation to reflect a 1-for-10 reverse stock split and (2) an amendment to PRIMUS s certificate of incorporation allowing an increase in authorized common stock from 150,000,000 to 300,000,000 shares. The PRIMUS board of directors may, in its discretion, implement one of these two authorized proposals. As of the date of this prospectus, the PRIMUS board of directors has not taken action to approve either a reverse stock split or an increase in the authorized shares of PRIMUS.

Nasdaq listing matters

PRIMUS has appealed a determination by the Nasdaq Listing Qualifications Staff of Nasdaq to delist PRIMUS common stock from the Nasdaq Capital Market because PRIMUS is not in compliance with Nasdaq s minimum bid price requirement. There can be no assurance that the Listing Qualifications Panel, before which the appeal will be heard on July 20, 2006, will grant PRIMUS s request for continued listing on the Nasdaq Capital Market. Pending a final written decision of the Listing Qualifications Panel, PRIMUS common stock will continue to trade on the Nasdaq Capital Market.

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Summary of the Terms of the Senior Notes

The following summary contains basic information about the senior notes and is not intended to be complete. It does not contain all the information that is important to you. For a more complete understanding of the senior notes, please refer to the section of this prospectus entitled Description of the Senior Notes.

Issuer:	PRIMUS Telecommunications Holding, Inc.
Interest:	Accrues from June 28, 2006 at the rate of 5% per annum, payable on each June 30 and December 30, beginning on December 30, 2006; under certain circumstances, Holding may elect to make interest payments in shares of PRIMUS common stock, in which case the shares will be valued at the greater of (1) the closing price of PRIMUS common stock on June 7, 2006 and (2) 95% of the average closing price of PRIMUS common stock for the three-day period ending on the trading day prior to the interest payment date; however, the first two interest payments must be paid in cash
Maturity date:	June 30, 2010, subject to an accelerated maturity of June 30, 2009 if PRIMUS does not increase its equity in the aggregate of $25 million during the three years following issuance of the senior notes through the sale of equity for cash, equity exchanges for debt or conversions of debt into equity
Conversion Price:	$1.20 per share, subject to adjustment
Redemption Options:	If the closing bid price of PRIMUS common stock, for at least 20 trading days in any consecutive 30 trading-day period, exceeds 150% of the conversion price then in effect, Holding may elect to call the senior notes for cash at par, or Holding may elect to exchange the senior notes for shares of PRIMUS common stock at the conversion price, subject to certain conditions, including that no more than 50% of the senior notes may be exchanged by Holding within any rolling 30-day period
Ranking:	The senior notes are senior unsecured obligations of Holding and rank pari passu with the existing 8% Senior Notes due 2014 of Holding
Guarantee:	The senior notes are fully and unconditionally guaranteed by PRIMUS
Use of Proceeds:	General corporate purposes, including the payment of certain maturing 5 $^{3}/4$% convertible subordinated debentures due February 2007 of PRIMUS
Book-entry form:	The senior notes were issued in book-entry form and are represented by global certificates deposited with, or on behalf of, The Depository Trust Company (DTC) and registered in the name of Cede & Co., DTC s current nominee. Beneficial interests in any of the senior notes are shown, and transfers are effected only through, records maintained by DTC or its nominee, and any such interest may not be exchanged for certificated securities except in limited circumstances

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Forward Looking Information

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

- expectations of future growth, creation of shareholder value, revenue, foreign revenue contributions and net income, as well as income from operations, margins, earnings per share, cash flow and cash sufficiency levels, working capital, network development, customer migration and related costs, spending on and success with new product initiatives, including the development of broadband Internet, VOIP, wireless and local services, traffic development, capital expenditures, selling, general and administrative expenses, income tax expense, fixed asset and goodwill impairment charges, service introductions and cash requirements;
- increased competitive pressures, declining usage patterns, and PRIMUS s new product initiatives, bundled service offerings and DSL network build-out, the pace and cost of customer migration onto PRIMUS s networks, the effectiveness and profitability of new initiatives and prepaid services offerings;
- financing, refinancing, de-levering and/or debt repurchase, restructuring, exchange or tender plans or initiatives, and potential dilution of existing equity holders from such initiatives;
- liquidity and debt service forecasts;
- assumptions regarding currency exchange rates;
- timing, extent and effectiveness of cost reduction initiatives and management s ability to moderate or control discretionary spending;
- management s plans, goals, expectations, guidance, objectives, strategies, and timing for future operations, acquisitions, product plans, performance and results; and
- management s assessment of market factors and competitive developments, including pricing actions and regulatory rulings.

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

- changes in business conditions causing changes in the business direction and strategy by management;
- accelerated competitive pricing and bundling pressures in the markets in which PRIMUS operates;
- risks, delays and costs in seeking to restructure and reestablish PRIMUS s prepaid services business in pre-existing and new markets;

accelerated decrease in minutes of use on wireline phones;

fluctuations in the exchange rates of currencies, particularly of the USD relative to foreign currencies of the countries where PRIMUS conducts its foreign operations;

adverse interest rate developments affecting PRIMUS s variable interest rate debt;

difficulty in maintaining or increasing customer revenues and margins through PRIMUS s new product initiatives and bundled service offerings, and difficulties, costs and delays in constructing and operating proposed DSL networks in Australia and Canada, and migrating broadband and local customers to such networks;

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

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

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

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

potential delisting of PRIMUS s common stock from the Nasdaq Capital Market which may impair its ability to raise capital;

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

adverse tax or regulatory rulings from applicable authorities;

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

changes in financial, capital market and economic conditions, including the potential adverse impact arising out of or as a consequence of PRIMUS s external auditor s opinion dated March 15, 2006 which included a matter of emphasis paragraph for a going concern;

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

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

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

difficulty in selling new services in the marketplace;

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

changes in the regulatory schemes or requirements and regulatory enforcement in the markets in which PRIMUS operates;

restrictions on PRIMUS s ability to follow certain strategies or complete certain transactions as a result of its inexperience with new product initiatives, or limitations imposed by its capital structure or debt covenants;

risks associated with PRIMUS s limited DSL, Internet, VOIP, Web hosting and wireless experience and expertise, including cost effectively utilizing new marketing channels such as interactive marketing utilizing the Internet;

entry into developing markets;

aggregate margin contribution from the new initiatives are not sufficient in amount or timing to offset the margin decline in PRIMUS s long distance voice and dial-up ISP businesses;

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

risks associated with international operations;

dependence on effective information systems;

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- dependence on third parties for access to their networks to enable PRIMUS to expand and manage its global network and operations and to offer broadband, DSL, local, VOIP and wireless services, including dependence upon the cooperation of incumbent carriers relating to the migration of customers;

- dependence on the performance of PRIMUS s global standard asynchronous transfer mode and Internet-based protocol (ATM+IP) communications network;

- adverse regulatory rulings or actions affecting our operations, including the imposition of taxes and fees, the imposition of obligations upon VOIP providers to provide enhanced 911 (E911) services and restricting access to broadband networks owned and operated by others;

- the potential further elimination or limitation of a substantial amount or all of PRIMUS s United States or foreign operating loss carryforwards due to future significant issuances of equity securities, changes in ownership or other circumstances, which carryforwards would otherwise be available to reduce future taxable income; and

- the outbreak or escalation of hostilities or terrorist acts and adverse geopolitical developments.

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

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RISK FACTORS

Any purchase of the senior notes or shares of PRIMUS 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 into this prospectus before you decide to buy senior notes or common stock.

Risks Related to the PRIMUS Business

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

Any potential future reaction to the unqualified opinion with a matter of emphasis regarding PRIMUS s ability to continue as a going concern from its independent registered public accounting firm in connection with the filing of its Form 10-K for the year ended December 31, 2005, could adversely affect PRIMUS s operations by potentially increasing its immediate need for additional capital and disrupting supplier relationships.

PRIMUS s independent registered public accounting firm has included in their report concerning its consolidated financial statements for 2005 an explanatory paragraph that its recurring losses from operations, the maturity of the 5 3/4% convertible subordinated debentures due 2007, negative working capital, and stockholders deficit raise substantial doubt about PRIMUS s ability to continue as a going concern. Any potential future adverse reaction after the date of this prospectus to this opinion may adversely affect PRIMUS s ability to manage its accounts payable and potentially cause some suppliers to deal with PRIMUS on a cash-on-delivery or prepaid basis only or to terminate the supplier relationship. If this were to occur, this would adversely affect PRIMUS s operations by increasing its immediate need for additional capital.

If competitive pressures continue or intensify and/or the success of PRIMUS s new initiatives is not adequate in amount or timing to offset the decline in results from its core businesses, PRIMUS may not be able to service its debt or other obligations.

PRIMUS believes that its existing cash and cash equivalents, including funds generated by the sale of PRIMUS s interest in its Indian subsidiaries and the sale and exchange of the senior notes in June 2006, along with its ongoing operational initiatives, will allow it to fund fully its 2006 business plan as well as to provide sufficient cash resources to pay its outstanding 5 3/4% convertible subordinated debentures that will mature in February 2007. While there can be no assurance that PRIMUS will be able to meet its debt or other obligations in the future, PRIMUS believes that its cash and cash equivalents, future sales of equity, internally generated funds from operating activities, continued cost reduction efforts, its ability to moderate capital expenditures, combined with existing and potential debt financing alternatives and potential proceeds from opportunistic asset sales and interest savings from balance sheet deleveraging should be sufficient to fund its future debt service requirements and other fixed obligations (such as capital leases, vendor financing and other long-term obligations), resolution of vendor disputes, and other cash needs for its operations. However, there are substantial risks, uncertainties and changes that could cause actual results to differ from PRIMUS s current belief, particularly as aggressive pricing and bundling strategies by certain incumbent carriers and ILECs have intensified competitive pressures in the markets where PRIMUS operates, and/or if PRIMUS has insufficient financial resources to market its services. The aggregate anticipated margin contribution from PRIMUS s new initiatives may not be adequate in amount or timing to offset the declines in margin from its core long distance voice and dial-up ISP business. In addition, regulatory decisions could have a material adverse impact on PRIMUS s operations and outlook. See also information under Item 2 MD&A Liquidity and Capital Resources Short- and Long-Term Liquidity Considerations and Risks in PRIMUS s Form 10-Q for the quarter ended March 31, 2006 incorporated herein by reference and in these Risk Factors. If adverse events referenced or described herein or therein were to occur, PRIMUS may not be able to service its debt or other obligations and could, among other things, be required to seek protection under the bankruptcy laws of the United States or other similar laws in other countries.

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PRIMUS s high level of debt may adversely affect its financial and operating flexibility.

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

If PRIMUS is delisted from the Nasdaq Capital Market it could result in a more limited public market for PRIMUS common stock.

On June 13, 2006, PRIMUS received a notification that its common stock would be delisted from trading on the Nasdaq Capital Market due to the continued failure to meet the minimum bid price requirement. PRIMUS is currently appealing this decision to a Listing Qualifications Panel, and a hearing is scheduled for July 20, 2006. Until a final written decision is announced by the Listing Qualifications Panel, PRIMUS common stock will continue to trade on the Nasdaq Capital Market. If PRIMUS common stock is delisted from the Nasdaq Capital Market, the common stock could trade on the OTC Bulletin Board. The OTC Bulletin Board is a substantially less liquid market than the Nasdaq Global or Capital Markets. As a result, if PRIMUS s common stock is delisted from the Nasdaq markets, PRIMUS stockholders may have greater difficulty disposing of their shares in acceptable amounts and at acceptable prices and PRIMUS may have greater difficulty issuing equity securities or securities convertible into common stock in such circumstances. If delisted, PRIMUS cannot assure you when, if ever, its common stock would once again be eligible for listing on either the Nasdaq Global or Capital Markets.

Given PRIMUS s limited experience in delivering its new product initiatives and in providing bundled local, wireless, broadband, DSL, Internet, data and VOIP services, PRIMUS may not be able to operate successfully or expand these parts of its business.

During 2004, PRIMUS accelerated initiatives to provide wireless, broadband, VOIP and local wireline services in certain markets where PRIMUS operates. During the third quarter of 2004 PRIMUS 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 PRIMUS operates and to stem the loss of certain of its wireline and dial-up ISP customers to its competitors bundled wireless, wireline and broadband service offerings. PRIMUS s experience in providing these new products in certain markets and in providing these bundled service offerings is limited. PRIMUS s 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 PRIMUS does. PRIMUS also expects that it 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, and regulatory developments may impair PRIMUS s ability to compete. Therefore, future operations involving these individual or bundled services may not succeed in this new competitive environment, and PRIMUS may not be able to expand successfully; may experience margin pressure; may face quarterly revenue and operating results variability; may have limited resources to develop and to market the new services; and have heightened difficulty in establishing future revenues or results. As a result, there can be no assurance that PRIMUS will reverse recent revenue declines or maintain or increase revenues or be able to generate income from operations or net income in the future or on any predictable or timely basis.

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

In June 2005, the FCC adopted new rules requiring VOIP providers interconnected to the public switched telephone network (PSTN) to provide E911 service in a manner similar to traditional wireline carriers by November 2005. LINGO, a subsidiary of PRIMUS which sells VOIP services, was unable to meet this deadline for all of its customers. As of June 30, 2006, approximately 45% of PRIMUS s LINGO customers were without E911 service. PRIMUS has sought a waiver from the FCC asking for an additional nine months to complete deploying its E911 service, but the FCC has not yet addressed PRIMUS s waiver petition. PRIMUS also is participating in a legal challenge to these rules pending before the U.S. Court of Appeals for the District of Columbia Circuit.

LINGO s current services are more limited than the 911 services offered by traditional wireline telephone companies. These limitations may cause significant delays, or even failures, in callers receipt of the emergency assistance they need. PRIMUS has notified its customers of the differences between its Emergency Calling Service and E911 services and those available through traditional telephony providers and has received affirmative acknowledgement from substantially all of its customers. Nevertheless, injured customers may attempt to hold PRIMUS responsible for any loss, damage, personal injury or death suffered as a result of PRIMUS s failure to comply with the FCC mandated E911 service. PRIMUS s resulting liability could be significant.

In addition, if and to the extent that PRIMUS is determined to be out of compliance with the FCC order regarding E911 services PRIMUS may be subject to fines or penalties or injunctions prohibiting LINGO from providing service in some markets.

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

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, 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 PRIMUS s service segments and each of its product lines, PRIMUS believes that prices are likely to continue to decrease. PRIMUS s competitors in its core markets include, among others: 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, Allstream (formerly AT&T Canada) and the major wireless and cable companies in Canada; and BT, Cable & Wireless United Kingdom, Colt Telecom, Energis and the major wireless carriers in the United Kingdom. Customers frequently change long distance, wireless and broadband providers, and ISPs in response to the offering of lower rates or promotional incentives, increasingly as a result of bundling of various services by competitors. Moreover, competitors VOIP and broadband product rollouts have added further customer choice and pricing pressure. As a result, generally, customers can switch carriers and service offerings at any time. Competition in all of PRIMUS s 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 PRIMUS s competitors are significantly larger than PRIMUS and have substantially greater financial, technical and marketing resources, larger networks, a broader portfolio of service offerings, greater control over network and transmission lines, stronger name recognition and customer loyalty, long-standing relationships with its target customers, and lower debt leverage ratios. As a result, PRIMUS s ability to attract and retain customers may be adversely affected. Many of PRIMUS s 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

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calls. This strategy of PRIMUS s competitors could have a material adverse effect on its net revenue per minute, results of operations and financial condition if its pricing, set to remain competitive, is not offset by similar declines in its costs. 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. PRIMUS competes on the basis of price, particularly with respect to its sales to other carriers, and also on the basis of customer service and its ability to provide a variety of telecommunications products and services. If such price pressures and bundling strategies intensify, PRIMUS may not be able to compete successfully in the future, may face quarterly revenue and operating results variability, and may have heightened difficulty in estimating future revenues or results.

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

PRIMUS s repositioning in the marketplace may place a significant strain on its management, operational and financial resources, and increase demand on its systems and controls. To manage this change effectively, PRIMUS must continue to implement and improve its operational and financial systems and controls, invest in critical network infrastructure to maintain or improve its service quality levels, purchase and utilize other transmission facilities, and expand, train and manage its employee base. If PRIMUS inaccurately forecasts the movement of traffic onto its network, PRIMUS could have insufficient or excessive transmission facilities and disproportionate fixed expenses. As PRIMUS proceeds with its development, operational difficulties could arise from additional demand placed on customer provisioning and support, billing and management information systems, product delivery and fulfillment, on its support, sales and marketing and administrative resources and on its network infrastructure. For instance, PRIMUS may encounter delays or cost-overruns or suffer other adverse consequences in implementing new systems when required. In addition, PRIMUS s operating and financial control systems and infrastructure could be inadequate to ensure timely and accurate financial reporting.

PRIMUS has experienced significant historical, and may experience significant future, operating losses and net losses which may hinder its ability to meet its debt service or working capital requirements.

As of December 31, 2005, PRIMUS had an accumulated deficit of $(850.0) million. PRIMUS incurred net losses of $(63.6) million in 1998, $(112.7) million in 1999, $(174.7) million in 2000, $(306.2) million in 2001, $(34.6) million in 2002, $(10.6) million in 2004 and $(154.4) million in 2005. During the year ended December 31, 2003, PRIMUS recognized net income of $54.8 million, of which $39.4 million is the positive impact of foreign currency transaction gains. PRIMUS cannot assure you that it will recognize net income, or reverse recent net revenue declines in future periods. If PRIMUS cannot generate net income or operating profitability, PRIMUS may not be able to meet its debt service or working capital requirements.

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

PRIMUS strives to increase the volume of voice and data traffic that it carries over its existing global network in order to reduce transmission costs and other operating costs as a percentage of net revenue, improve margins, improve service quality and enhance its ability to introduce new products and services. PRIMUS may pursue acquisitions in the future to further its strategic objectives. Acquisitions of businesses and customer lists, a key element of PRIMUS s 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 PRIMUS will be successful in identifying attractive acquisition candidates, completing and financing additional acquisitions on favorable terms, or integrating the acquired business or assets into its own. There may be difficulty in migrating the customer base and in integrating the service offerings, distribution channels and networks gained through acquisitions with PRIMUS s 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.

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PRIMUS experiences intense domestic and international competition which may adversely affect its results of operations and financial condition.

The local and long distance telecommunications, data, broadband, Internet, VOIP and wireless industries are intensely competitive with relatively limited barriers to entry in the more deregulated countries in which PRIMUS operates and with numerous entities competing for the same customers. Recent and pending deregulation in various countries may encourage new entrants to compete, including ISPs, wireless companies, cable television companies, who would offer voice, broadband, Internet access and television, and electric power utilities who would offer voice and broadband Internet access. For example, the United States and many other countries have committed to open their telecommunications markets to competition pursuant to an agreement under the World Trade Organization which began on January 1, 1998. Further, in the United States, as certain conditions have been met under the Telecommunications Act of 1996, the RBOCs have been allowed to enter the long distance market, and other long distance carriers have been allowed to enter the local telephone services market (although recent judicial and regulatory developments have diminished the attractiveness of this opportunity), and many entities, including cable television companies and utilities, have been allowed to enter both the local service and long distance telecommunications markets. Moreover, the rapid enhancement of VOIP technology may result in increasing levels of traditional domestic and international voice long distance traffic being transmitted over the Internet, as opposed to traditional telecommunication networks. Currently, there are significant capital investment savings and cost savings associated with carrying voice traffic employing VOIP technology, as compared to carrying calls over traditional networks. Thus, there exists the possibility that the price of traditional long distance voice services will decrease in order to be competitive with VOIP. Additionally, competition is expected to be intense to switch customers to VOIP product offerings, as is evidenced by numerous recent market announcements in the United States and internationally from industry leaders and competitive carriers concerning significant VOIP initiatives. PRIMUS s ability effectively to retain its existing customer base and generate new customers, either through its traditional network or its own VOIP offerings, may be adversely affected by accelerated competition arising as a result of VOIP initiatives, as well as regulatory developments that may impede its ability to compete, such as restrictions on access to broadband networks owned and operated by others and the requirements to provide E911 services. As competition intensifies as a result of deregulatory, market or technological developments, PRIMUS s results of operations and financial condition could be adversely affected.

If the fair value of PRIMUS s long-lived assets is determined to be less than its carrying value, any resulting impairment charge could have a material adverse impact on its results of operations and financial condition.

PRIMUS assesses the recoverability of its long-lived assets to be held and used whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. PRIMUS s judgments regarding the existence of impairment indicators are based on expected operational performance, market conditions, legal factors and future plans. In 2001, PRIMUS recorded an asset impairment write-down of $526 million relating to its voice and data center assets. If a triggering event for impairment were to occur, PRIMUS would compare the carrying value of the assets with the undiscounted cash flows expected to be derived from the usage of the asset. If there is a shortfall and the fair value of the asset is less than its carrying value, PRIMUS will record an impairment charge for the excess carrying value over fair value. PRIMUS estimates fair value using a discounted cash flow model. Any resulting impairment charge could have a material adverse impact on its financial condition and results of operations.

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

PRIMUS primarily connects its customers telephone calls and data/Internet needs through transmission lines that it leases under a variety of arrangements with other facilities-based long distance carriers. Many of these carriers are, or may become, competitors of PRIMUS. PRIMUS s ability to maintain and expand its business depends on its ability to maintain favorable relationships with the facilities-based carriers from which

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PRIMUS leases transmission lines. If PRIMUS s relationship with one or more of these carriers were to deteriorate or terminate, it could have a material adverse effect upon its cost structure, service quality, network diversity, results of operations and financial condition.

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