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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended September 30, 2002

OR

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

Commission File No. 0-29092

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**54-1708481** (I.R.S. Employer Identification No.)
1700 Old Meadow Road, Suite 300, McLean, VA (Address of principal executive offices)	**22102** (Zip Code)

(703) 902-2800
(Registrant's telephone number, including area code)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of October 31, 2002
Common Stock $.01 par value	64,899,126

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
NET REVENUE	$ 260,533	$ 272,244	$ 756,444	$ 823,332
COST OF REVENUE	170,782	195,027	498,244	598,452
GROSS MARGIN	89,751	77,217	258,200	224,880
OPERATING EXPENSES				
Selling, general and administrative	63,570	69,709	187,084	233,420
Depreciation and amortization	20,329	40,514	60,637	113,977
Total operating expenses	83,899	110,223	247,721	347,397
INCOME (LOSS) FROM OPERATIONS	5,852	(33,006)	10,479	(122,517)
INTEREST EXPENSE	(17,562)	(20,293)	(52,085)	(80,796)
EQUITY INVESTMENT WRITE-OFF	(12,621)	—	(12,621)	—
INTEREST INCOME AND OTHER INCOME (EXPENSE)	(372)	752	785	(11,188)
LOSS BEFORE INCOME TAXES	(24,703)	(52,547)	(53,442)	(214,501)
INCOME TAX BENEFIT (EXPENSE)	(1,989)	—	8,679	—
LOSS BEFORE EXTRAORDINARY ITEM	(26,692)	(52,547)	(44,763)	(214,501)
GAIN ON EARLY EXTINGUISHMENT OF DEBT, NET OF INCOME TAXES	—	98,690	27,251	390,447
NET INCOME (LOSS)	$ (26,692)	$ 46,143	$ (17,512)	$ 175,946
INCOME (LOSS) PER COMMON SHARE:				

Basic and diluted:				
Loss before extraordinary item	$ (0.41)	$ (1.00)	$ (0.69)	$ (4.14)
Gain on early extinguishment of debt, net of income taxes	—	1.88	0.42	7.54
Net income (loss)	$ (0.41)	$ 0.88	$ (0.27)	$ 3.40
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	64,870	52,573	64,536	51,802

See notes to consolidated condensed financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except share amounts)

(unaudited)

	September 30, 2002	December 31, 2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 72,050	$ 83,953
Marketable securities	—	538
Accounts receivable (net of allowance for doubtful accounts receivable of $24,974 and $22,389)	165,210	190,293
Prepaid expenses and other current assets	42,711	34,170
Total current assets	279,971	308,954
RESTRICTED CASH	6,932	4,961
PROPERTY AND EQUIPMENT—Net	351,198	375,464
GOODWILL—Net	51,883	63,385
OTHER INTANGIBLE ASSETS—Net	29,643	46,115
OTHER ASSETS	17,278	17,335
TOTAL ASSETS	$ 736,905	$ 816,214
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 112,762	$ 118,176
Accrued interconnection costs	91,195	105,872
Accrued expenses and other current liabilities	78,340	74,754
Accrued interest	15,738	20,746
Current portion of long-term obligations	67,115	51,996
Total current liabilities	365,150	371,544
LONG-TERM OBLIGATIONS	546,562	615,591
OTHER LIABILITIES	8,098	7,563
Total liabilities	919,810	994,698
COMMITMENTS AND CONTINGENCIES	—	—
STOCKHOLDERS' DEFICIT:		
Preferred stock, $.01 par value—authorized 2,455,000 shares; none issued and outstanding	—	—
Common stock, $.01 par value—authorized 150,000,000 shares; issued and outstanding 64,885,986 and 63,457,554 shares	649	635
Additional paid-in capital	607,834	607,123
Accumulated deficit	(722,741)	(705,229)
Accumulated other comprehensive loss	(68,647)	(81,013)

Total stockholders' deficit	(182,905)	(178,484)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 736,905	$ 816,214

See notes to consolidated condensed financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2002	**2001**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (17,512)	$ 175,946
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion	60,742	114,143
Provision for doubtful accounts receivable	18,847	30,574
Stock issuance—401(k) Plan and Restricted Stock Plan	—	132
Equity investment write-off	12,621	—
Minority interest share of loss	(388)	(170)
Marketable securities write-off	—	15,000
Cost investment write-down	—	1,500
Deferred income taxes	(3,679)	—
Gain on early extinguishment of debt	(27,251)	(392,447)
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	14,284	(18,058)
(Increase) decrease in prepaid expenses and other current assets	(4,341)	687
Increase in restricted cash	(1,672)	—
Decrease in other assets	448	1,077
Decrease in accounts payable	(6,389)	(33,802)
Decrease in accrued expenses, other current liabilities and other liabilities	(16,842)	(18,360)
Decrease in accrued interest payable	(3,112)	(15,699)
Sale of trading marketable securities	532	—
Net cash provided by (used in) operating activities	26,288	(139,477)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(21,929)	(78,982)
Cash used for business acquisitions, net of cash acquired	(138)	(1,404)
Net cash used in investing activities	(22,067)	(80,386)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	9,509	18,011
Purchase of the Company's debt securities	(4,383)	(99,845)
Principal payments on capital leases, vendor financing and other long-term obligations	(23,903)	(25,127)
Proceeds from sale of common stock	114	10,508
Net cash used in financing activities	(18,663)	(96,453)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	2,539	(5,551)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(11,903)	(321,867)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	83,953	398,378
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 72,050	$ 76,511

SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 53,564	$ 96,989
Non-cash investing and financing activities:		
Capital lease for acquisition of equipment	$ 139	$ 9,929
Leased fiber capacity additions	$ 7,991	$ 45,213
Equipment financing for acquisition of equipment	$ —	$ 14,121
Conversion of debentures to common stock	$ —	$ 46,373
Common stock issued for business acquisitions	$ —	$ 590
Common stock issued for payment on capital lease liability	$ 744	$ —
Net settlement of vendor obligations and receivables	$ 5,746	$ —

See notes to consolidated condensed financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	**2001**	**2002**	**2001**
NET INCOME (LOSS)	$ (26,692)	$ 46,143	$ (17,512)	$ 175,946
OTHER COMPREHENSIVE INCOME (LOSS)—				
Foreign currency translation adjustment	(5,028)	(1,292)	12,366	(37,573)
Unrealized gain (loss) on marketable securities:				
Unrealized holding loss arising during period	—	—	—	(747)
Reclassification adjustment for loss included in net loss	—	—	—	15,000
COMPREHENSIVE INCOME (LOSS)	$ (31,720)	$ 44,851	$ (5,146)	$ 152,626

See notes to consolidated condensed financial statements.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(1) *Basis of Presentation*

The accompanying unaudited consolidated condensed financial statements of Primus Telecommunications Group, Incorporated (the "Company" or "Primus") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and Securities and Exchange Commission ("SEC") regulations. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments (all of which are of a normal and recurring nature) which are necessary to present fairly the financial position, results of operations, cash flows and comprehensive income (loss) for the interim periods. The results for the nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

The financial statements should be read in conjunction with the Company's audited consolidated financial statements included in the Company's most recently filed Form 10-K.

In August 2002, the Company revised its previously reported results for the three-month period ended March 31, 2002 by filing a Form 10-Q/A for that period. The principal effects of the revision are described in Note 8—"Restatement of Financial Statements." In this Form 10-Q, references or comparisons to results for the three months ended March 31, 2002 are to the restated results.

(2) *Summary of Significant Accounting Policies*

Principles of Consolidation—The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and all other subsidiaries over which the Company exerts control. The Company owns 51% of the common stock of Matrix Internet, S.A. ("Matrix"), 51% of Cards & Parts

Telecom GmbH ("Cards & Parts"), 51% of CS Communications Systems GmbH and CS Network GmbH ("Citrus"), and 37% of Bekkoame Internet, Inc. ("Bekko"), in all of which the Company has a controlling interest. Additionally, the Company has a controlling interest in Direct Internet Private Limited ("DIPL"), pursuant to a convertible loan which can be converted at any time into equity of DIPL in an amount as agreed upon between the Company and DIPL and permitted under local law. All intercompany profits, transactions and balances have been eliminated in consolidation. All other investments in affiliates are carried at cost, as the Company does not have significant influence. See Note 9—" Subsequent Events."

On July 1, 2002, InterNeXt S.A. ("InterNeXt"), a data/Internet subsidiary of the Company, filed for insolvency administration in France. As a result of this filing, the Company no longer maintains the ability to control the operations of InterNeXt. Accordingly, the Company began accounting for the investment in InterNeXt, effective July 1, 2002, using the equity method of accounting in accordance with Accounting Principles Board Opinion ("APB") No. 18, "The Equity Method of Accounting for Investments in Common Stock." The Company believes the equity method is appropriate given their ability to exercise significant influence over the operating and financial policies of InterNeXt. The presentation of InterNeXt in the financial statements as a consolidated subsidiary since acquisition in May 2000 through June 30, 2002 has not changed from the prior presentation.

New Accounting Pronouncements—In July 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for

Costs Associated with Exit or Disposal Activities." SFAS No. 146 replaces Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company does not expect the adoption of SFAS No. 146 to have a material effect on our consolidated financial position, results of operations, or cash flows.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 requires the classification of gains and losses from extinguishments of debt as extraordinary items only if they meet certain criteria for such classification in APB No. 30, "Reporting the Results of Operations, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, an Infrequently Occurring Events and Transactions." Any gain or loss on extinguishments of debt classified as an extraordinary item in prior periods that does not meet the criteria in APB No. 30 must be reclassified. These provisions are effective for fiscal years beginning after May 15, 2002. Additionally, SFAS No. 145 requires sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. These lease provisions are effective for transactions occurring after May 15, 2002. The Company will adopt the provisions of SFAS No. 145 during the three months ended March 31, 2003. For the nine months ended September 30, 2002 and 2001, the Company recorded extraordinary gains on the early extinguishment of debt of $27.3 million and $390.4 million, respectively. Accordingly, reclassifications of these gains to income from continuing operations may be made throughout fiscal year 2003 to maintain comparability for the reported periods.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. This statement supercedes SFAS No. 121, "Impairment for Long-Lived Assets and for Long-Lived Assets to be Disposed of," and the accounting and reporting provisions of APB No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for the disposal of a segment of a business. SFAS No. 144 retains many of the provisions of SFAS No. 121, but addresses certain implementation issues associated with that statement. The Company adopted the provisions of SFAS No. 144 in the three months ended March 31, 2002. The adoption of SFAS No. 144 did not have a material effect on the Company's consolidated financial statements.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company is in the process of evaluating the impact of implementing SFAS No. 143.

In June 2001, the FASB issued two new statements: SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires business combinations entered into after June 30, 2001 to be accounted for using the purchase method of accounting. Specifically identifiable intangible assets, other than goodwill, are to be amortized over their estimated useful economic life. SFAS No. 142 requires that goodwill not be amortized, but should be tested for impairment at least annually. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 and applies to all goodwill and other intangible assets recognized in an entity's balance sheet at that date, regardless of when those assets were initially recognized. The Company adopted the provisions of SFAS No. 141 and SFAS No. 142 effective January 1, 2002. In accordance with SFAS

No. 142, the Company discontinued amortization of goodwill on January 1, 2002. See Note 3—"Goodwill and Other Intangible Assets." The Company has reviewed estimated useful lives of previously recorded customer lists in accordance with SFAS No. 142. The Company is following the two-step process prescribed in SFAS No. 142 to test its goodwill for impairment under the transitional goodwill impairment test. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. The Company performed the first of the required transitional goodwill impairment tests during the three months ended June 30, 2002. Based on the results of this test, there are indicators that a potential impairment of goodwill within the Company's European segment as of January 1, 2002 may have to be recognized. The Company will measure and record the potential impairment loss, if any, by December 31, 2002 as a cumulative effect of a change in accounting principle. Although the amount of the potential loss has not been determined, goodwill related to the European segment as of January 1, 2002 is $15.8 million. The Company believes it is likely that the majority of the goodwill related to the European segment will be written off under the transitional goodwill impairment test.

Reclassification—Certain previous year amounts have been reclassified to conform with current year presentations.

(3) *Goodwill and Other Intangible Assets*

Acquired intangible assets subject to amortization consisted of the following (in thousands):

	September 30, 2002		December 31, 2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists	$ 143,657	$ (114,827)	$ 139,771	$ (96,955)
Other	1,742	(929)	4,961	(1,662)
Total	$ 145,399	$ (115,756)	$ 144,732	$ (98,617)

Amortization expense for customer lists and other intangible assets for the nine months ended September 30, 2002 and 2001 was $15.8 million and $25.9 million, respectively. Amortization expense for goodwill for the nine months ended September 30, 2001 was $18.2 million. The Company expects amortization expense for customer lists and other intangible assets for the fiscal years ended December 31, 2002, 2003, 2004, 2005 and 2006 to be approximately $20.8 million, $15.1 million, $7.6 million, $2.1 million and $0.8 million, respectively.

Acquired intangible assets not subject to amortization consisted of the following (in thousands):

	September 30, 2002	December 31, 2001
	Net Carrying Amount	Net Carrying Amount
Goodwill	$ 51,883	$ 63,385

The changes in the carrying amount of goodwill for the three months ended September 30, 2002, June 30, 2002 and March 31, 2002, are as follows:

	North America	Europe	Asia-Pacific	Total
Balance as of January 1, 2002	41,311	15,773	6,301	63,385
Goodwill acquired during period	—	—	—	—
Other	336	(208)	(290)	(162)
Balance as of March 31, 2002	$ 41,647	$ 15,565	$ 6,011	$ 63,223
Goodwill acquired during period	—	—	—	—
Other	(162)	2,105	390	2,333
Balance as of June 30, 2002	$ 41,485	$ 17,670	$ 6,401	$ 65,556
Goodwill acquired during period	—	—	—	—
Deconsolidation of a subsidiary	—	(12,569)	—	(12,569)
Other	(943)	23	(184)	(1,104)
Balance as of September 30, 2002	$ 40,542	$ 5,124	$ 6,217	$ 51,883

The reduction in the goodwill balance for Europe is primarily a result of the deconsolidation during the three months ended September 30, 2002 of the Company's French subsidiary, InterNeXt, as a result of the Company's loss of control over the subsidiary. The subsidiary had a net goodwill balance of $12.6 million at the time of deconsolidation. See Note 2—"Summary of Significant Accounting Policies" and Note 7—"Equity Investment Write-off."

A reconciliation of net loss and loss per share reported in the Consolidated Condensed Statements of Operations to the pro forma amounts adjusted for the exclusion of goodwill amortization is presented below. For purposes of the calculation of the tax effect, the Company assumed a zero percent effective tax rate applied to the deductible goodwill as all of its net operating loss carryforwards had been fully offset with a valuation allowance. The pro forma results reflecting the

exclusion of goodwill amortization have been prepared only to demonstrate the impact of goodwill amortization on net loss and loss per share and are for comparative purposes only.

	For the Three Months Ended September 30, 2001	For the Nine Months Ended September 30, 2001
	(unaudited)	(unaudited)

	(in thousands, except per share amounts)	
Reported net income	$ 46,143	$ 175,946
Add: goodwill amortization, net of income taxes	5,997	18,173
Adjusted net income	52,140	194,119
Less: gain on early extinguishment of debt, net of income taxes	(98,690)	(390,447)
Adjusted loss before extraordinary item	$ (46,550)	$ (196,328)
Reported income (loss) per common share:		
Basic and diluted:		
Loss before extraordinary item	$ (1.00)	$ (4.14)
Gain on early extinguishment of debt, net of income taxes	1.88	7.54
Net income	$ 0.88	$ 3.40
Add: goodwill amortization, net of income taxes	$ 0.11	$ 0.35
Adjusted income (loss) per common share:		
Basic and diluted:		
Loss before extraordinary item	$ (0.89)	$ (3.79)
Gain on early extinguishment of debt, net of income taxes	1.88	7.54
Net income	$ 0.99	$ 3.75
Weighted average number of common shares outstanding	52,573	51,802

(4) *Long-Term Obligations*

Long-term obligations consisted of the following (in thousands):

	September 30, 2002	December 31, 2001
	(unaudited)	
Obligations under capital leases	$ 9,741	$ 28,754
Equipment financing	72,538	71,492
Leased fiber capacity	35,146	53,713
Accounts receivable financing facility and other	35,350	20,365
Senior notes	389,783	422,144
Convertible subordinated debentures	71,119	71,119
Subtotal	613,677	667,587
Less: Current portion of long-term obligations	(67,115)	(51,996)
Total long-term obligations	$ 546,562	$ 615,591

The indentures governing the senior notes and convertible debentures, as well as other credit arrangements, contain certain financial and other covenants which, among other things, will restrict the Company's ability to incur further indebtedness and make certain payments, including the payment of dividends.

Senior Notes and Convertible Debentures

In February 2000, the Company completed the sale of $250 million in aggregate principal amount of 5 3/4% convertible subordinated debentures due 2007 ("2000 Convertible Debentures") with semi-annual interest payments due on February 15th and August 15th. On March 13, 2000, the Company announced that the initial purchasers of the 2000 Convertible Debentures had exercised their $50 million over-allotment option granted pursuant to a purchase agreement dated February 17, 2000. The debentures were convertible into approximately 6,025,170 shares of the Company's common stock based on a conversion price of $49.7913 per share. During the years ended December 31, 2001 and 2000, the Company reduced the principal balance of the debentures through open market purchases and conversion to the Company's common stock. In February 2002, the Company retired all of the 2000 Convertible Debentures that had been previously purchased by the Company in December 2000 and January 2001 in the principal amount of $36.4 million. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. See the table below for detail on debt repurchases since December 31, 2000.

In October 1999, the Company completed the sale of $250 million in aggregate principal amount of $12\frac{3}{4}\%$ senior notes due 2009 ("October 1999 Senior Notes"). The October 1999 Senior Notes are due October 15, 2009, with semi-annual interest payments due on October 15th and April 15th. The Company may redeem up to 35% of the original principal amount of the October 1999 Senior Notes at 112.75% of the principal amount thereof, plus accrued and unpaid interest through the redemption date prior to October 15, 2002. In January 2002 and during the years ended December 31, 2001 and 2000, the Company reduced the principal balance of these senior notes through open market purchases. In June and September 2002, the Company retired all of the October 1999 Senior Notes that had been previously purchased by the Company in the principal amount of $134.3 million in aggregate. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. See the table below for detail on debt repurchases since December 31, 2000.

In January 1999, the Company completed the sale of $200 million aggregate principal amount of $11\frac{1}{4}\%$ senior notes due 2009 ("January 1999 Senior Notes") with semi-annual interest payments due on January 15th and July 15th. The January 1999 Senior Notes are due January 15, 2009 with early redemption at the option of the Company at any time after January 15, 2004. The Company may redeem up to 35% of the original principal amount of the January 1999 Senior Notes at 111.25% of the principal amount thereof, plus accrued and unpaid interest through the redemption date prior to January 15, 2002. In June 1999, in connection with the Telegroup acquisition, the Company issued $45.5 million in aggregate principal amount of the Company's $11\frac{1}{4}\%$ senior notes due 2009 pursuant to the January 1999 Senior Notes indenture. In January 2002 and during the year ended December 31, 2001, the Company reduced the principal balance of these senior notes through open market purchases. In June 2002, the Company retired $2.2 million in principal amount of the January 1999 Senior Notes that had been previously purchased by the Company. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. See the table below for detail on debt repurchases since December 31, 2000.

On May 19, 1998, the Company completed the sale of $150 million $9\frac{7}{8}\%$ senior notes due 2008 ("1998 Senior Notes") with semi-annual interest payments due on May 15th and November 15th. The 1998 Senior Notes are due May 15, 2008 with early redemption at the option of the Company at any time after May 15, 2003. In addition, prior to May 15, 2001, the Company may redeem up to 25% of the originally issued principal amount of the 1998 Senior Notes at 109.875% of the principal amount thereof, plus accrued and unpaid interest through the redemption date. During the year ended December 31, 2001, the Company reduced the principal balance of these senior notes through open market purchases. In June 2002, the Company retired $4.5 million in principal amount of the 1998 Senior Notes that had been previously purchased by the Company. The retired principal had been held

by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. See the table below for detail on debt repurchases since December 31, 2000. See Note 9—"Subsequent Events."

On August 4, 1997, the Company completed the sale of $225 million $11\frac{3}{4}\%$ senior notes due 2004 ("1997 Senior Notes") and warrants to purchase 392,654 shares of the Company's common stock, with semi-annual interest payments due on February 1st and August 1st. The 1997 Senior Notes are due August 1, 2004 with early redemption at the option of the Company at any time after August 1, 2001, at a premium to par value. During the years ended December 31, 2001 and 2000, the Company reduced the principal balance of these senior notes through open market purchases. In June 2002, the Company retired $23.0 million in principal amount of the 1997 Senior Notes that had been previously purchased by the Company. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. See the table below for detail on debt repurchases since December 31, 2000.

The following table shows the changes in the balances of the Company's senior notes and debentures for the nine months ended September 30, 2002 and the year ended December 31, 2001. The senior notes purchased by the Company that have not been cancelled are held as treasury bonds and are recorded as a reduction of long-term obligations.

For the nine months ended September 30, 2002	**Balance at December 31, 2001**	**Principal Purchases**	**Conversion to Common Stock**	**Warrant Amortization**	**Balance at September 30, 2002**	**Cash Paid for Purchase of Principal**
2000 $5\frac{3}{4}\%$ Convertible Debentures due 2007	$ 71,119,000	$ —	$ —	$ —	$ 71,119,000	$ —
October 1999 $12\frac{3}{4}\%$ Senior Notes due 2009	126,680,000	(11,000,000)	—	—	115,680,000	1,485,000
January 1999 $11\frac{1}{4}\%$ Senior Notes due 2009	139,587,000	(21,467,000)	—	—	118,120,000	2,898,045
1998 $9\frac{7}{8}\%$ Senior Notes due 2008	69,020,000	—	—	—	69,020,000	—
1997 $11\frac{3}{4}\%$ Senior Notes due 2004	86,857,345	—	—	105,287	86,962,632	—
Total	$ 493,263,345	$ (32,467,000)	$ —	$ 105,287	$ 460,901,632	$ 4,383,045

For the Year Ended December 31, 2001	**Balance at December 31, 2000**	**Principal Purchases**	**Conversion to Common Stock**	**Warrant Amortization**	**Balance at December 31, 2001**	**Value of Shares Issued and Cash Paid for Purchase of Principal**
2000 $5\frac{3}{4}\%$ Convertible Debentures due 2007	$ 296,610,000	$ (33,027,000)	$ (192,464,000)	$ —	$ 71,119,000	$ 65,147,343
October 1999 $12\frac{3}{4}\%$ Senior Notes due 2009	239,350,000	(112,670,000)	—	—	126,680,000	25,806,250
January 1999 $11\frac{1}{4}\%$ Senior Notes due 2009	245,467,000	(105,880,000)	—	—	139,587,000	24,032,724
1998 $9\frac{7}{8}\%$ Senior Notes due 2008	150,000,000	(80,980,000)	—	—	69,020,000	18,694,158
1997 $11\frac{3}{4}\%$ Senior Notes due 2004	177,622,321	(91,700,000)	—	935,024	86,857,345	21,353,812
Total	$ 1,109,049,321	$ (424,257,000)	$ (192,464,000)	$ 935,024	$ 493,263,345	$ 155,034,287

Capital Leases, Leased Fiber Capacity, Equipment Financing and Other Long-Term Obligations

In December 1999, the Company agreed to purchase $23.2 million of fiber capacity from Qwest Communications which provides the Company with an asynchronous transfer mode

("ATM") + Internet protocol ("IP") based international broadband backbone. The backbone is comprised of nearly 11,000 route miles of fiber optic cable in the United States and overseas as well as private Internet peering at select sites in the United States and overseas. In March 2000, the Company agreed to purchase an additional $20.8 million of fiber capacity. As of June 30, 2001, the Company had fulfilled the total purchase obligation. As of December 31, 2001, the Company had made cash payments of $27.1 million. In June 2002, the Company settled its outstanding payment obligation of $16.4 million with Qwest for $10 million in cash. $5 million was paid in June 2002. $5 million remained payable as of September 30, 2002, of which $3 million is due June 2003, and $2 million is due September 2003. The Company recorded this transaction in accordance with FASB Interpretations ("FIN") No. 26, "Accounting for Purchase of a Leased Asset by the Lessee during the Term of the Lease," and accordingly, the transaction resulted in a reduction of property and equipment of $7.2 million during the three months ended June 30, 2002.

During the three months ended September 30, 2001, the Company accepted delivery of fiber optic capacity on an IRU basis from Southern Cross Cables Limited ("SCCL"). The Company and SCCL entered into an arrangement financing the capacity purchase. During the three months ended December 31, 2001, the Company renegotiated the payment terms with SCCL. Under the new terms, the payments for each capacity segment will be made over a five-year term, which added two years to the original three-year term, and continues to bear interest at 6.0% above LIBOR (7.81% at September 30, 2002). The Company further agreed to purchase $12.2 million of additional fiber optic capacity from SCCL under the IRU agreement. At September 30, 2002, the Company had a liability recorded under this agreement in the amount of $18.1 million, an increase of $5.6 million from June 30, 2002. The increase is due to the delivery of additional capacity in the amount of $6.7 million less payments made during the three months ended September 30, 2002.

In December 2000, the Company entered into a financing arrangement to purchase fiber optic capacity on an IRU basis in Australia for $27.8 million (51.1 million Australian dollars ("AUD")) from Optus Networks Pty. Limited. As of December 31, 2001, the Company had fulfilled the total purchase obligation. At September 30, 2002, the Company had a liability recorded in the amount of $16.5 million (30.4 million AUD), which reflects a promissory note payable over a four-year term bearing interest at a rate of 14.31%.

During the year ended December 31, 2000, Cisco Systems Capital Corporation ("Cisco") provided the Company with $50.0 million in financing to fund the purchase of network equipment, secured by the equipment purchased. In March 2002, the Company settled its outstanding equipment lease obligations of $15.3 million with Cisco for $6.5 million in cash and 1,200,000 shares of the Company's common stock. $5.0 million was paid in March 2002. $1.5 million remains payable as of September 30, 2002 and is due April 2, 2003. The Company recorded this transaction in accordance with FIN No. 26, "Accounting for Purchase of a Leased Asset by the Lessee during the Term of the Lease," and accordingly, this transaction resulted in a reduction of property and equipment of $8.0 million during the three months ended March 31, 2002.

During the years ended December 31, 2000 and 1999, NTFC Capital Corporation provided the Company with $15.0 million and $30.0 million, respectively, in financing to fund the purchase of network equipment, secured by the equipment purchased. At September 30, 2002 and December 31, 2001, $45.0 million was utilized by the Company and recorded as a liability. Borrowings under this credit facility are payable over a five-year term and are each priced at the date of drawdown at a 495 basis point spread off of the five-year United States Treasury rate; the interest rates range from 9.94% to 11.56%.

During the year ended December 31, 1999, Ericsson Financing Plc ("Ericsson") provided the Company with $33.3 million (21.3 million British pounds) in financing to fund the purchase of network equipment, secured by the equipment purchased. At September 30, 2002 and December 31, 2001,

$18.9 million (12.1 million British pounds) was utilized under this facility. Borrowings under this credit facility accrue interest at rates equal to LIBOR of the relevant currency plus 5.8% (9.75% at September 30, 2002) for 50% of the capital and at 3.8% above LIBOR (7.75% at September 30, 2002) for the other 50%, and are payable over a five-year term. The Company had liabilities recorded at September 30, 2002 and December 31, 2001 of $14.8 million and $13.8 million, respectively. During the three months ended December 31, 2001, the Company renegotiated payment terms with Ericsson. Under the new terms, the principal of the borrowings is to be deferred until May 15, 2003. Interest until commencement of repayment will be accrued at 3.8% above LIBOR per annum for 50% of the capital and at 1.8% above LIBOR for the other 50%. All obligations under this credit facility will be fulfilled by February 15, 2006.

During the year ended December 31, 2000, General Electric Capital Corporation provided the Company with $20.0 million in financing to fund the purchase of network equipment, secured by the equipment purchased. At September 30, 2002 and December 31, 2001, $12.7 million was utilized under this facility by the Company and recorded as a liability. Borrowings under this facility are priced at the date of drawdown at a 500 basis point spread off of the five-year United States Treasury rate and are payable over a five-year term; the interest rates range from 9.72% to 9.95%.

During the three months ended June 30, 2002, the Company entered into a settlement agreement with a vendor who filed for bankruptcy protection in the United States in January 2002. In October 2002, this settlement agreement was approved by the United States Bankruptcy Court. The settlement resulted in the netting of various payables and receivables including the cancellation of $4.8 million in leased fiber capacity financing owed by the Company. This settlement resulted in a reduction of property and equipment in accordance with FIN No. 26, "Accounting for Purchase of a Leased Asset by the Lessee during the Term of the Lease."

Other

In March 2002, the Company consummated a transaction financing accounts receivable of a certain wholly-owned subsidiary, with Textron Financial Inc. The Company pledged $14.8 million as collateral as of September 30, 2002, and recorded a liability of $12.6 million which is included in current portion of long-term obligations as the financing is payable on demand. This financing will terminate in March 2004 and bears fees at a rate of Bloomberg BBSWIB rate plus 5.75% per annum (10.67% at September 30, 2002), plus an additional $150,000 per annum. In July 2001, the Company consummated a transaction financing accounts receivable of its wholly-owned Canadian subsidiary, Primus Canada, with Textron Financial Canada Limited, an affiliate of Textron Financial Inc. The Company pledged $15.0 million and $17.4 million of its accounts receivable as collateral as of September 30, 2002 and December 31, 2001, respectively, and recorded a liability of $10.8 million and $12.4 million, respectively, which is included in current portion of long-term obligations as the financing is payable on demand. This financing will terminate in March 2004 and bears fees at a rate of Canada Prime Rate plus 3.25% (7.75% at September 30, 2002), plus an additional $285,081 (450,000 Canadian dollars) per annum. These transactions with Textron Financial Inc. collectively permit borrowings of up to $29.8 million, depending on the level of customer receivables.

(5) *Operating Segment and Related Information*

The Company has three reportable operating segments based on management's organization of the enterprise into geographic areas—North America, Europe and Asia-Pacific. The Company evaluates the performance of its segments and allocates resources to them based upon net revenue and operating income/(loss). The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Net revenue by reportable segment is reported on the basis of where services are provided. The Company has no single customer representing greater than 10% of its revenues. Operations and assets of the North America segment include shared corporate functions and assets, which the Company does not allocate to its other geographic segments for management reporting purposes.

Summary information with respect to the Company's segments is as follows (in thousands):

	Three months ended September 30,	
	2002	2001
	(unaudited)	
Net Revenue		
North America		
United States	$ 53,346	$ 64,716
Canada	40,238	41,986
Other	1,254	2,087
Total North America	94,838	108,789
Europe		
United Kingdom	36,523	38,132
Germany	14,429	27,175
Netherlands	22,177	3,756
Other	21,078	26,438
Total Europe	94,207	95,501
Asia-Pacific		
Australia	65,211	62,301
Other	6,277	5,653
Total Asia-Pacific	71,488	67,954
Total	$ 260,533	$ 272,244
Income (Loss) From Operations		
North America	$ 190	$ (22,498)
Europe	340	(7,236)
Asia-Pacific	5,322	(3,272)
Total	$ 5,852	$ (33,006)

	September 30, 2002	December 31, 2001
	(unaudited)	
Assets		
North America		
United States	$ 183,583	$ 264,149
Canada	99,950	112,483
Other	6,929	10,379
Total North America	290,462	387,011
Europe		
United Kingdom	101,465	113,543
Germany	36,694	62,892
Netherlands	33,976	7,680

Other	60,055	51,678
Total Europe	232,190	235,793
Asia-Pacific		
Australia	176,138	158,902
Other	38,115	34,508
Total Asia-Pacific	214,253	193,410
Total	$ 736,905	$ 816,214

The Company offers three main products—Voice, Data/Internet, and voice-over-Internet-protocol ("VoIP") in all three segments. Summary net revenue information with respect to the Company's products is as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2002	**2001**	**2002**	**2001**
	(unaudited)		**(unaudited)**	
Voice	$ 216,963	$ 232,287	$ 629,122	$ 713,695
Data/Internet	27,895	29,351	85,041	82,228
VoIP	15,675	10,606	42,281	27,409
Total	$ 260,533	$ 272,244	$ 756,444	$ 823,332

(6) *Commitments and Contingencies*

In September 2002, the Company signed an agreement to acquire the United States-based retail switched voice services customer base of Cable & Wireless USA, Inc. ("C&W"). In addition to assuming certain liabilities associated with the customer base, the purchase price will be based on the customer base's revenues after the acquisition has occurred. The Company is expected to start acquiring the customer base during the three months ending December 31, 2002. No amounts related to the acquisition have been recorded as of September 30, 2002. The maximum purchase price of $32 million will be paid through a deferred payment arrangement over a two-year period.

During the three months ended December 31, 2001, the Company agreed to purchase $12.2 million of additional fiber optic capacity from Southern Cross Cables Limited under an IRU Agreement. The Company has purchased $8.0 million under the agreement as of September 30, 2002, and is scheduled to receive delivery of all capacity by May 2003.

In March 1999, the Company purchased the common stock of London Telecom Network, Inc. and certain related entities that provide long distance telecommunications services in Canada (the "LTN Companies"). In April 2001, the LTN Companies received a federal notice of income tax assessment disputing certain deductions from taxable income made by the LTN Companies prior to the Company's acquisition, in the amount of $5.1 million (8.0 million Canadian dollars), plus penalties and interest of $6.7 million (10.6 million Canadian dollars). The Company is disputing the entire assessment. The Company's ultimate legal and financial liability with respect to these proceedings cannot be estimated with any certainty at this time, while an adverse result for the full amount sought or some significant percentage thereof could have a material adverse effect on the Company's financial results.

On December 9, 1999, Empresa Hondurena de Telecommunicaciones, S.A. ("Plaintiff"), based in Honduras, filed suit in Florida State Court in Broward County against TresCom and one of TresCom's wholly-owned subsidiaries, St. Thomas and San Juan Telephone Company, alleging that such entities failed to pay amounts due to plaintiff pursuant to contracts for the exchange of telecommunications traffic during the period from December 1996 through September 1998. The Company acquired TresCom in June 1998, and TresCom is currently the Company's subsidiary. Plaintiff is seeking approximately $14 million in damages, plus legal fees and costs. The Company filed an answer on January 25, 2000, and discovery has commenced. A trial date has not yet been set. The Company's ultimate legal and financial liability with respect to such legal proceeding cannot be estimated with any certainty at this time, while an adverse result for the full amount sought or some significant percentage thereof could have a material adverse effect on the Company's financial results. The Company intends to defend the case vigorously. Management believes that this suit will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

The Company and certain of its executive officers have been named as defendants in two separate securities lawsuits brought by shareholders ("Plaintiffs") of Tutornet.com, Inc. ("Tutornet") in the United States District Courts in Virginia and New Jersey. The plaintiffs sued Tutornet and several of its officers (collectively, the "Non-Primus Defendants") for an undisclosed amount alleging fraud in the sale of Tutornet securities. The plaintiffs also named the Company and several of its executive officers (the "Primus Defendants") as co-defendants. Neither the Company nor any of its subsidiaries/affiliates owns, or has ever owned, any interest in Tutornet. In the Virginia case, the Primus Defendants were dismissed before the case went to the jury. The case continued against the Non-Primus Defendants, and the jury rendered a verdict of $176 million in favor of the Plaintiffs. The Non-Primus Defendants have filed post-trial motions seeking to reverse or reduce the jury's award, and the plaintiffs have sought a new trial as to the Primus Defendants. The judge has not yet ruled on these motions. The Company does not believe there is any merit to the motion for a new trial as to the Primus Defendants and anticipates that the plaintiffs will file an appeal. The New Jersey case was just recently filed against the Primus Defendants. In both cases, the Company intends to vigorously defend against these actions and believes that the plaintiffs' claims are without merit. However, the Company's ultimate legal and financial liability with respect to such legal proceedings cannot

be estimated with any certainty at this time and there is no entity insurance coverage for these claims. Accordingly, an adverse result for the full amount sought or some significant percentage thereof could have a material adverse effect on the Company's financial results.

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

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(7) Equity Investment Write-off

In May 2000, the Company acquired 100% of InterNeXt, a data/Internet subsidiary of the Company, for $12.9 million, comprised of $11.9 million in cash and 33,446 shares of the Company's common stock. On July 1, 2002, InterNeXt filed for insolvency administration in France. As a result of this filing, the Company no longer maintains the ability to control the operations of InterNeXt. Accordingly, the Company began accounting for the investment in InterNeXt, effective July 1, 2002, using the equity method of accounting in accordance with APB No. 18, "The Equity Method of Accounting for Investments in Common Stock." The Company believes the equity method is appropriate given their ability to exercise significant influence over the operating and financial policies of InterNeXt. During the three months ended September 30, 2002, the Company did not believe that it would be able to recover the carrying amount of its equity investment in InterNeXt based on the latest insolvency administration proceedings. In accordance with APB No. 18, the Company believed the loss in value of the equity investment to be other than temporary and correspondingly wrote-off the investment of $12.6 million.

(8) *Restatement of Financial Statements*

In August 2002, the Company revised its results for the three-month period ended March 31, 2002 by filing a Form 10-Q/A for that period. In this Form 10-Q, references or comparisons to the results for the three months ended March 31, 2002 are to the restated results.

The Company determined that the $8.0 million difference between the carrying amount of its outstanding equipment lease obligations with Cisco and the amounts incurred to settle these obligations should have been recognized as a reduction in the carrying value of the leased assets rather than as an extraordinary gain, due to the obligation being treated as a capital lease in nature, instead of a line of credit, according to the guideline stated in FIN No. 26, "Accounting for Purchase of a Leased Asset by the Lessee during the Term of the Lease." As a result, the consolidated condensed financial statements as of and for the three months ended March 31, 2002 were restated from the amounts previously reported to correct the accounting for this transaction. There was no effect on loss before extraordinary items. A summary of the effects of this restatement is as follows:

	Reported	As Restated
For the three months ended March 31, 2002:		
Gain on early extinguishment of debt	$ 35,264	$ 27,251
Net income	$ 28,767	$ 20,754
Income per share—basic and diluted:		
Gain on early extinguishment of debt	$ 0.55	$ 0.42
Net income	$ 0.45	$ 0.32
As of March 31, 2002:		
Property and equipment, net	$ 375,398	$ 367,389
Total stockholders' deficit	$ (147,192)	$ (155,201)

(9) *Subsequent Events*

In October 2002, the Company retired all of the 1998 Senior Notes that had been previously purchased by the Company in the principal amount of $76.5 million. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations.

On October 1, 2002, the Company transferred back shares to the principal owners of its German mobile operations business, Cards & Parts, which reduced its ownership to 49%. On October 4, 2002, Cards & Parts filed for insolvency administration. The Company is evaluating whether Cards & Parts will be deconsolidated.

As of October 1, 2002, the Company amended its contractual agreements to give up its right to control the Board of Directors and the operations of Bekko, its data/Internet subsidiary in Japan. The Company is evaluating whether Bekko will be deconsolidated.

In connection with the acquisition of the United States based retail switched voice services customer base of C&W, the Company and C&W, where applicable, have filed applications with the FCC, and applications/notices with the state Public Utility Commissions, as required. As of October 28, 2002, Primus and C&W had both the domestic and international approvals for migration of customers, and had received approvals in 46 out of 50 states. Due to certain state law requirements for additional notice and/or evaluation time, approvals for three of the remaining states are expected to be granted before the end of November and the final state by mid-December 2002.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Primus is a global facilities-based Total Service Provider offering bundled voice, data, Internet, digital subscriber line ("DSL"), Web hosting, VoIP, virtual private network ("VPN"), PC-to-phone, prepaid calling card and other value-added services to business and residential retail customers and other carriers located in the United States, Canada, Brazil, the United Kingdom, continental Europe, Australia, India and Japan. The Company seeks to capitalize on the increasing demand for high-quality, low-cost international communications services, which is being driven by the globalization of the world's economies, the worldwide trend toward telecommunications deregulation and the growth of global data/Internet traffic. The Company provides services over its network, which consists of (i) 19 carrier-grade switches, including 14 international gateway switches in the United States, Australia, Canada, France, Germany, Japan, Puerto Rico and the United Kingdom and one domestic switch in the United States and four domestic switches in Australia; (ii) more than 300 points of presence (POPs) in additional markets within its principal service regions; and (iii) both owned and leased transmission capacity on undersea and land-based fiber optic cable systems. Utilizing this network, along with resale arrangements and foreign carrier agreements, the Company provides service to 2.8 million customers, which includes 0.6 million prepaid calling card customers. Total customers at June 30, 2002 were 2.4 million, of which 0.3 million were prepaid calling card customers.

Prices in the long distance industry in the United States and the United Kingdom have declined in recent years, and as competition continues to increase, the Company believes that prices are likely to continue to decrease. Additionally, Primus believes that because deregulatory influences have begun to affect telecommunications markets outside the United States and the United Kingdom, including Australia, the deregulatory trend will result in greater competition which could adversely affect Primus's net revenue per minute and gross margin as a percentage of net revenue. However, the Company believes that such decreases in prices will be offset by increased communications usage and decreased costs.

As the portion of traffic transmitted over leased or owned facilities increases, cost of revenue increasingly will be comprised of fixed costs. In order to manage such costs, Primus pursues a flexible approach with respect to the expansion of its network. In most instances, Primus initially obtains transmission capacity on a variable-cost, per-minute leased basis, then acquires additional capacity on a fixed-cost basis when traffic volume makes such a commitment cost-effective, and ultimately purchases and operates its own facilities when traffic levels justify such investment. The Company also seeks to lower the cost of revenue through:

- optimizing the routing of calls over the least cost route;
- increasing volumes on the fixed cost leased and owned lines, thereby spreading the allocation of fixed costs over a larger number of minutes;
- negotiating lower variable usage based costs with domestic and foreign service providers and negotiating additional and lower cost foreign carrier agreements with the foreign incumbent carriers and others; and
- continuing to expand the network when traffic volumes justify such investment.

The Company generally realizes a higher gross margin as a percentage of net revenue on its international long distance as compared to its domestic long distance services and a higher gross margin as a percentage of net revenue on its services to both business and residential customers compared to those realized on its services to other telecommunications carriers. In addition, Primus generally realizes a higher gross margin as a percentage of net revenue on long distance services as

compared to those realized on local switched and cellular services. Carrier services, which generate a lower gross margin as a percentage of net revenue than retail business and residential services, are an important part of net revenue because the additional traffic volume of such carrier customers improves the utilization of the network and allows the Company to obtain greater volume discounts from its suppliers than it otherwise would realize. Primus's overall gross margin as a percentage of net revenue may fluctuate based on the relative volumes of international versus domestic long distance services, carrier services versus business and residential long distance services and the proportion of traffic carried on Primus's network versus resale of other carriers' services.

Selling, general and administrative expenses are comprised primarily of salaries and benefits, commissions, occupancy costs, sales and marketing expenses, advertising and administrative costs. All selling, general and administrative expenses are expensed when incurred, with the exception of direct-response advertising, which is expensed in accordance with Statement of Position 93-7, "Reporting on Advertising Costs."

Foreign currency—A significant portion of the Company's net revenue is derived from sales and operations outside the United States. The reporting currency for the Company's consolidated financial statements is the United States dollar. The local currency of each country is the functional currency for each respective entity. In the future, Primus expects to continue to derive the majority of net revenue and incur a significant portion of its operating costs from outside the United States, and therefore changes in exchange rates have had and may continue to have a significant, and potentially adverse, effect on Primus's results of operations. Primus historically has not engaged in hedging transactions and does not currently contemplate engaging in hedging transactions to mitigate foreign exchange risks.

Critical Accounting Policies

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Form 10-K for the year ended December 31, 2001 for a detailed discussion of the Company's critical accounting policies. These policies include revenue recognition, determining the Company's allowance for doubtful accounts receivable, and accounting for cost of revenue.

Recent Developments

In September 2002, the Company signed an agreement to acquire the United States-based retail switched voice services customer base of Cable & Wireless USA, Inc. ("C&W"). While this acquisition is expected to be accretive to the Company's revenue and EBITDA, such amount is dependent upon a variety of factors which are outside of the Company's control. The Company will pay a fee to C&W for each individual customer after that customer is actually migrated

based upon that customer's monthly usage amount. The acquisition will be effected through a deferred payment arrangement over a two-year period for a total estimated consideration of up to $32 million. No amounts related to the acquisition have been recorded as of September 30, 2002.

In connection with the acquisition, the Company and C&W, where applicable, have filed applications with the FCC, and applications/notices with the state Public Utility Commissions, as required. As of October 28, 2002, Primus and C&W had both the domestic and international approvals for migration of customers, and had received approvals in 46 out of 50 states. Due to certain state law requirements for additional notice and/or evaluation time, approvals for three of the remaining states are expected to be granted before the end of November and the final state by mid-December 2002.

Other Operating Data

The following information for the three months ended September 30, 2002 and 2001 (in thousands) is provided for informational purposes and should be read in conjunction with the unaudited Consolidated Condensed Financial Statements and Notes thereto contained elsewhere herein

and the Consolidated Financial Statements presented with the Company's most recently filed Form 10-K.

	Three months ended September 30, 2002			
		Minutes of Long Distance Use		
	Net Revenue	International	Domestic	Total
North America	$ 94,838	405,830	518,241	924,071
Europe	94,207	549,627	277,491	827,118
Asia-Pacific	71,488	51,526	178,016	229,542
Total	$ 260,533	1,006,983	973,748	1,980,731

	Three months ended September 30, 2001			
		Minutes of Long Distance Use		
	Net Revenue	International	Domestic	Total
North America	$ 108,789	462,921	568,306	1,031,227
Europe	95,501	610,575	231,435	842,010
Asia-Pacific	67,954	45,520	176,305	221,825
Total	$ 272,244	1,119,016	976,046	2,095,062

Results of operations for the three months ended September 30, 2002 as compared to the three months ended September 30, 2001.

Net revenue decreased $11.7 million or 4% to $260.5 million for the three months ended September 30, 2002 from $272.2 million for the three months ended September 30, 2001. The Company's data/Internet and VoIP revenue contributed $27.9 million and $15.7 million, respectively, for the three months ended September 30, 2002, as compared to $29.4 million and $10.6 million, respectively, for the three months ended September 30, 2001.

North America: North American net revenue decreased $14.0 million or 13% to $94.8 million for the three months ended September 30, 2002 from $108.8 million for the three months ended September 30, 2001. The decrease is primarily attributed to a decrease of $7.6 million in wholesale carrier services as well as reduced rates per minute caused by market pricing pressures in the United States. Additionally, a decrease of $5.0 million in retail voice traffic in the United States and Canada contributed to the decrease in net revenue.

Europe: European net revenue decreased $1.3 million or 1% to $94.2 million for the three months ended September 30, 2002 from $95.5 million for the three months ended September 30, 2001. The European net revenue decrease is mainly attributable to a $12.7 million decrease in the Company's German operation, comprised of a $6.8 million decline in its carrier services, a $4.0 million decrease in its mobile business and a $1.3 million decline in its data/Internet revenue. The decrease is mostly offset by an increase of $11.1 million associated with the increased usage of prepaid calling cards.

Asia-Pacific: Asia-Pacific net revenue increased $3.5 million or 5% to $71.5 million for the three months ended September 30, 2002 from $68.0 million for the three months ended September 30, 2001. The increase is primarily attributable to an increase of $2.9 million from the Company's Australian operation, which is mainly associated with the positive impact of the strengthening Australian dollar against the United States dollar. The increase is also attributable to an increase of $0.8 million in the Company's data/Internet services in India.

Cost of revenue decreased $24.2 million to $170.8 million, or 65.6% of net revenue, for the three months ended September 30, 2002 from $195.0 million, or 71.6% of net revenue, for the three months ended September 30, 2001. With the majority of cost of revenue being variable, based on minutes of use, the decrease in cost of revenue is primarily attributable to the decrease in net revenue. Gross margin percentage increased to 34.4% for the three months ended September 30, 2002 from 28.4% for the three months ended September 30, 2001, due to a reduction in the mix of lower-margin wholesale business as well as improved

efficiencies in network routing by diversifying the Company's base of traffic suppliers, eliminating under-utilized fixed circuit costs, and increasing the utilization of the Company's own network.

Selling, general and administrative expenses decreased $6.1 million to $63.6 million, or 24.4% of net revenue, for the three months ended September 30, 2002 from $69.7 million, or 25.6% of net revenue, for the three months ended September 30, 2001. The decrease is primarily attributable to a $3.2 million reduction in salaries and benefits, a reduction of $2.8 million in general and administrative expenses, and a total reduction of $1.5 million in professional fees, occupancy and travel expenses. The reduction in salaries and benefits is a result of the reduction of full-time and part-time employees in 2001. The reduction in general and administrative, and to a lesser extent, professional services, occupancy and travel expenses is a result of management initiatives to reduce overhead spending. The decrease is partially offset by an increase of $1.4 million in sales and marketing expenses.

Depreciation and amortization expense decreased $20.2 million to $20.3 million for the three months ended September 30, 2002 from $40.5 million for the three months ended September 30, 2001. The decrease consists of reductions of $11.1 million in depreciation expense and $9.1 million in amortization expense. The decrease is primarily associated with the Company's asset impairment write-down of $526.3 million during the three months ended December 31, 2001 in goodwill, property and equipment, and customer lists. The decrease in goodwill amortization expense is also a result of the Company's adoption of SFAS No. 142 on January 1, 2002, under which goodwill is no longer amortized. Goodwill amortization expense for the three months ended September 30, 2001 was $6.0 million. The Company performed the first of the transitional goodwill impairment tests required by SFAS No. 142 during three months ended June 30, 2002. Based on the results of this test, there are indicators that a potential impairment of goodwill within the Company's European segment as of January 1, 2002 may have to be recognized. The Company will measure and record the potential impairment loss, if any, by December 31, 2002 as a cumulative effect of a change in accounting principle. Although the amount of the potential loss has not been determined, goodwill related to the European segment as of January 1, 2002 is $15.8 million. The Company believes it is likely that the majority of the goodwill related to the European segment will be written off under the transitional goodwill impairment test.

Interest expense decreased $2.7 million to $17.6 million for the three months ended September 30, 2002 from $20.3 million for the three months ended September 30, 2001. The decrease is primarily attributed to $3.2 million in interest saved from the principal reduction of the Company's senior notes and convertible debentures and extinguishment of its vendor debt and related obligations to Hewlett-Packard.

Interest and other income (expense) decreased to an expense of $0.4 million for the three months ended September 30, 2002 from an income of $0.8 million for the three months ended September 30, 2001. The decrease is primarily associated with a decrease of $0.4 million in interest income due to a lower cash balance during the three months ended September 30, 2002, and the decrease of $0.4 million in foreign currency transaction gains resulted from the negative impact of foreign exchange rates against a subsidiary's functional currency.

Income tax benefit (expense) of $2.0 million expense for the three months ended September 30, 2002 resulted from a partial realization of the deferred tax asset that was created by foreign operating

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loss carryforwards. The deferred tax asset of $5.7 million was the portion that was not fully offset by a valuation allowance during the three months ended March 31, 2002 and resulted in an income tax benefit of $5.7 million during that period.

Results of operations for the nine months ended September 30, 2002 as compared to the nine months ended September 30, 2001.

Net revenue decreased $66.9 million or 8% to $756.4 million for the nine months ended September 30, 2002 from $823.3 million for the nine months ended September 30, 2001. The Company's data/Internet and VoIP revenue contributed $85.0 million and $42.3 million, respectively, for the nine months ended September 30, 2002, as compared to $82.2 million and $27.4 million, respectively, for the nine months ended September 30, 2001.

North America: North American net revenue decreased $70.8 million or 20% to $280.6 million for the nine months ended September 30, 2002 from $351.4 million for the nine months ended September 30, 2001. The decrease is primarily attributed to a decrease in wholesale carrier services as well as reduced rates per minute caused by market pricing pressures. Carrier services revenue in the United States and Canada declined by $53.4 million, or 49% from the same period last year. Additionally, a decrease of $9.1 million in retail voice traffic in the United States and Canada, a decrease of $4.1 million in net revenue from data/Internet services in the United States and Brazil, and a decrease of $2.6 million as a result of the negative impact of the declining Canadian dollar against the United States dollar contributed to the decrease in net revenue.

Europe: European net revenue increased $4.0 million or 2% to $269.4 million for the nine months ended September 30, 2002 from $265.4 million for the nine months ended September 30, 2001. The European net revenue increase is mainly attributed to an increase of $19.8 million in the usage of prepaid calling cards, along with an increase of $14.2 million in carrier services in Italy, France, Denmark, Spain and Switzerland. The increase is also attributed to the positive impact of the strengthening foreign currency exchange rates against the United States dollar. The increase is offset by a reduction of $22.9 million from the Company's German operation which is mostly associated with the decline in net revenue for its carrier services and mobile operations. In addition, there was a reduction of $5.8 million in the net revenue of the Company's international agents operations, and a reduction of $2.4 million associated with the decline in the data/Internet revenue in France and Spain.

Asia-Pacific: Asia-Pacific net revenue was flat at $206.4 million for the nine months ended September 30, 2002 as compared to $206.5 million for the nine months ended September 30, 2001. The decrease is attributable to the decrease of $3.8 million in the Company's operations in Japan which is mostly associated with a decline in its data/Internet operation. The decrease is offset by an increase of $2.3 million in the Company's operations in Australia resulted from the positive impact of the strengthening Australian dollar against the United States dollar and an increase of $1.1 million in the data/Internet revenue in India.

Cost of revenue decreased $100.3 million to $498.2 million, or 65.9% of net revenue, for the nine months ended September 30, 2002 from $598.5 million, or 72.7% of net revenue, for the nine months ended September 30, 2001. With the majority of cost of revenue being variable, based on minutes of use, the decrease in cost of revenue is primarily attributable to the decrease in net revenue. Gross margin percentage increased to 34.1% for the nine months ended September 30, 2002 from 27.3% for the nine months ended September 30, 2001, due to a reduction in the mix of lower-margin wholesale business as well as improved efficiencies in network routing by diversifying the Company's base of traffic suppliers, eliminating under-utilized fixed circuit costs, and increasing the utilization of the Company's own network.

Selling, general and administrative expenses decreased $46.3 million to $187.1 million, or 24.7% of net revenue, for the nine months ended September 30, 2002 from $233.4 million, or 28.4% of net revenue, for the nine months ended September 30, 2001. The decrease is primarily attributable to a $22.1 million reduction in salaries and benefits, a reduction of $11.2 million in general and administrative expenses, and a reduction of $6.6 million in sales and marketing. The reduction in salaries and benefits is a result of the reduction of full-time and part-time employees since December 31, 2000. The reduction in general and administrative, sales and marketing, and to a lesser extent, a decrease in professional services and travel expenses of $4.7 million is a result of management initiatives to reduce overhead spending.

Depreciation and amortization expense decreased $53.4 million to $60.6 million for the nine months ended September 30, 2002 from $114.0 million for the nine months ended September 30, 2001. The decrease consists of reductions of $28.2 million in amortization expense and $25.1 million in depreciation expense. The decrease is primarily associated with the Company's asset impairment write-down of $526.3 million during the three months ended December 31, 2001 in goodwill, property and equipment, and customer lists. The decrease in goodwill amortization expense is also a result of the Company's adoption of SFAS No. 142 on January 1, 2002, under which goodwill is no longer amortized. Goodwill amortization expense for the nine months ended September 30, 2001 was $18.2 million. The Company performed the first of the transitional goodwill impairment tests required by SFAS No. 142 during the three months ended June 30, 2002. Based on the results of this test, there are indicators that a potential impairment of goodwill within the Company's European segment as of January 1, 2002 may have to be recognized. The Company will measure and record the potential impairment loss, if any, by December 31, 2002 as a cumulative effect of a change in accounting principle. Although the amount of the potential loss has not been determined, goodwill related to the European segment as of January 1, 2002 is $15.8 million. The Company believes it is likely that the majority of the goodwill related to the European segment will be written off under the transitional goodwill impairment test.

Interest expense decreased $28.7 million to $52.1 million for the nine months ended September 30, 2002 from $80.8 million for the nine months ended September 30, 2001. The decrease is primarily attributed to $29.1 million in interest saved from the principal reduction of the Company's senior notes and convertible debentures and extinguishment of its vendor debt and related obligations to Hewlett-Packard.

Interest and other income (expense) increased to an income of $0.7 million for the nine months ended September 30, 2002 from an expense of $11.2 million for the nine months ended September 30, 2001. The increase is primarily attributable to the $15.0 million write-off of the Company's investment during the three months ended March 31, 2001 in Pilot Network Services when the investment became permanently impaired, and a loss of $2.5 million associated with asset disposals during the three months ended June 30, 2001. The increase is partially offset by the decrease of $6.6 million in interest income due to a lower cash balance during the nine months ended September 30, 2002.

Income tax benefit (expense) was an $8.7 million benefit for the nine months ended September 30, 2002. This benefit was comprised of a reversal of a $5 million tax provision recorded for the alternative minimum taxes ("AMT") at December 31, 2001. The reversal resulted from the signing into law of the Job Creation and Workers Assistance Act of 2002, which suspended the 90% limitation of net operating loss carryforward for AMT. The income tax benefit also reflected the net unrealized amount of $3.7 million of the deferred tax asset that was created by foreign operating loss carryforwards and first recognized during the three months ended March 31, 2002.

Gain on early extinguishment of debt decreased to $27.3 million for the nine months ended September 30, 2002 from $390.4 million for the nine months ended September 30, 2001. The $27.3 million gain resulted from the Company's purchase of $32.5 million in principal amount of senior

notes, prior to maturity, for $4.4 million in cash, slightly offset by the write-off of related deferred financing costs.

Liquidity and Capital Resources

Changes in Cash Flows

The Company's liquidity requirements arise from cash used in operating activities, purchases of network equipment including switches, related transmission equipment and international and domestic fiber optic cable transmission capacity, satellite transmission capacity, interest and principal payments on outstanding indebtedness, and acquisitions of and strategic investments in businesses. The Company has financed its growth to date through public offerings, private placements of debt, equity securities, bank debt, vendor financing and capital lease financing.

Net cash provided by operating activities was $26.3 million for the nine months ended September 30, 2002 as compared to net cash used by operating activities of $139.5 million for the nine months ended September 30, 2001. The increase in operating cash generated was comprised of an increase in gross margin of $33.3 million due to cost savings generated through lower variable and fixed costs, a decrease in sales, general and administrative expenses of $46.3 million due to substantial cost savings measures, a decrease in cash paid for interest of $43.4 million, and $42.8 million in additional funds generated from working capital.

Net cash used by investing activities was $22.1 million for the nine months ended September 30, 2002 compared to net cash used by investing activities of $80.4 million for the nine months ended September 30, 2001. Net cash used by investing activities during the nine months ended September 30, 2002 included $21.9 million of capital expenditures primarily for the enhancement of the Company's global network and back office support systems as compared to $79.0 million during the nine months ended September 30, 2001.

Net cash used by financing activities was $18.7 million for the nine months ended September 30, 2002 as compared to net cash used by financing activities of $96.5 million for the nine months ended September 30, 2001. During the nine months ended September 30, 2002, cash used by financing activities consisted of $4.4 million for the purchase of certain of the Company's debt securities, $23.9 million of principal payments on capital leases, vendor financing and other long-term obligations, offset by $9.5 million of financing received through an accounts receivable financing. During the nine months ended September 30, 2001, cash used by financing activities consisted of $99.8 million for the purchase of certain of the Company's debt securities, $25.1 million of payments on capital leases, vendor financing and other long-term obligations, offset by $18.0 million of financing received through an accounts receivable financing and a drawdown on a line of credit and $10.0 million in cash received from Inktomi Corporation in exchange for 2,862,254 shares of the Company's common stock.

Primus is party to a number of secured loans that were arranged under a facility to fund the purchase of telecommunications equipment (the "Equipment Facility"). The lenders under the Equipment Facility, NTFC Capital Corporation and General Electric Capital Corporation, have entered into a letter of intent with

Primus to amend the terms of the Equipment Facility to, among other things, defer principal payments otherwise due during the period from January 2002 through April 2003. The lenders have agreed to defer principal payments that were otherwise due in the first nine months of 2002 while the final documentation is being prepared, and it is anticipated that a definitive agreement concerning the other matters covered in the letter of intent will be entered into during the next few months. As of September 30, 2002, Primus had outstanding borrowings of $57.7 million under the Equipment Facility. The Company will record any modification to the Equipment facility once the modification, if any, becomes final.

Short- and Long-Term Liquidity Considerations and Risks

The Company believes that its existing cash and cash equivalents, $72.0 million as of September 30, 2002, and internally generated funds will be sufficient to fund the Company's debt service requirements, capital expenditures, and other cash needs for its operations at least though September 2003. Nonetheless, the Company will continue to have significant debt and debt service obligations during such period and on a long-term basis. In particular, during August 2004, $87 million in senior notes will need to be refinanced, which the Company presently expects to effect, in light of its improving EBITDA and results of operations. However, there can be no assurance that changes in assumptions or conditions, including those referenced under "Legal Proceedings" and "Special Note Regarding Forward-Looking Statements" will not adversely affect the Company's financial condition or short-term or long-term liquidity position. As of September 30, 2002, the Company has $613.7 million of indebtedness with payments of principal and interest due as follows:

Year Ending December 31,	Equipment Financing	Senior Notes	Accounts Receivable Financing Facility and Other	Convertible Subordinated Debentures	Total
			(amounts in thousands)		
2002	$ 13,629	$ 10,784	$ 694	$ —	$ 25,107
2003	42,727	45,102	9,083	4,089	101,001
2004	44,776	132,064	26,033	4,089	206,962
2005	29,806	34,853	329	4,089	69,077
2006	6,333	34,853	293	4,089	45,568
Thereafter	1,013	390,512	1,301	73,165	465,991
Total Minimum Principal & Interest Payments	138,284	648,168	37,733	89,521	913,706
Less: Amount Representing Interest	(20,859)	(258,385)	(2,383)	(18,402)	(300,029)
	$ 117,425	$ 389,783	$ 35,350	$ 71,119	$ 613,677

The Company continues to attempt to renegotiate some of its equipment financing arrangements, which includes capital leases and vendor financing obligations with various vendors. While the Company has suspended discussions it had been conducting with certain of its high-yield bondholders, it remains receptive to proposals made by individual holders. The Company also maintains an active dialogue with potential debt and equity investors for raising additional capital for additional liquidity, debt reduction, payment of debt obligations as they come due, and for additional working capital and growth opportunities. There can be no assurance the Company will be successful in these efforts of obtaining new capital at acceptable terms. If the Company is successful in either restructuring its indebtedness or in raising additional financing, it is likely that securities comprising a significant percentage of the Company's fully-diluted capital will be issued in connection with the completion of such transactions. Additionally, if the Company's plans or assumptions change, including those with respect to its debt level or the development of the network and the level of the Company's operations and operating cash flow, if its assumptions prove inaccurate, if it consummates additional investments or acquisitions, if it experiences unexpected costs or competitive pressures, or if existing cash and any other borrowings prove to be insufficient, the Company may need to obtain such restructuring, financing and/or relief sooner than expected.

In light of the foregoing, the Company and/or its subsidiaries will evaluate on a continuing basis, depending on market conditions and the outcome of events described under "Special Note Regarding Forward-Looking Statements," the most efficient use of the Company's capital, including investment in the Company's network and systems, lines of business, potential acquisitions, purchasing, refinancing, exchanging or retiring certain of the Company's outstanding debt securities in the open market or by other means to the extent permitted by its existing covenant restrictions.

New Accounting Pronouncements

In July 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 replaces Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company does not expect the adoption of SFAS No. 146 to have a material effect on our consolidated financial position, results of operations, or cash flows.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 requires the classification of gains and losses from extinguishments of debt as extraordinary items only if they meet certain criteria in Accounting Principles Board Opinion ("APB") No. 30 for such classification in APB No. 30, "Reporting the Results of Operations, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, an Infrequently Occurring Events and Transactions." Any gain or loss on extinguishments of debt classified as an extraordinary item in prior periods that does not meet the criteria in APB No. 30 must be reclassified. These provisions are effective for fiscal

years beginning after May 15, 2002. Additionally, SFAS No. 145 requires sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. These lease provisions are effective for transactions occurring after May 15, 2002. The Company will adopt the provisions of SFAS No. 145 during the three months ended March 31, 2003. For the nine months ended September 30, 2002 and 2001, the Company recorded extraordinary gains on the early extinguishment of debt of $27.3 million and $390.4 million, respectively. Accordingly, reclassifications of these gains to income from continuing operations may be made throughout fiscal year 2003 to maintain comparability for the reported periods.

In October 2001, the FASB issued Statement of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. This statement supercedes SFAS No. 121, "Impairment for Long-Lived Assets and for Long-Lived Assets to be Disposed of," and the accounting and reporting provisions of APB No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for the disposal of a segment of a business. SFAS No. 144 retains many of the provisions of SFAS No. 121, but addresses certain implementation issues associated with that statement. The Company adopted the provisions of SFAS No. 144 in the three months ended March 31, 2002. The adoption of SFAS No. 144 did not have a material effect on the Company's consolidated financial statements.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company is in the process of evaluating the impact of implementing SFAS No. 143.

In June 2001, the FASB issued two new statements: SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires business combinations entered into after June 30, 2001 to be accounted for using the purchase method of accounting. Specifically identifiable intangible assets, other than goodwill, are to be amortized over their estimated

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useful economic life. SFAS No. 142 requires that goodwill not be amortized, but should be tested for impairment at least annually. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 and applies to all goodwill and other intangible assets recognized in an entity's balance sheet at that date, regardless of when those assets were initially recognized. The Company adopted the provisions of SFAS No. 141 and SFAS No. 142 effective January 1, 2002. In accordance with SFAS No. 142, the Company discontinued amortization of goodwill on January 1, 2002. See Note 3—"Goodwill and Other Intangible Assets." The Company has reviewed estimated useful lives of previously recorded customer lists in accordance with SFAS No. 142. The Company is following the two-step process prescribed in SFAS No. 142 to test its goodwill for impairment under the transitional goodwill impairment test. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. The Company performed the first of the required transitional goodwill impairment tests during the three months ended June 30, 2002. Based on the results of this test, there are indicators that a potential impairment of goodwill within the Company's European segment as of January 1, 2002 may have to be recognized. The Company will measure and record the potential impairment loss, if any, by December 31, 2002 as a cumulative effect of a change in accounting principle. Although the amount of the potential loss has not been determined, goodwill related to the European segment as of January 1, 2002 is $15.8 million. The Company believes it is likely that the majority of the goodwill related to the European segment will be written off under the transitional goodwill impairment test.

Special Note Regarding Forward-Looking Statements

Statements in this Form 10-Q 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: the Company's expectations of future liquidity, earnings before interest, taxes, depreciation and amortization ("EBITDA"), sales, net revenue, gross profit, operating profit, net income, cash flow, network development, Internet services development, traffic development, capital expenditures, selling, general and administrative expenses, goodwill impairment charges, service introductions and cash requirements; the Company's financing and/or debt repurchase, restructuring or exchange plans or initiatives; liquidity and debt service forecasts; management's plans, goals, expectations, guidance, objectives, strategy, and timing for future operations, product plans and performance, predictions or expectations of future growth, results or cash flow; and management's assessment of market factors and future financial performance. Factors and risks, including certain of those described in greater detail in the captions below, that could cause actual results or circumstances to differ materially from those set forth or contemplated in forward-looking statements include: changes in business conditions, prevailing trade credit terms or revenues arising from, among other reasons, further telecommunications carrier bankruptcies or adverse bankruptcy related developments affecting the Company's large carrier customers; the failure of certain vendors to make adequate concessions concerning the deferral of principal payments and the reduction of interest rates; the possible inability to raise capital when needed, or at all; the inability to reduce, exchange or restructure debt significantly, or in amounts sufficient to conduct regular ongoing operations; changes in the telecommunications or Internet industry or the general economy or capital markets; adverse tax rulings from applicable taxing authorities; DSL, Internet and telecommunication competition; changes in financial, capital market and economic conditions; changes in service offerings or business strategies; inability to lease space for data centers at commercially reasonable rates; difficulty in migrating customers or integrating other assets; difficulty in provisioning VoIP services; changes in the regulatory schemes and regulatory enforcement in the markets in which the Company operates; restrictions on the Company's ability to follow certain strategies or complete certain transactions as a result of its capital structure or debt covenants; the inability to reduce debt significantly; risks associated with the

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Company's limited DSL, Internet and Web hosting experience and expertise; entry into developing markets; the possible inability to hire and/or retain qualified sales, technical and other personnel, particularly as we continue to attempt to grow our data-centric services, and manage growth; and risks associated with international operations (including foreign currency translation risks); dependence on effective information systems; dependence on third parties to enable us to expand and manage our global network and operations; and dependence on the implementation and performance of the Company's global ATM+IP communications network. 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 necessarily obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Factors, which could cause results to differ from expectations, include risks described in greater detail below associated with:

Liquidity Restrictions; Possible Inability to Obtain Necessary Financing. The Company believes that its existing cash and internally generated funds will be sufficient to fund its operating losses, debt service requirements, capital expenditures, acquisitions and other cash needs for its operations at least through September 2003. However, there are substantial risks, uncertainties and changes that could cause actual results to differ from our current belief. See for instance information under "Liquidity and Capital Resources-Short- and Long-Term Liquidity Considerations and Risks" and in this "Special Note Regarding Forward-Looking Statements." If adverse events referenced therein were to occur, the Company may not be able to service our debt or other obligations and could, among other things, be required to seek protection under the bankruptcy laws of the United States or other similar laws in other countries.

Substantial Indebtedness; Liquidity. The Company currently has substantial indebtedness and anticipates that it and its subsidiaries will incur additional indebtedness in the future. The level of the Company's indebtedness (i) could make it more difficult for it to make payments of interest on its outstanding debt; (ii) could limit the ability of the Company to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements or other purposes; (iii) requires that a substantial portion of the Company's cash flow from operations, if any, be dedicated to the payment of principal and interest on its indebtedness and other obligations and, accordingly, will not be available for use in its business; (iv) could limit its flexibility in planning for, or reacting to, changes in its business; (v) results in the Company being more highly leveraged than some of its competitors, which may place it at a competitive disadvantage; and (vi) will make it more vulnerable in the event of a downturn in its business.

Potential Nasdaq Delisting. On February 14, 2002, the Company received a notice of delisting of its common stock from the Nasdaq National Market. Subsequently, the Company applied to transfer the listing to the Nasdaq Small Cap Market, which was approved with trading effective at the opening of business May 14, 2002. The Nasdaq Small Cap Market has, among other requirements, a minimum bid price requirement that the Company must satisfy on a continuing basis. Although the transfer has been effected, the Company's continued listing cannot be assured because, as of the date of this filing, the Company fails to satisfy the Nasdaq Small Cap Market requirement that its common stock trade at a minimum bid price of at least $1 for ten consecutive trading days. If the Company's common stock does not trade above $1 for ten consecutive trading days by February 10, 2003, it would not be eligible for continued listing on the Nasdaq Small Cap Market and (absent relief from Nasdaq) would trade on the OTC Bulletin Board. The OTC Bulletin Board is a substantially less liquid market than the Small Cap Market. As a result, if the Company's common stock is delisted from the Nasdaq Small Cap Market, its stockholders may have greater difficulty disposing of their shares in acceptable amounts and at acceptable prices and the Company may have greater difficulty issuing equity securities or securities convertible into common stock in such circumstances. The Company cannot provide assurance when, if

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ever, its common stock would once again be eligible for listing on the Nasdaq National Market or on the Nasdaq Small Cap Market.

Limited Operating History; Entry into Internet, data and VoIP business; Entry into Developing Markets. The Company was incorporated in February 1994, and began generating revenue in March 1995. The Company only recently has been targeting businesses and residential customers for Internet and data services through the Primus brand, its subsidiary iPRIMUS.com and other acquired ISPs. The Company has been expanding and intends to continue to expand its offering of data/Internet and VoIP services worldwide. The Company anticipates offering a full-range of Internet protocol-based data and voice communications over the global broadband ATM+IP network which the Company has deployed. The Company has limited experience in the Internet and Web hosting business and cannot provide assurance that it will successfully establish or expand the business. Currently, the Company provides Internet services to business and residential customers in the United States, Australia, Canada, Japan, India, Brazil, Germany and Spain, and offers Internet transmission services in the Indian Ocean/Southeast Asia regions through its satellite earth station in London and its earth stations in India. Accordingly, the Company cannot provide assurance that its future operations will generate operating or net income or positive cash flow, and the Company's prospects must be considered in light of the risks, expenses, problems and delays inherent in establishing a new business in a rapidly changing industry.

The market for Internet connectivity and related services is extremely competitive. The Company's primary competitors include incumbent operators and other ISPs that have a significant national or international presence. Many of these carriers have substantially greater resources, capital and operational experience than the Company does. The Company also expects it will experience increased competition from traditional telecommunications carriers that expand into the market for Internet services. In addition, the Company will require substantial additional capital to make investments in its Internet operations, and it may not be able to obtain that capital on favorable terms or at all. The amount of such capital expenditures may exceed the amount of capital expenditures spent on the voice portion of its business going forward.

Further, even if the Company is able to establish and expand its Internet business, the Company will face numerous risks that may adversely affect the operations of its Internet business. These risks include:

- competition in the market for Internet services;
- increased price competition, especially from carriers that are in bankruptcy or have successfully emerged from bankruptcy;
- the Company's limited operating history as an ISP;
- the Company's reliance on third parties to provide maintenance and support services for the Company's ATM+IP network;
- the Company's reliance on third-party proprietary technology to provide certain services to the Company's customers, including, among others, software applications, Web hosting services and VoIP services;
- the Company's ability to recruit and retain qualified technical, engineering and other personnel;
- the Company's ability to adapt and react to rapid changes in technology related to the Internet business;
- uncertainty relating to the continuation of the adoption of the Internet as a medium of commerce and communications;

- vulnerability to unauthorized access, computer viruses and other disruptive problems due to the accidental or intentional actions of others;

- adverse regulatory developments;
- the potential liability for information disseminated over the Company's network; and
- the Company's need to manage the growth of its Internet business, including the need to enter into agreements with other providers of infrastructure capacity and equipment and to acquire other ISPs and Internet-related businesses on acceptable terms.

Managing Growth. The Company's history of rapid growth has placed a significant strain on the Company. In order to manage its growth effectively, the Company must continue to implement and improve its operational and financial systems and controls, purchase and utilize additional transmission facilities, and expand, train and manage its employees, all within a rapidly changing regulatory environment. Inaccuracies in the Company's forecast of traffic could result in insufficient or excessive transmission facilities and disproportionate fixed expenses.

Historical and Future Operating Losses; Negative EBITDA; Net Losses. Since inception, the Company had cumulative negative cash flow from operating activities and cumulative negative EBITDA. In addition, the Company incurred net losses since inception and has an accumulated deficit of $722.7 million as of September 30, 2002. There can be no assurance that the Company's revenue will grow or be sustained in future periods or that it will be able to achieve or sustain operating profitability, net income or positive cash flow from operations in any future period.

Integration of Acquired Businesses. Acquisitions, a key element in the Company'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 the Company 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 integrating the service offerings, distribution channels and networks gained through acquisitions with the Company'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 such events.

Intense Competition in Long Distance Telecommunications. The long distance telecommunications and data industry is intensely competitive and is significantly influenced by the marketing and pricing decisions of the larger industry participants. Competition in all of the Company's markets is likely to stay 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 the Company's competitors are significantly larger and have substantially greater financial, technical and marketing resources and larger networks than the Company, a broader portfolio of service offerings, greater control over transmission lines, stronger name recognition and customer loyalty, as well as long-standing relationships with the Company's target customers. In addition, many of the Company's competitors enjoy economies of scale that result in a lower cost structure for transmission and related costs which could cause significant pricing pressures within the industry. Many companies emerging out of bankruptcy could also end up enjoying a lower cost structure and applying pricing pressure within the industry.

Dependence on Transmission Facilities-Based Carriers. The Company's ability to maintain and expand its business and effectuate its liquidity objectives is dependent upon whether the Company continues to maintain favorable relationships and credit terms with the transmission facilities-based carriers to carry the Company's traffic.

International Operations. The Company has significant international operations. In many international markets, the existing carrier will control access to the local networks, enjoy better brand recognition and brand and customer loyalty, and have significant operational economies, including a larger backbone network and correspondent agreements. Moreover, the existing carrier may take many months to allow competitors, including the Company, to interconnect to its switches within its territory. There can be no assurance that the Company will be able to obtain the permits and operating licenses required for it to operate, obtain access to local transmission facilities or to 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; foreign exchange controls which restrict repatriation of funds; technology export and import restrictions; seasonal reductions in business activity. With respect to currency exchange rates risks, adverse exchange rate developments have had a negative impact on recent operating results, and there can be no assurance that currency exchange rate conditions will improve.

Dependence on Effective Information Systems. The Company's management information systems must grow as the Company's business expands and are expected to change as new technological developments occur. There can be no assurance that the Company will not encounter delays or cost-overruns or suffer adverse consequences in implementing new systems when required.

Industry Changes. The international telecommunications industry is changing rapidly due to deregulation, privatization, technological improvements, expansion of infrastructure and the globalization of the world's economies. In order to compete effectively, the Company must adjust its contemplated plan of development to meet changing market conditions. The telecommunications industry is marked by the introduction of new product and service offerings and technological improvements. The Company's profitability will depend on its ability to anticipate, assess and adapt to rapid technological changes and its ability to offer, on a timely and cost-effective basis, services that meet evolving industry standards.

Network Development; Migration of Traffic. The long-term success of the Company is dependent upon its ability to design, implement, operate, manage and maintain the network. The Company could experience delays or cost overruns in the implementation of the network, or its ability to migrate traffic onto its network, which could have a material adverse effect on the Company.

Dependence on Key Personnel. The loss of the services of K. Paul Singh, the Company's Chairman and Chief Executive Officer, or the services of its other key personnel, or the inability of the Company to attract and retain additional key management, technical and sales personnel, could have a material adverse effect upon the Company.

Government Regulation. The Company's operations are subject to constantly changing regulation. There can be no assurance that future regulatory changes will not have a material adverse effect on the Company, or that regulators or third parties will not raise material issues with regard to the Company's compliance or non-compliance with applicable regulations, any of which could have a material adverse effect upon the company.

Natural Disasters. Many of the geographic areas where the Company conducts its business may be affected by natural disasters, including hurricanes and tropical storms. Hurricanes, tropical storms and other natural disasters could have a material adverse effect on the business by damaging the network facilities or curtailing voice or data traffic as a result of the effects of such events, such as destruction of homes and businesses.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk exposures relate to changes in foreign currency exchange rates and to changes in interest rates.

Foreign currency—A significant portion of net revenue is derived from sales and operations outside the United States. The reporting currency for the Company's consolidated financial statements is the United States dollar. The local currency of each country is the functional currency for each respective entity. In the future, the Company expects to continue to derive a significant portion of its net revenue and incur a significant portion of its 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 the Company's results of operations. The Company's primary risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the following exchange rates: United States dollar/Australian dollar, United States dollar/Canadian dollar, United States dollar/United Kingdom pound, and United States dollar/Euro dollar. Due to the large percentage of the Company's revenues derived outside of the United States, strengthening of the United States dollar would have an adverse impact on the Company's results of operations. The operations of affiliates and subsidiaries in foreign countries have been funded with investments and other advances. Due to the long-term nature of such investments and advances, the Company accounts for any adjustments resulting from translation as a charge or credit to "accumulated other comprehensive income (loss)" within the stockholders' deficit section of the consolidated balance sheets. The Company historically has not engaged in hedging transactions to mitigate foreign exchange risk.

Interest rates—A substantial majority of the Company's long-term debt obligations are at fixed interest rates. The Company is exposed to interest rate risk as additional financing may be required and certain of its long-term obligations are at variable interest rates. The Company's primary exposure to market risk stems from fluctuations in interest rates. The Company's interest rate risk related to the variable interest rate long-term obligations results from changes in the United States LIBOR, British Pound LIBOR, Bloomberg BBSWIB, United States Prime, and Canada Prime rates. The Company does not currently anticipate entering into interest rate swaps and/or similar instruments. The estimated fair value of the Company's 2000 Convertible Debentures, 1999, 1998 and 1997 Senior Notes (carrying value of $461 million), based on quoted market prices, at September 30, 2002 was $212 million.

The interest rate sensitivity table below summarizes our market risks associated with fluctuations in interest rates as of September 30, 2002 in United States dollars, which is the Company's reporting currency. The table presents principal cash flows and related weighted average interest rates by year of expected maturity for our senior notes, convertible subordinated debentures, leased fiber capacity, equipment financing, and other long-term obligations in effect at September 30, 2002. In the case of the senior notes, and convertible debentures the table excludes the potential exercise of the relevant redemption and conversion features.

	2002	2003	2004	2005	2006	Thereafter	Total
			(in thousands, except percentages)				
Interest Rate Sensitivity							
Fixed Rate	$ 12,586	$ 27,679	$ 119,533	$ 21,975	$ 5,069	$ 376,156	$ 562,998
Average Interest Rate	10%	10%	11%	8%	6%	9%	9%
Variable Rate	$ 23,407	$ 8,742	$ 4,927	$ 4,927	$ 1,232	$ —	$ 43,235
Average Interest Rate	9%	4%	9%	9%	1%	—	6%

ITEM 4. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of filing this Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness

of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic SEC filings.

There have been no significant changes in the Company's internal controls or in other factors which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On December 9, 1999, Empresa Hondurena de Telecommunicaciones, S.A. ("Plaintiff"), based in Honduras, filed suit in Florida State Court in Broward County against TresCom and one of TresCom's wholly-owned subsidiaries, St. Thomas and San Juan Telephone Company, alleging that such entities failed to pay amounts due to plaintiff pursuant to contracts for the exchange of telecommunications traffic during the period from December 1996 through September 1998. The Company acquired TresCom in June 1998, and TresCom is currently the Company's subsidiary. Plaintiff is seeking approximately $14 million in damages, plus legal fees and costs. The Company filed an answer on January 25, 2000, and discovery has commenced. A trial date has not been set. The Company's ultimate legal and financial liability with respect to such legal proceeding cannot be estimated with any certainty at this time, while an adverse result for the full

amount sought or some significant percentage thereof could have a material adverse effect on the Company's financial results. The Company intends to defend the case vigorously. Management believes that this suit will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

The Company and certain of its executive officers have been named as defendants in two separate securities lawsuits brought by shareholders ("Plaintiffs") of Tutornet.com, Inc. ("Tutornet") in the United States District Courts in Virginia and New Jersey. The plaintiffs sued Tutornet and several of its officers (collectively, the "Non-Primus Defendants") for an undisclosed amount alleging fraud in the sale of Tutornet securities. The plaintiffs also named the Company and several of its executive officers (the "Primus Defendants") as co-defendants. Neither the Company nor any of its subsidiaries/affiliates owns, or has ever owned, any interest in Tutornet. In the Virginia case, the Primus Defendants were dismissed before the case went to the jury. The case continued against the Non-Primus Defendants, and the jury rendered a verdict of $176 million in favor of the Plaintiffs. The Non-Primus Defendants have filed post-trial motions seeking to reverse or reduce the jury's award, and the plaintiffs have sought a new trial as to the Primus Defendants. The judge has not yet ruled on these motions. The Company does not believe there is any merit to the motion for a new trial as to the Primus Defendants and anticipates that the plaintiffs will file an appeal. The New Jersey case was just recently filed against the Primus Defendants. In both cases, the Company intends to vigorously defend against these actions and believes that the plaintiffs' claims are without merit. However, the Company's ultimate legal and financial liability with respect to such legal proceedings cannot be estimated with any certainty at this time and there is no entity insurance coverage for these claims. Accordingly, an adverse result for the full amount sought or some significant percentage thereof could have a material adverse effect on the Company's financial results.

The Company is subject to certain other claims and legal proceedings that arise in the ordinary course of its business activities. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be decided unfavorably to the Company. Management believes that any aggregate liability that may ultimately result from the resolution of these matters will not have

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a material adverse effect on the financial condition or results of operations or cash flows of the Company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits (see index on page 37)

(b) Reports on Form 8-K

Not applicable.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

Date November 14, 2002 By: /s/ NEIL L. HAZARD

Neil L. Hazard
(Executive Vice President, Chief Operating Officer and Chief Financial Officer)

CERTIFICATIONS

I, K. Paul Singh, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Primus Telecommunications Group, Incorporated;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 14, 2002

By: /s/ K. PAUL SINGH

Name: K. Paul Singh
Title: Chairman, President and Chief Executive Officer
(Principal Executive Officer) and Director

CERTIFICATIONS

I, Neil L. Hazard, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Primus Telecommunications Group, Incorporated;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 14, 2002

By: /s/ NEIL L. HAZARD

Name: Neil L. Hazard
Title: Executive Vice President, Chief Operating Officer, and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
2.1*	Customer Transfer Agreement by and between the Company and Cable & Wireless USA, Inc. dated as of September 13, 2002.
3.1	Amended and Restated Certificate of Incorporation of Primus; Incorporated by reference to Exhibit 3.1 of the Registration Statement on Form S-8, No. 333- 56557 (the "S-8 Registration Statement").
3.2	Amended and Restated Bylaws of Primus; Incorporated by reference to Exhibit 3.2 of the Registration Statement on Form S-1, No. 333-10875 (the "IPO Registration Statement").
99.1	Certification.

* Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.

QuickLinks

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED INDEX TO FORM 10-Q
PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (in thousands, except per share amounts) (unaudited)
PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED CONSOLIDATED CONDENSED BALANCE SHEETS (in thousands, except share amounts) (unaudited)
PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (in thousands) (unaudited)
PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (in thousands) (unaudited)

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
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CERTIFICATIONS
EXHIBIT INDEX

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 2.1

*****Text Omitted and Filed Separately**
Confidential Treatment Requested
Under 17 C.F.R. §§ 200.80(b)(4)
and 240.24b-2

CUSTOMER TRANSFER AGREEMENT

BY AND BETWEEN

CABLE & WIRELESS USA, INC.

AND

PRIMUS TELECOMMUNICATIONS, INC.

Dated as of September 13, 2002

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CUSTOMER TRANSFER AGREEMENT

THIS CUSTOMER TRANSFER AGREEMENT is made as of the 13th day of September, 2002, by and between CABLE & WIRELESS USA, INC., a corporation incorporated under the laws of Delaware (**"Seller"**), and PRIMUS TELECOMMUNICATIONS, INC., a corporation incorporated under the laws of Delaware (**"Purchaser"**). Certain capitalized terms used herein are defined in Article I.

RECITALS

Purchaser wishes to purchase from Seller, and Seller wishes to sell to Purchaser, the Acquired Assets, and Purchaser desires to assume from Seller, and Seller desires to assign to Purchaser, the Assumed Obligations, all upon the terms and subject to the conditions contained herein.

On the date hereof, Seller and Primus Telecommunications Group, Incorporated have entered into a guaranty agreement pursuant to which Primus Telecommunications Group, Incorporated has guaranteed the obligations of Purchaser.

NOW, THEREFORE, in consideration of the foregoing and the mutual representations, warranties, covenants and agreements herein contained, Purchaser and Seller agree as follows:

ARTICLE I
DEFINITIONS

1.1 Definitions. The following terms shall have the following meanings for the purposes of this Agreement:

"8XX Number" shall mean the 8XX numbers held by Seller which are set forth on Schedule 2.1(a)(i) opposite each Customer's name, including any pending applications for such numbers and any amendments, renewals, extensions or modifications thereof and additions thereto. For the sake of clarity, the 8XX Numbers do not include any local numbers.

"Acquired Assets" shall mean Assets that are transferred to Purchaser pursuant to this Agreement.

"Acquired Contracts" shall mean the Customer Contracts and the Agent Contracts that are transferred to Purchaser pursuant to this Agreement.

"Affiliate" shall mean, with respect to any specified Person, any other Person which, directly or indirectly, controls, is under common control with, or is controlled by, such specified Person. The term "control" as used in the preceding sentence means, with respect to a corporation, the right to exercise, directly or indirectly, more than fifty percent (50%) of the voting rights attributable to the shares of such corporation, or with respect to any Person other than a corporation, the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person.

"Agent Contracts" shall mean all Contracts with sales representatives, distributors, dealers or other Persons engaged in sales or promotional activities with respect to Voice Services set forth on Schedule 2.1(a)(ii) that are in effect, and remain to be performed, on the applicable Migration Date, exclusively to the extent such Contracts relate to the provision of Voice Services to Migrated Customers.

"Agreement" shall mean this Customer Transfer Agreement, including all Exhibits and Schedules hereto, as it may be amended, supplemented or otherwise modified from time to time in accordance with its terms.

"Anti-Slamming Approvals" means the so called anti-slamming approvals with respect to the transfer of a Customer Contract that are required to be obtained by Seller and Purchaser from the applicable Governmental Authorities.

"Assets" shall share the meaning set forth in Section 2.1(a).

"Assignment and Assumption Agreement" shall mean the Master Assignment and Assumption Agreement between Purchaser and Seller attached hereto as Exhibit A.

"Assumed Obligations" shall have the meaning set forth in Section 2.5.

"Bill of Sale" shall mean the Master Bill of Sale between Purchaser and Seller attached hereto as Exhibit B.

"Business Day" shall mean any day of the year other than (i) any Saturday or Sunday or (ii) any other day on which banks located in New York, New York generally are closed for business.

"Cable & Wireless Name" shall mean the business name, brand name, trade name, trademark, service mark, logo and domain name "Cable & Wireless" and any business name, brand name, trade name, trademark, service mark and domain name that includes the words "Cable & Wireless" and any and all other derivatives thereof.

"**Claims**" shall mean all warranties, indemnities or other rights or claims of Seller against third parties or otherwise, in each case to the extent arising exclusively under or related to the Assets subsequent to the Migration Date of the Customer Contract which is transferred with such Assets.

"Confidential Information" shall have the meaning set forth in Section 6.8.

"Consent" shall mean a consent, authorization or approval of a Person or a Governmental Authority.

"Contract" shall mean any contract, lease, sales order, purchase order, agreement, indenture, mortgage, note, bond, warrant or instrument, including arrangements to provide a service or services pursuant to applicable tariff or contract.

"Customer" shall mean a Person to whom Seller provides Voice Services.

"Customer Contract" shall mean a Contract for the provision by Seller of Voice Services, with each class of Voice Services (e.g., 800, inter-exchange) under such a Contract deemed to be Voice Services under a separate Customer Contract.

"Customer Deposit" shall mean a deposit held by Seller on behalf of a Customer pursuant to a Customer Contract.

"[***]" shall have the meaning set forth in the definition of Migration Date.

"Default Rate" shall mean, at a point in time, the prime per annum rate charged by Citibank, N.A. to its corporate customers plus five percent (5%) per annum; provided, that in no event shall the Default Rate exceed the maximum interest rate permitted under applicable Law.

"Disclosing Party" shall have the meaning set forth in Section 6.8.

"[***]" shall mean a [***] with respect to a Customer Contract as contemplated in the Transition Plan.

"[***]" shall have the meaning set forth in Section 3.1(h).

"Dollars" or numbers preceded by the symbol "$" shall mean amounts in United States dollars.

"Enforceability Limitations" shall have the meaning set forth in Section 4.2.

"Equipment" shall mean, with respect to each Customer, all equipment, machinery, tools, spare parts and other items of tangible personal property owned by Seller and used exclusively to provide Voice Services that is installed at the site of such Customer on the Transfer Date.

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"Exchange Act" shall mean, the Securities Exchange Act of 1934, as amended.

"Excluded Assets" shall have the meaning set forth in Section 2.4.

"Excluded Obligations" shall have the meaning set forth in Section 2.6.

"**FCC Approval**" shall mean clearance, with respect to the transfer of the Acquired Assets by Seller to Purchaser, from the Federal Communications Commission under Section 214 of the U.S. Federal Communications Act.

"Goodwill" shall mean goodwill related to Seller's relationships in existence on the Transfer Date with the Customers, agents and other third parties who are parties to the Acquired Contracts, exclusively with respect to the Voice Services conducted therewith, excluding the goodwill associated with the Cable & Wireless Name.

"Governmental Authority" shall mean the government of the United States or any foreign country or any state or political subdivision thereof or any entity, body or authority exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Governmental Required Consent" shall mean, with respect to a Person, (i) compliance by such Person with, and filings by such Person under Section 13 of the Exchange Act and (ii) those Consents or filings with or required by a Governmental Authority solely by reason of the participation by Purchaser (where such Person is Seller) or by Seller (where such Person is Purchaser), in each case as opposed to any third party, in the transactions contemplated hereby and by the Related Agreements.

"Gross Revenue" shall have the meaning set forth in Section 3.1(b).

"Indemnified Person" shall mean the Person or Persons entitled to, or claiming a right to, indemnification under Article IX.

"Indemnifying Person" shall mean the Person or Persons claimed by the Indemnified Person to be obligated to provide indemnification under Article IX.

"Information and Records" shall mean, with respect to each Customer, all books, records, files, databases, plans, specifications, technical information, customer lists, supplier lists, price lists and sales records that are owned by Seller with respect to (a) the Customer Contract that is transferred by Seller to Purchaser and the Other Assets transferred therewith, hereunder, (b) such Customer and (c) which are generally described on Schedule 2.1(a)(iii), in the form maintained by Seller; provided, that Seller shall be entitled to retain copies of the Information and Records.

"Law" shall mean any law, statute, regulation, ordinance, rule or governmental requirement enacted, promulgated or imposed by any Governmental Authority.

"Lien" shall mean any lien (except for any lien for Taxes that are not yet delinquent or that are being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with U.S. GAAP), mortgage, pledge or security interest.

"Loss" or **"Losses"** shall mean any and all losses, liabilities, claims, damages, reasonable costs and reasonable expenses (including legal fees and expenses and costs of investigation).

"Migrated Customer" shall mean a Customer under a Migrated Customer Contract.

"Migrated Customer Contract" shall mean a Customer Contract for which the Migration Date has occurred.

"Migration Date" shall mean (a) with respect to a Customer Contract pursuant to which switched Voice Services are provided to a Customer, the date on which, (i) [***]; and (ii) [***]; and (iii) [***]; and (b) with respect to a Customer Contract under which dedicated Voice Services are provided to a Customer, the date on which (i) [***]; and (ii) [***]; provided, however, in the event Seller [***], whether before or after Purchaser is providing Voice Services to such Customer (but before all of the conditions in clauses (a)(i) and (ii) have occurred or the condition in clause (b)(i) has occurred, as applicable), the occurrence of the Migration Date for the Customer Contract of such Customer shall be [***] and (x) in the event the [***] is met with respect to such Customer Contract, the Migration Date for such Customer Contract shall be [***] and (y) in the event the [***] is not met with respect to such Customer, the Migration Date for such Customer Contract shall be [***].

"Migration Deadline" shall have the meaning set forth in Exhibit D.

"Order" shall mean any order, decree, ruling, judgment, injunction or stipulation of or with any court or other Governmental Authority

"Other Assets" shall mean, with respect to a Customer, the Customer Deposit, Claims, Equipment, Goodwill, Information and Records and 8XX Numbers with respect to each Customer.

"Permit" shall mean any permit, license, approval, certificate or other authorization required or granted by any Governmental Authority.

"Permitted Liens" shall mean (i) workers', mechanics', materialmen's, repairmen's, suppliers', carriers' or similar Liens arising in the ordinary course of business with respect to obligations that are not yet delinquent or that are being contested in good faith by appropriate proceedings; (ii) any minor Liens which do not materially impair the value of the Equipment subject to such Lien or the use of such Equipment in the ordinary course of the business which exclusively uses same; and (iii) those Liens set forth in Schedule 4.5.

"Person" shall mean any individual, corporation, proprietorship, firm, partnership, limited partnership, limited liability company, trust, association or other entity.

"Proprietary Materials" shall have the meaning set forth in Section 6.11.

"Purchase Price" shall have the meaning set forth in Section 3.1(a).

"Purchaser" shall have the meaning set forth in the Preamble.

"Purchaser Network" shall mean the telecommunications network operated by Purchaser to provide Voice Services.

"Quarterly Installment Date" shall have the meaning set forth in Section 3.1(a)(ii).

"Receiving Party" shall have the meaning set forth in Section 6.8.

"Regulatory Approvals" shall mean the Consents of Governmental Authorities and Permits required to be received by Seller and/or Purchaser prior to the transfer of the Customer Contracts as specified on Schedule I hereto, which Schedule is divided by jurisdiction.

"Related Agreement" shall mean the Assignment and Assumption Agreement, the Bill of Sale, the Security Agreement, and any Contract that is, or is to be, entered into on the date hereof in connection with this Agreement. The Related Agreements executed by a specified Person shall be referred to as "such Person's Related Agreements," "its Related Agreements" or another similar expression.

"Security Agreement" shall mean the Security Agreement between Purchaser and Seller attached hereto as Exhibit C.

"Seller" shall have the meaning set forth in the Preamble.

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"Seller CIC Code" shall mean the 0223 CIC Code used by Seller to provide the Voice Services.

"Seller's Knowledge", or any similar expression with regard to the knowledge or awareness of or receipt of notice by Seller, means the actual, direct and personal knowledge of any of the individuals listed on Schedule 1.1.

"Seller Network" shall mean the telecommunications network operated by Seller to provide Voice Services.

"Taxes" shall mean all taxes, charges, fees, duties, levies or other assessments (including income, gross receipts, net proceeds, ad valorem, turnover, real and personal property (tangible and intangible), sales, use, franchise, excise, goods and services, value added, stamp, user, transfer, fuel, excess profits, occupational, interest equalization, windfall profits, severance, payroll, unemployment and Social Security taxes) which are imposed by any Governmental Authority, and such term shall include any interest, penalties or additions to tax attributable thereto (or to the nonpayment thereof).

"Title and Authorization Warranty" shall mean a representation or warranty in Section 4.1, 4.2, 4.5, 5.1, 5.2, or 5.6.

"Transition Plan" shall mean the transition plan attached hereto as Exhibit D.

"U.S. GAAP" shall mean United States generally accepted accounting principles at the time in effect.

"Voice Services" shall mean all retail switched voice telephony services (i.e., not any such services provided to a carrier) provided by Seller to Customers located in the U.S.

1.2 Interpretation. The headings preceding the text of Articles and Sections included in this Agreement and the headings to Schedules attached to this Agreement are for convenience only and shall not be deemed part of this Agreement or be given any effect in interpreting this Agreement. The use of the masculine, feminine or neuter gender or the singular or plural form of words herein shall not limit any provision of this Agreement. The use of the terms "including" or "include" shall in all cases herein mean "including, without limitation," or "include, without limitation," respectively. Reference to any Person includes such Person's successors and assigns to the extent such successors and assigns are permitted by the terms of any applicable agreement, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually. Reference to any agreement (including this Agreement and each Related Agreement), document or instrument means such agreement, document or instrument as amended, supplemented or otherwise modified and in effect from time to time in accordance with the terms thereof and, if applicable, the terms hereof. Underscored references to Articles, Sections, paragraphs, clauses, Exhibits or Schedules shall refer to those portions of this Agreement. The use of the terms "hereunder," "hereof," "hereto" and words of similar import shall refer to this Agreement as a whole and not to any particular Article, Section, paragraph or clause of, or Exhibit or Schedule to, this Agreement.

ARTICLE II
TRANSFER OF CUSTOMERS; ASSUMPTION OF ASSUMED OBLIGATIONS

2.1 Transfer of Customers.

(a) Transfer of Assets. Subject to the other terms and conditions of this Agreement, Seller shall sell, assign, convey, transfer and deliver to Purchaser, and Purchaser shall purchase and acquire from Seller and take assignment and delivery from Seller of, all of Seller's right, title and interest in and to the Seller CIC Code, the Agent Contracts, the Customer Contracts and the Other Assets (collectively, the **"Assets"**).

(b) Seller CIC Code. Concurrent with the execution and delivery of this Agreement by Seller and Purchaser, Seller is executing and delivering the application to be filed with Neustar, Inc. to register the transfer of the Seller CIC Code from Seller to Purchaser (which shall be so filed on September 16, 2002), and Seller and Purchaser shall promptly and diligently prosecute the process to register such transfer and make the applications to the local exchange carriers to implement such transfer. In the event that the transfer of the Seller CIC Code has not been registered with Neustar, Inc. or implemented at the central office of a local exchange carrier in any jurisdiction prior to the earlier of the Migration Deadline or the termination of this Agreement, such transfer will be null and void, the request to register the transfer will be cancelled, and Seller shall retain all of its rights, title and interest in the Seller CIC Code in such jurisdiction(s). In the event the transfer of the Seller CIC Code has been registered with Neustar, Inc. and implemented at such a local exchange carrier, and, thereafter, Seller needs the benefit of the Seller CIC Code due to the failure of a migration of a Customer Contract to occur, whether to comply with a regulatory requirement of a Governmental Authority or such Customer Contract, Purchaser shall cooperate with Seller in a mutually agreed upon commercially reasonable arrangement for so long as such Customer Contract is in effect that permits Seller to so comply and protects Purchaser from liability with respect to any such regulatory requirement or Customer Contract.

(c) Agent Contracts. The Agent Contracts will be partially transferred by Seller to Purchaser with respect to each Migrated Customer, on the Migration Date, if any, for such Customer.

(d) Customer Contracts and Other Assets. The Customer Contract and the related Other Assets for such Customer will be transferred by Seller to Purchaser on the Migration Date, if any, with respect to such Customer Contract.

2.2 No Prohibited Transfer.

(a) Required Regulatory Approvals. In no event will any Assets be transferred prior to the receipt of the Regulatory Approvals with respect to such Assets.

(b) Consents. Anything in this Agreement to the contrary notwithstanding, this Agreement shall not constitute an agreement to assign or transfer any Assets (other than Customer Contracts) or any claim or right or any benefit or obligation thereunder or resulting therefrom if an assignment or transfer thereof, without the Consent of a third party thereto or any other required Consent or Permit, would impose any obligation or liability on Seller or Purchaser or violate any Law and if such Consent or Permit is not obtained at or prior to the Transfer of such Asset, in which case the provisions of Section 6.3 shall apply.

(c) Partial Assignment. Purchaser acknowledges that certain of the Acquired Contracts are used by Seller to provide Voice Services to non-Migrated Customers or in connection with the goods and services of Seller (other than the Voice Services) and that these Contracts will be partially assigned whereby the rights and obligations related to the Voice Services provided to Migrated Customers are assigned to Purchaser and rights and obligations related to the non-Migrated Customers or other goods and/or services are retained by Seller.

2.3 Mechanics of Transfer. Seller shall retain legal ownership of the Assets until the Migration Date of the Customer Contract which is to transfer with such Assets, as provided herein, including retention of all revenues under the Customer Contracts until the Migration Date with respect thereto.

2.4 Excluded Assets. Seller shall not transfer to Purchaser any additional assets (other than the Assets), or any right, title or interest of Seller therein other than as expressly provided in Section 2.1 (collectively, the **"Excluded Assets"**). None of the Excluded Assets shall be included in the term

"Acquired Assets." Prior to the Migration Date with respect to a Customer Contract, such Customer Contract, and the other Assets which are to be transferred therewith, shall also be Excluded Assets.

2.5 Assumed Obligations. Purchaser shall assume all of the following liabilities and obligations of Seller and its Affiliates to the extent arising from the operation of the Acquired Assets (the **"Assumed Obligations"**):

(a) Acquired Contracts. All obligations and liabilities of Seller arising under the Acquired Contracts from and after the Migration Date with respect to such Contract;

(b) Customer Deposits. From and after the Migration Date of the Customer Contract under which Seller has received a Customer Deposit, all customer claims against, or rights in, such Customer Deposit; and

(c) All Other Obligations. All obligations and liabilities associated with the Equipment and 8XX Numbers constituting Acquired Assets arising at any time on or after the Migration Date with respect to such Equipment and 8XX Numbers.

2.6 Excluded Obligations. Except as expressly set forth in Section 2.5, Purchaser shall not assume or otherwise be liable for any liability, claim or obligation of Seller whatsoever.

ARTICLE III
PURCHASE PRICE; ALLOCATION

3.1 Payment of Purchase Price.

(i) The total consideration for the Acquired Assets shall consist of (i) the assumption by Purchaser of the Assumed Obligations and (ii) the payment to Seller of an amount equal to [***] (the "**Purchase Price**"); provided, however, that the Purchase Price shall not exceed Thirty-Two Million Dollars ($32,000,000). [***]

(b) **"Gross Revenue"** means [***].

(c) All payments made hereunder shall be made in accordance with Section 10.4 and to such account or accounts as the receiving party shall designate in writing to the paying party.

(d) In the event that Purchaser fails to pay to Seller any amount of the Purchase Price (including any amount of the [***]) within fifteen (15) days after the date due, the total amount of the unpaid determinable Purchase Price shall accelerate and become immediately due and payable to Seller.

(e) Notwithstanding Section 3.1(d) or any other provision of this Agreement, in the event Purchaser fails to pay to Seller any amount of the Purchase Price within five (5) days after the due date, such unpaid amount shall bear interest at the Default Rate for the period from the due date to the date paid.

(f) In connection with the calculation of the Purchase Price, Seller will provide Purchaser with a true, complete and detailed breakdown of all Gross Revenue for which an amount of the Purchase Price is due hereunder. Following the date hereof, Seller shall continue its billing practices for Voice Services in a manner consistent with past practices and shall take no action to artificially inflate the amount of Gross Revenue.

(g) The Security Agreement shall secure all of the payment obligations of Purchaser under this Agreement, including any payment obligations of Purchaser that may arise under Article IX, provided that the Security Agreement shall terminate on the date on which Purchaser has paid to Seller the entire amount of the Purchase Price.

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(h) Notwithstanding any provision of this Agreement, in the event (i) [***], (ii) [***] and (iii) [***].

(i) Purchaser will use reasonable commercial efforts to provide Seller with written notice of the occurrence of the event in Section 3.1(h)(iii), within fifteen (15) Business Days after such occurrence. Seller (with its agents) shall have the right, at the sole expense of Seller, to conduct a review of Purchaser's books and records to determine whether Seller is entitled to payment under Section 3.1(h), and to verify the amount thereof; such review to be conducted during normal business hours upon reasonable advance notice to Purchaser in a manner as to not unreasonably interfere with Purchaser's business. Purchaser shall reasonably cooperate with any such review request made by Seller.

3.2 Allocation of Consideration for Acquired Assets. The Purchase Price for the Acquired Assets shall be allocated among the Acquired Assets as set forth on Schedule 3.2. Each of Purchaser and Seller and their respective Affiliates shall file all necessary Tax returns and other forms (including Internal Revenue Service Form 8594) to report the transactions contemplated herein for U.S. federal, state, local and foreign income Tax purposes in accordance with such allocation, and shall not take any position inconsistent with such allocation. Any adjustment to the Purchase Price shall be allocated as provided in Treasury Regulation § 1.1060-1.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents and warrants to Purchaser as follows:

4.1 Due Incorporation. Seller is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware. Seller has the requisite corporate power and authority to own, operate and lease its assets and to conduct its business as presently conducted, and is duly qualified to do business and in good standing (with respect to those jurisdictions that recognize the concept of good standing) to do business as a foreign corporation in each jurisdiction in which its ownership of the Assets makes such qualification necessary, other than such jurisdictions in which the failure to be so qualified or in good standing would not have a material adverse effect, individually or in the aggregate, (x) on the ability of Seller to perform its obligations under this Agreement and its Related Agreements or (y) on the ability of Seller to consummate the transactions required to be effected by it as contemplated hereby and thereby.

4.2 Due Authorization. Seller has full corporate power and authority to execute, deliver and perform this Agreement and its Related Agreements and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance by Seller of this Agreement and its Related Agreements and the consummation by Seller of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action. Seller has duly

and validly executed and delivered this Agreement and its Related Agreements. Assuming the due authorization, execution and delivery of this Agreement and its Related Agreements by Purchaser, this Agreement and its Related Agreements constitute Seller's legal, valid and binding obligation, enforceable against it in accordance with its respective terms, subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other similar Laws affecting creditors' rights generally from time to time in effect and to general principles of equity (including concepts of materiality, reasonableness, good faith and fair dealing with respect to those jurisdictions that recognize such concepts) (collectively, the **"Enforceability Limitations"**).

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4.3 Consents and Approvals; Authority Relative to this Agreement.

(a) Except for the Governmental Required Consents, the Regulatory Approvals or as set forth in Schedule 4.3, no Consent, Permit or filing, application, notification, statement or report of or with, any Governmental Authority or any other Person not a party to this Agreement is necessary in connection with the execution, delivery or performance by Seller of this Agreement or any of its Related Agreements or the consummation by Seller of the transactions contemplated hereby or thereby.

(b) Except as set forth in Schedule 4.3, the execution, delivery and performance by Seller of this Agreement and its Related Agreements, and the consummation by Seller of the transactions contemplated hereby and thereby, do not, (i) violate any Law or Order applicable to or binding on Seller or such Acquired Assets; (ii) violate or conflict with, result in a breach or termination of, constitute a default or give any third party any additional right (including a termination right) under, permit cancellation of, result in the creation of any Lien upon any of such Assets under, or result in or constitute a circumstance which, with or without notice or lapse of time or both, would constitute any of the foregoing under, any Acquired Contract or any Contract by which any of such Acquired Assets are bound; (iii) permit the acceleration of the maturity of any indebtedness of Seller or indebtedness secured by any such Acquired Assets; or (iv) violate or conflict with any provision of Seller's certificate of incorporation or by-laws.

4.4 Litigation. Except as disclosed in Section 4.4, there are no actions, suits, proceedings or other litigation pending, or, to Seller's Knowledge, threatened, by or against Seller or any of its Affiliates with respect to this Agreement or the Related Agreements or with respect to any of the Acquired Assets, or in connection with the transactions contemplated hereby or thereby that enjoins, restrains or prohibits, or has a reasonable likelihood of enjoining, restraining or prohibiting, this Agreement or any Related Agreement or the consummation of the transactions contemplated hereby or thereby.

4.5 Title. Except as disclosed in Schedule 4.5, Seller has good title to, and is the lawful owner of, all of the Assets, free and clear of any Lien (other than Permitted Liens). Except as set forth in Schedule 4.5 and subject to obtaining all applicable Consents (including Governmental Required Consents) and Permits, Seller has the full right to sell, convey, transfer, assign and deliver the Assets to Purchaser. Except as set forth in Schedule 4.5 and subject to obtaining and making all applicable Consents (including Governmental Required Consents), on the applicable Transfer Date, Seller shall convey to Purchaser title to the Acquired Assets, free and clear of any Lien (other than Permitted Liens).

4.6 Financial Information. Seller has provided Purchaser with the following information for the Voice Services provided by Seller for the twelve (12) months ended June 30, 2002: aggregate cycle revenues billed, received and outstanding, which information is accurate and complete in all material respects.

4.7 Customer Deposits. The Customer Deposits for each Customer Contract are set forth in Schedule 4.7.

4.8 Seller CIC Code. The Seller CIC Code is the only CIC Code used by Seller to provide Voice Services under the Customer Contracts.

4.9 Acquired Contracts. Except as disclosed in Schedule 4.9:

(a) Seller has provided access, or delivered, to Purchaser true and complete copies of all Agent Contracts and Customer Contracts that are in the possession of Seller, which Agent Contracts and Customer Contracts constitute all thereof that are in their possession and cover Voice Services.

(b) Seller is not re-negotiating, and, to Seller's Knowledge, no other party to an Acquired Contract is re-negotiating, any of the material provisions of such Acquired Contract.

(c) Seller has not violated or breached, or committed any default, and, to Seller's Knowledge, no other party to an Acquired Contract has violated or breached, or committed a default under, any Acquired Contract; (ii) no event has occurred, and no circumstance or condition exists, that might (with or without notice or lapse of time) (A) result in a violation or breach of any of the provisions of any Acquired Contract, (B) give any party the right to declare a default or exercise any remedy under any Acquired Contract, (C) give any party the right to accelerate the maturity or performance of any Acquired Contract, or (D) give any party the right to cancel, terminate or modify any Acquired Contract; (iii) the Seller has not received any notice or other communications (in writing or otherwise) regarding any actual, alleged, possible or potential violation or breach by it of, or default by it under, any Acquired Contract; and (iv) the Seller has not waived any right under any Acquired Contract except, in each case where such violation, breach, or default has been remedied or would not reasonably be expected, individually or in the aggregate, to have material adverse effect on the Gross Revenues under all of the Customer Contracts, taken as a whole.

The representations and warranties in Sections 4.6 and 4.9 shall be deemed re-made on each Migration Date with respect to the financial information for the Acquired Contracts and the Acquired Contracts, respectively, which are transferred by Seller to Purchaser hereunder on such Migration Date, subject to Section 10.17.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser represents and warrants to Seller as follows:

5.1 Due Incorporation. Purchaser is a corporation duly organized, validly existing and in good standing under the laws of Delaware with all requisite corporate power and authority to own, operate and lease its assets and to conduct its business as presently conducted.

5.2 Due Authorization. Purchaser has full corporate power and authority to execute, deliver and perform this Agreement and its Related Agreements and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance by Purchaser of this Agreement and its Related Agreements, and the consummation by Purchaser of the transactions contemplated hereby and thereby, have been duly authorized by all necessary corporate action. Purchaser has duly and validly executed and delivered this Agreement and the its Related Agreements. Assuming due authorization, execution and delivery of this Agreement and its Related Agreements by Seller, this Agreement and its Related Agreements constitute its legal, valid and binding obligation, enforceable against it in accordance with their respective terms subject to the Enforceability Limitations.

5.3 Consents and Approvals; Authority Relative to this Agreement.

(a) Except as set forth in Schedule 5.3, no Consent, Permit or filing, application or notification, statement or report of or with, any Governmental Authority or any other Person not a party to this Agreement is necessary in connection with the execution, delivery or performance by Purchaser of this Agreement or any of its Related Agreements or the consummation by Purchaser of the transactions contemplated hereby or thereby.

(b) Except as set forth in Schedule 5.3, the execution, delivery and performance by Purchaser of this Agreement and its Related Agreements, and the consummation by Purchaser of the transactions contemplated hereby and thereby, do not and will not (i) violate any Law or Order applicable to or binding on Purchaser or any of its assets; (ii) violate or conflict with, result in a breach or termination of, constitute a default or give any third party any additional right (including

a termination right) under, permit cancellation of, result in the creation of any Lien upon any of the assets of Purchaser under, or result in or constitute a circumstance which, with or without notice or lapse of time or both, would constitute any of the foregoing under, any Contract to which Purchaser is a party or by which Purchaser or any of its assets are bound; (iii) permit the acceleration of the maturity of any indebtedness of Purchaser or indebtedness secured by its assets; or (iv) violate or conflict with any provision of Purchaser's certificate of incorporation or by-laws.

5.4 Litigation. There are no actions, suits, proceedings or other litigation pending, or, to Purchaser's knowledge, threatened, by or against Purchaser or any of its Affiliates with respect to this Agreement or the Related Agreements, or in connection with the transactions contemplated hereby or thereby that enjoins, restrains or prohibits, or has reasonable likelihood of enjoining, restraining or prohibiting, this Agreement or any Related Agreement or the consummation of the transactions contemplated hereby or thereby.

5.5 Financing. Purchaser has internal resources available in connection with the acquisition of the Assets which are in an aggregate amount sufficient to consummate the transactions contemplated hereby.

5.6 Experience. Purchaser holds all the Consents (other than Anti-Slamming Approvals), Permits, industry codes, NXX numbers, and facilities, and has in place and in operation all arrangements, that are necessary for Purchaser's use, occupancy or operation of the Assets, including service to third parties at a standard that meets or exceeds the quality of service provided to such third parties prior to the date hereof by Seller. Purchaser has successfully completed a migration from a third party network to the Purchaser Network of customers receiving retail switched voice telephony services that is at least as large and complex as the migration contemplated by this Agreement and the Related Agreements.

5.7 Independent Investigation. In making the decision to enter into this Agreement and the Related Agreements and to consummate the transactions contemplated hereby and thereby, other than reliance on the representations, warranties, covenants and obligations of Seller set forth in this Agreement and in Seller's Related Agreements, Purchaser has relied solely on its own independent investigation, analysis and evaluation of the Assets (including Purchaser's own estimate and appraisal of the value of the business, financial condition, operations and prospects of the Assets). Purchaser confirms to Seller that Purchaser is sophisticated and knowledgeable with respect to these matters and is capable of evaluating the matters set forth above.

ARTICLE VI
COVENANTS

6.1 Implementing Agreement. Subject to the terms and conditions hereof and thereof, each party hereto shall take all action required of it hereunder to fulfill its obligations under the terms of this Agreement (including, without limitation, the Transition Plan). Seller and Purchaser shall each otherwise use all commercially reasonable efforts to facilitate the consummation of the transactions contemplated hereby.

6.2 Transition.

(a) Transition. Purchaser and Seller will cooperate to effect the transfer of responsibility for providing Voice Services to the Customers in a controlled and expeditious manner, with minimal disruptions to the Customers and in accordance with applicable regulatory requirements pursuant to the Transition Plan.

(b) Communications Program. A communications program will be agreed between Seller and Purchaser and will be set forth in the Transition Plan to notify customers, suppliers, agents and other third parties of the transfer of the relationship to Purchaser and to limit disruptions and

comply with applicable Contracts and legal requirements. Except as otherwise may be set forth in the Transition Plan, Purchaser shall not contact or communicate with any party to any of the Assets prior to the Migration Date on which such Assets are transferred to Purchaser. In no event shall Purchaser attempt (i) to seek to induce a Customer to terminate a Customer Contract prior to the Migration Date for such Customer Contract or (ii) to

renegotiate or otherwise indicate an intent or desire to renegotiate, any Agent Contract with any agent prior to the last Migration Date or Customer Contract with any Customer prior to the Migration Date for such Customer Contract; provided, however, that clause (ii) shall not preclude Purchaser from offering more beneficial terms to any agent.

6.3 Consents and Approvals.

(a) Seller and Purchaser shall use commercially reasonable efforts to obtain all Consents and Permits and to obtain all certificates and other documents, required in connection with the performance by it of this Agreement and its Related Agreements and the consummation by it of the transactions contemplated hereby and thereby. Seller shall promptly make all filings, applications, notifications, statements and reports to all Governmental Authorities and other Persons that are required to be made by or on behalf of Seller pursuant to any applicable Law, Order or Contract in connection with this Agreement (including, without limitation, the Transition Plan), its Related Agreements and the transactions contemplated hereby and thereby, including applications for Consents required from the Federal Communications Commission and state public utility commissions. Purchaser shall promptly make all filings, applications, notifications, statements and reports to all Governmental Authorities and other Persons by or on behalf of Purchaser or any of its Affiliates pursuant to any applicable Law, Order or Contract in connection with this Agreement (including, without limitation, the Transition Plan), its Related Agreements (including, without limitation, the Transition Plan) and the transactions contemplated hereby and thereby.

(b) If a Consent is required from any third party to any of the Acquired Contracts (other than Customer Contracts) until such Consent is obtained, or if an attempted transfer, conveyance or assignment is ineffective, Seller shall cooperate with Purchaser in any commercially reasonable arrangement requested by Purchaser for so long as such Acquired Contract is in effect that (i) provides to Purchaser the benefits under any such Acquired Contract, (ii) imposes on Purchaser the obligations and liabilities under such Acquired Contract and (iii) protects Seller from liability under such Acquired Contract.

(c) Promptly after execution of this Agreement, Seller and Purchaser jointly will prepare and distribute to each Customer written notification of the contemplated transfer of its Customer Contract to Purchaser that will include a request for Consent of the Customer Contract, as needed. Purchaser and Seller agree that if a Customer denies Consent in writing, its Customer Contract will not be transferred to Purchaser, and that in all other cases, subject to the other provisions of this Agreement, such Customer Contract will be transferred to Purchaser. Except for a breach by Seller of its obligations specifically set forth in this Section 6.3, Purchaser acknowledges and agrees that Seller shall have no liability to Purchaser or any third party as a result of the failure to receive a Consent of a Customer to transfer any Customer Contract to Purchaser.

6.4 Cable & Wireless Name.

(a) Purchaser acknowledges that the Cable & Wireless Name is and shall remain the property of Seller or its Affiliates and that nothing in this Agreement shall transfer or shall operate as an agreement to transfer any right, title or interest in the Cable & Wireless Name to Purchaser or any Affiliate of a Purchaser.

(b) Seller is not granting Purchaser a license or any other right to use, and Purchaser shall have no right to use, the Cable & Wireless Name (except as set forth in Section 6.4(c), without the prior written Consent of Seller for each such use.

(c) Seller hereby grants to Purchaser a non-exclusive, limited license to use the name and logo of Seller in the U.S. on any invoices it issues to Migrated Customers for any billing cycle beginning after the Migration Date for their Migrated Customer Contracts and ending on or before March 31, 2003, the form and content of such use to be mutually agreed upon by the parties within the five (5) Business Days after the date hereof and to be attached hereto as Exhibit E.

6.5 Brokers. Seller shall indemnify Purchaser and its Affiliates against, and hold Purchaser and its Affiliates harmless from, any and all liability for any brokers' or finders' fees or other commissions arising with respect to brokers or finders retained or engaged by Seller or any of its Affiliates in respect of the transactions contemplated by this Agreement or any of Seller's Related Agreements, and (b) Purchaser shall indemnify Seller and its Affiliates against, and hold Seller and its Affiliates harmless from, any and all liability for any brokers' or finders' fees or other commissions arising with respect to brokers or finders retained or engaged by Purchaser or any of its Affiliates in respect of the transactions contemplated by this Agreement and Purchaser's Related Agreements.

6.6 Preservation of Books and Records; Access.

(a) For a period of seven (7) years after the date hereof, Purchaser shall preserve and retain all Information and Records. Notwithstanding the foregoing, during such seven (7)-year period, Purchaser may dispose of any Information and Records which are offered to, but not accepted by, Seller. If at any time after such seven (7)-year period Purchaser intends to dispose of any Information and Records, Purchaser shall not do so without first offering such Information and Records to Seller.

(b) After the Information and Records have been transferred to Purchaser, Purchaser shall permit Seller and its authorized representatives to have reasonable access to, and to inspect and copy, all Information and Records and to meet with officers and employees of Purchaser on a mutually convenient basis in order to obtain explanations with respect to such Information and Records and books and records and to obtain additional information.

(c) In the event and for so long as either party hereto actively is contesting or defending against any charge, complaint, action, suit, proceeding, hearing, investigation, claim, or demand in connection with (i) any transaction contemplated under this Agreement (other than disputes between the parties hereto) or (ii) any fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction involving the Acquired Assets or the business related thereto the other party hereto will cooperate with it and its counsel in the contest or defense, make available its personnel, and provide such testimony and access to its books and records as shall be necessary in connection with the contest or defense, all at the sole cost and expense of the contesting or defending party (unless the contesting or defending party is entitled to indemnification therefor under Article IX).

(d) Purchaser (with its agents) shall have the right, at the sole expense of Purchaser, to conduct a review of Seller's books and records related to the Gross Revenue which are used to

calculate a portion of the Purchase Price paid by Purchaser to Seller hereunder to verify the amount thereof for such purpose; such review to be conducted during normal business hours upon reasonable advance notice to Seller in a manner as to not unreasonably interfere with Seller's business. Seller shall reasonably cooperate with any such review request made by Purchaser.

6.7 Nonsolicitation.

(a) From and after the date hereof until the end of the one (1) year after the date hereof, neither Purchaser nor Seller shall solicit for employment any person who is, on the date hereof, an employee or officer of the other, without the prior written Consent of Seller or Purchaser, as applicable. The restriction in this Section 6.7(a) shall not restrict (a) general advertisements not specifically aimed at the other party's employees or (b) the unsolicited hiring of the other party's employees.

(b) Seller will provide Purchaser access to the outplacement agency that it engages with respect to its former employees. From and after the date hereof until the last Migration Date, neither Purchaser nor any of its Affiliates shall solicit for employment or employ any person who is, on the date hereof, an employee or officer of Seller or any of its Affiliates, without the prior written Consent of Seller unless such solicitation or employment is made in connection with or through such outplacement agency.

6.8 Confidentiality. **"Confidential Information"** means certain technical and/or commercial information, including, but not limited to, processes, strategies, data, know-how, trade secrets, designs, photographs, drawings, specifications, technical literature and other tangible and intangible information or material provided by one party (a **"Disclosing Party"**) to the other party (a **"Receiving Party"**), whether in written, oral, electronic or other form, that is identified as confidential by the Disclosing Party, or information to which the Receiving Party obtains access by virtue of its performance under this Agreement and the Migration Plan. The identity of the Migrated Customers shall be deemed to be Confidential Information of Purchaser and shall be treated by Seller in accordance with the terms of this Section 6.8.

(a) The Receiving Party shall (i) keep in strict confidence and in safe custody any Confidential Information any Confidential Information disclosed to the Receiving Party by the Disclosing Party by exercising the same duty of care used to maintain as confidential the Receiving Party's own Confidential Information and at a minimum a reasonable duty of care; (ii) not use or exploit any Confidential Information other than in the performance of the Receiving Party's obligations or the exercise of the Receiving Party's rights under this Agreement; (iii) not copy or reproduce any or all of the Confidential Information except as is reasonably necessary in the performance of the Receiving Party's obligations or the exercise of the Receiving Party's rights under this Agreement; and (iv) not distribute, disclose or disseminate Confidential Information to anyone except directors, officers, employees and subcontractors of the Receiving Party who have a need to know such Confidential Information in the performance of the Receiving Party's obligations or the exercise of the Receiving Party's rights under this Agreement; provided such party is bound by an obligation of confidentiality substantially equivalent to that set forth in this Section 6.8.

(b) On the earlier of the termination of this Agreement or a written request of the Disclosing Party, the Receiving Party shall return or destroy (at the Disclosing Party's option) any part of the Confidential Information and, if requested by the Disclosing Party, shall provide written confirmation to the Disclosing Party to that effect.

(c) The Receiving Party's duty to maintain Confidential Information as confidential in accordance with the provisions of this Section 6.8 shall not apply to any information that the Receiving Party can show to the Disclosing Party's reasonable satisfaction:

(i) was known to the Receiving Party (without obligation to keep such information confidential) at the date of disclosure of the Confidential Information by the Disclosing Party;

(ii) is after the date of disclosure acquired by the Receiving Party in good faith from an independent third party who is not subject to any obligation of confidentiality in respect of such Confidential Information;

(iii) in its entirety was at the time of its disclosure in the public knowledge or has become public knowledge while the provisions of this Section 6.8 remain in force otherwise than by reason of the Receiving Party's neglect or breach of the restrictions set forth in this Exhibit or any other Exhibit; or

(iv) is independently developed by the Receiving Party without access to any or all of the Disclosing Party's Confidential Information.

(d) Purchaser acknowledges that the Acquired Assets may include information that is subject to confidentiality restrictions imposed by Law, Order or Contract. Purchaser agrees that it will not disclose any information included in the Acquired Assets in violation of any Law or Contract, except as required by Law.

(e) Where the Receiving Party is required by law, judicial action, the rules or regulations of a recognized stock exchange or listing authority, government department of agency or other regulatory authority to disclose Confidential Information, the Receiving Party shall take all reasonable steps to consult and to take into account the reasonable requirements of the Disclosing Party in relation to such disclosure and limit any disclosure to that required by such law, judicial action, rules or regulations.

6.9 [***].

(a) [***].

(b) [***].

6.10 Equitable Relief. Notwithstanding any other provision of this Agreement, it is understood and agreed that the remedy of indemnity payments pursuant to Article IX and other remedies at Law would be inadequate in the case of any breach of the covenants contained in Sections 6.4, 6.7, 6.8, [***] and

6.11. Accordingly, either party shall be entitled, without the necessity of proving actual damages or posting any bond, to equitable relief, including the remedy of specific performance or injunction, with respect to any breach or threatened breach of such covenants and Purchaser (on behalf of itself and its Affiliates) consents to the entry thereof.

6.11 Intellectual Property.

(a) All materials provided or used by Seller or Purchaser to provide services and migration activities under this Agreement and the Transition Plan, including all software and documentation, shall be and shall remain the exclusive property of such party and its licensors ("**Proprietary Materials**"). Nothing in this Agreement or the Transition Plan shall be deemed to create, or represent the intent of such party to authorize the creation of, a joint work or derivative work based on any Proprietary Materials, or otherwise to confer upon the other party or any other licensee of such Proprietary Materials, any right or interest of ownership in any copyright, patent, trade secret, trademark or other intellectual property right therein.

*** Confidential Treatment Requested

(b) No party shall remove or alter any copyright, trademark, confidentiality or other proprietary notices that appear on any Proprietary Materials, and shall reproduce any such notices on any and all copies thereof.

(c) No party shall attempt to decompile, translate, reverse engineer or make excessive copies of any Proprietary Materials, and shall promptly notify the other party of any such attempt, regardless of whether by a party or any third party, of which such party becomes aware.

ARTICLE VII
DELIVERIES

7.1 Deliveries by Seller. On the date hereof, Seller shall deliver to Purchaser the following:

(a) an Assignment and Assumption Agreement, duly executed by Seller;

(b) a Bill of Sale, duly executed by Seller; and

(c) the Security Agreement, duly executed by Seller.

7.2 Deliveries by Purchaser. On the date hereof, Purchaser shall deliver to Seller the following:

(a) the Assignment and Assumption, duly executed by Purchaser;

(b) the Bill of Sale, duly executed by Purchaser; and

(c) the Security Agreement.

ARTICLE VIII
TERMINATION

8.1 Termination. This Agreement may be terminated, and the transactions contemplated herein may be abandoned, at any time:

(a) with the mutual written consent of Seller and Purchaser; or

(b) by Seller, if there shall have been a material breach of any covenant or obligation of Purchaser hereunder, and such breach shall not have been remedied within thirty (30) days after receipt by Purchaser of notice in writing from Seller specifying the breach and requesting such breach is remedied.

In the event of termination by Seller or Purchaser pursuant to this Section 8.1 (other than Section 8.1(a)), written notice thereof shall be given to the other party.

8.2 Effect of Termination. If this Agreement is terminated pursuant to Section 8.1(a), all obligations of the parties hereunder shall terminate, except for the obligations set forth in Sections 6.5 (Brokers), Section 6.8 (Confidentiality), 8.2 (Effect of Termination), 10.1 (Expenses), 10.8 (Publicity) and Article X, which shall survive the termination of this Agreement, and except that, if such termination occurs after the first Migration Date, Article III, Section 6.6 (Books and Records), Section 6.7 (Nonsolicitation),[***], Section 6.10 (Equitable Relief), Section 6.11 (Intellectual Property) and Article IX shall also survive. No such termination of this Agreement shall relieve any party from liability for any prior breach of this Agreement.

*** Confidential Treatment Requested

ARTICLE IX
INDEMNIFICATION

9.1 Survival. The representations and warranties of the parties hereto contained herein shall survive for a period of one (1) year after the date hereof, except that Title and Authorization Warranties shall survive for seven (7) years after the date hereof. Neither Purchaser nor Seller shall have any liability with respect to claims first asserted in connection with any representation or warranty after the survival period specified therefor in this Section 9.1.

9.2 Indemnification by Seller. Subject to Section 9.4, Seller agrees to indemnify Purchaser against, and agrees to hold Purchaser harmless from, any and all Losses incurred or suffered by Purchaser arising out of any of the following:

(a) any breach of any representation or warranty made by Seller in this Agreement; provided, that Seller shall have no liability under this Section 9.2(a) for any breach of any representation or warranty unless (i) in the case of all representations and warranties, except for Title and Authorization Warranties, a notice of Purchaser's claim is given to Seller not later than the close of business on the first anniversary of the date hereof; and (ii) in the case of Title and Authorization Warranties, a notice of Purchaser's claim is given to Seller not later than the close of business on the seventh anniversary of the date hereof; in each case with each such notice specifying (in reasonably sufficient detail) the matter giving rise to the claim, the nature of the claim and so far as practicable the amount claimed;

(b) any breach of or failure by Seller to perform any covenant or obligation of Seller set out in this Agreement;

(c) the Excluded Assets and the Excluded Obligations; or

(d) the provision of the Voice Services by Seller to a Customer prior to the date on which Purchaser provides Voice Services to such Customer; or

(e) any failure to pay any agent under an Agent Contract in respect of a Customer Contract for the period prior to the date of transfer of such Customer Contract by Seller to Purchaser hereunder.

9.3 Indemnification by Purchaser. Purchaser agrees to indemnify Seller against, and agrees to hold Seller harmless from, any and all Losses incurred or suffered by Seller arising out of any of the following:

(a) any breach of any representation or warranty made by Purchaser in this Agreement; provided, that Purchaser shall have no liability under this Section 9.3(a) for any breach of any representation or warranty unless, (i) in the case of all representations and warranties, except for Title and Authorization Warranties, a notice of Seller's claim is given to Purchaser not later than the close of business on the first anniversary of the date hereof; and (ii) in the case of Title and Authorization Warranties, a notice of Seller's claim is given to Purchaser not later than the close of business on the seventh anniversary of the date hereof, in each case with each such notice specifying (in reasonably sufficient detail) the matter giving rise to the claim, the nature of the claim and so far as practicable the amount claimed;

(b) any breach of or failure by Purchaser to perform any covenant or obligation of Purchaser set out in this Agreement;

(c) the Acquired Assets and the Assumed Obligations; or

(d) the provision of Voice Services by or on behalf of Purchaser to a Customer on and subsequent to the date on which Seller ceases to provide Voice Services to such Customer.

9.4 Limitations on Liability of Seller. Notwithstanding any other provision of this Agreement

(a) Purchaser shall have the right to payment by Seller under Section 9.2(a) only if, and only to the extent that, Purchaser shall have incurred (i) as to any particular breach, indemnifiable Losses in excess of $20,000 and (ii) as to all breaches, indemnifiable Losses (other than as excluded in clause (i)) in excess of $700,000; provided, that the limitation on liability in this Section 9.4(a) shall not be applicable to (x) any breach by Seller of the representations and warranties in Sections 4.4 and 4.7, (y) the indemnity obligation under Section 9.2(e) or (z) [***].

(b) Except for Seller's acts of fraud, Seller shall have no liability under or in connection with this Agreement or the transactions contemplated hereby (including under Section 9.2 or otherwise for any breach of any representation or warranty or for any breach of any covenant or obligation or for any other reason) in excess of the aggregate amount of the Purchase Price actually received by Seller from Purchaser.

(c) In no event shall Seller have any liability for special, speculative, punitive, indirect or consequential damages or for lost profits.

(d) The sole and exclusive liability and responsibility of Seller to Purchaser under or in connection with the Acquired Assets, this Agreement or the transactions contemplated hereby (including for any breach of any representation or warranty or for any breach of any covenant or obligation or for any other reason other than a breach of Sections 6.4, 6.5, 6.7, 6.8, [***] or 6.11), and the sole and exclusive remedy of Purchaser with respect to any of the foregoing, shall be as set forth in this Article IX, and in Sections 6.5 and 6.10. To the extent that Purchaser or any of its Affiliates has any Losses for which it may assert any other right to indemnification, contribution or recovery from Seller or any of its Affiliates (whether under this Agreement or under any common Law or any statute, including any environmental Law, or otherwise), Purchaser hereby waives, releases and agrees not to assert such right, and Purchaser agrees to cause each of its Affiliates to waive, release and agree not to assert such right.

9.5 Claims. As promptly as is reasonably practicable after becoming aware of a claim for indemnification under this Agreement not involving a claim, or the commencement of any suit, action or proceeding, of the type described in Section 9.6, but in any event no later than ten (10) Business Days after first becoming aware of such claim, the Indemnified Person shall give notice to the Indemnifying Person of such claim, which notice shall specify the facts alleged to constitute the basis for such claim, the representations, warranties, covenants and obligations alleged to have been breached and the amount that the Indemnified Person seeks hereunder from the Indemnifying Person, together with such information as may be necessary for the Indemnifying Person to determine that the limitations in Section 9.4 have been satisfied or do not apply; provided, that the failure of the Indemnified Person to give such notice shall not relieve the Indemnifying Person of its obligations under this Article IX except to the extent (if any) that the Indemnifying Person shall have been prejudiced thereby.

*** Confidential Treatment Requested

9.6 Notice of Third Party Claims; Assumption of Defense. The Indemnified Person shall give notice as promptly as is reasonably practicable, but in any event no later than five (5) Business Days after receiving notice thereof, to the Indemnifying Person of the assertion of any claim, or the commencement of any suit, action or proceeding, by any Person not a party hereto in respect of which indemnity may be sought under this Agreement (which notice shall specify in reasonable detail the nature and amount of such claim together with such information as may be necessary for the Indemnifying Person to determine that the limitations in Section 9.4 have been satisfied or do not apply); provided, that the failure of the Indemnified Person to give such notice shall not relieve the Indemnifying Person of its obligations under this Article IX except to the extent (if any) that the Indemnifying Person shall have been prejudiced thereby. The Indemnifying Person may, at its own expense, (a) participate in the defense of any such claim, suit, action or proceeding and (b) upon notice to the Indemnified Person, at any time during the course of any such claim, suit, action or proceeding, assume the defense thereof with counsel of its own choice and in the event of such assumption, shall have the exclusive right, subject to clause (i) in the proviso of Section 9.7, to settle or compromise such claim, suit, action or proceeding. If the Indemnifying Person assumes such defense, the Indemnified Person shall have the right (but not the duty) to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel employed by the Indemnifying Person. Whether or not the Indemnifying Person chooses to defend or prosecute any such claim, suit, action or proceeding, all of the parties hereto shall cooperate in the defense or prosecution thereof.

9.7 Settlement or Compromise. Any settlement or compromise made or caused to be made by the Indemnified Person (unless the Indemnifying Person has the exclusive right to settle or compromise under clause (b) of Section 9.6) or the Indemnifying Person, as the case may be, of any such claim, suit, action or proceeding of the kind referred to in Section 9.6 shall also be binding upon the Indemnifying Person or the Indemnified Person, as the case may be, in the same manner as if a final judgment or decree had been entered by a court of competent jurisdiction in the amount of such settlement or compromise; provided, that (i) no obligation, restriction or Loss shall be imposed on the Indemnified Person as a result of such settlement or compromise without its prior written consent, which consent shall not be unreasonably withheld, and (ii) the Indemnified Person will not compromise or settle any claim, suit, action or proceeding without the prior written consent of the Indemnifying Person, which consent shall not be unreasonably withheld.

9.8 Time Limits. Any right to indemnification or other recovery under this Article IX shall only apply to Losses with respect to which the Indemnified Person shall have notified the Indemnifying Person within the applicable time period set forth in Section 9.2 or 9.3, as the case may be. If any claim for indemnification or other recovery is timely asserted under this Article IX, the Indemnified Person shall have the right to bring an action, suit or proceeding with respect to such claim within one (1) year after first giving the Indemnifying Person notice thereof, but may not bring any such action, suit or proceeding thereafter.

9.9 Knowledge. Notwithstanding anything contained herein to the contrary, no party shall have (a) any liability for any breach of any representation or warranty by such party, if the other party or any of its officers, employees, counsel or other representatives (i) had knowledge at or before the date hereof of the facts as a result of which such representation or warranty was breached or (ii) received at or before the date hereof a document disclosing such facts or (b) any liability for any breach of or failure to perform any covenant or obligation of such party if the other party or any of its officers, employees, counsel or other representatives (i) had knowledge at or before the date hereof of such breach or failure or (ii) received at or before the date hereof a document disclosing such breach or failure.

9.10 Net Losses and Subrogation.

(a) Notwithstanding anything contained herein to the contrary, the amount of any Losses incurred or suffered by any Indemnified Person shall be calculated after giving effect to (i) any insurance proceeds received by the Indemnified Person (or any of its Affiliates) with respect to such Losses, (ii) any Tax benefit realized by the Indemnified Person (or any of its Affiliates) arising from the facts or circumstances giving rise to such Losses and (iii) any recoveries obtained by the Indemnified Person (or any of its Affiliates) from any other third party. Each Indemnified Person shall exercise commercially reasonable efforts to obtain such proceeds, benefits and recoveries. If any such proceeds, benefits or recoveries are received by an Indemnified Person (or any of its Affiliates) with respect to any Losses after an Indemnifying Person has made a payment to the Indemnified Person with respect thereto, the Indemnified Person (or such Affiliate) shall promptly pay to the Indemnifying Person the amount of such proceeds, benefits or recoveries (up to the amount of the Indemnifying Person's payment).

(b) Upon making any payment to an Indemnified Person in respect of any Losses, the Indemnifying Person will, to the extent of such payment, be subrogated to all rights of the Indemnified Person (and its Affiliates) against any third party in respect of the Losses to which such payment relates. Such Indemnified Person (and its Affiliates) and Indemnifying Person will execute upon request all instruments reasonably necessary to evidence or further perfect such subrogation rights.

(c) Seller shall have the right to retain as a credit against future Purchase Price payments (if any) any amounts it owes to Purchaser pursuant to this Agreement.

9.11 Purchase Price Adjustments. To the extent permitted by Law, any amounts payable under Section 9.2 or Section 9.3 shall be treated by Purchaser and Seller as an adjustment to the Purchase Price.

ARTICLE X
MISCELLANEOUS

10.1 Expenses. Each party hereto shall bear its own fees and expenses with respect to the transactions contemplated hereby, provided, that Purchaser shall pay all sales, use, value added, stamp, transfer, service, recording and like Taxes and fees imposed by any Governmental Authority in connection with the transfer and assignment of the Acquired Assets.

10.2 Amendment. This Agreement may be amended, modified or supplemented but only in writing signed by Purchaser and Seller.

10.3 Notices. Any notice, request, instruction or other document to be given hereunder by a party hereto shall be in writing and shall be deemed to have been given, (a) when received if given in person or by courier or a courier service, or (b) on the date of transmission if sent by facsimile transmission (receipt confirmed) on a Business Day during or before the normal business hours of the intended recipient, and if not so sent on such a day and at such a time, on the following Business Day:

(i) If to Purchaser, addressed as follows:

Primus Telecommunications, Inc.
1700 Old Meadow Road
McLean, Virginia 22102
Attention: President
Facsimile: (703) 902-2814

with a copy to:

Primus Telecommunications, Inc.
1700 Old Meadow Road
McLean, Virginia 22102
Attention: General Counsel
Facsimile: (703) 902-2814

(ii) If to Seller, addressed as follows:

Cable & Wireless USA, Inc.
11700 Plaza America Drive
Reston, VA 20190-4798
Attention: Law Department
Vice President and Associate General Counsel
Telephone:
Facsimile:

with a copy to:

Mayer, Brown, Rowe & Maw
1909 K Street, NW
Washington, DC 20006
Attention: Stuart P. Pergament
Telephone: (202) 263-3229
Facsimile: (202) 263-3300

or to such other individual or address as a party hereto may designate for itself by notice given as herein provided.

10.4 Payments in Dollars. Except as otherwise provided herein or in a Related Agreement, all payments pursuant hereto shall be made by wire transfer in Dollars in same day or immediately available funds without any set-off, deduction or counterclaim whatsoever.

10.5 Waivers. The failure of a party hereto at any time or times to require performance of any provision hereof shall in no manner affect its right at a later time to enforce the same. No waiver by a party of any condition or of any breach of any term, covenant, representation or warranty contained in this Agreement shall be effective unless in writing, and no waiver in any one or more instances shall be deemed to be a further or continuing waiver of any such condition or breach in other instances or a waiver of any other condition or breach of any other term, covenant, representation or warranty.

10.6 Assignment. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns; provided, that no assignment of this Agreement or any rights or obligations hereunder, by operation of Law or otherwise, shall be made by either party without the written consent of the other party, other than, in the case of Seller, to an Affiliate or successor in interest. Any assignment in violation of the preceding sentence shall be null and void *ab initio*.

10.7 No Third Party Beneficiaries. This Agreement is solely for the benefit of the parties hereto and, to the extent provided herein, their respective Affiliates, and no provision of this Agreement shall be deemed to confer upon other third parties any remedy, claim, liability, reimbursement, cause of action or other right.

10.8 Publicity. Seller and Purchaser agree to hold confidential the terms and provisions of this Agreement and the Related Agreement and the terms of the transactions contemplated hereby and thereby. Notwithstanding the foregoing, nothing in this Section 10.8 shall prevent either party or its

Affiliates from (a) making any public announcement or disclosure required by Law or the rules of any stock exchange or other regulatory authority, (b) discussing this Agreement or any of the Related Agreements or its contents or the transactions contemplated hereby or thereby with officers, directors, employees, representatives and agents of such party and its Affiliates and with those Persons whose approval, agreement or opinion, as the case may be, is required for consummation of such particular transaction or transactions, or (c) enforcing its rights hereunder.

10.9 Further Assurances. Upon the reasonable request of Purchaser, Seller shall execute and deliver, and cause to be executed and delivered, to Purchaser such deeds, assignments and other instruments as may be reasonably requested by Purchaser and are required to effectuate completely the transfer and assignment to Purchaser of Seller's right, title and interest in and to the Acquired Assets.

10.10 Severability. If any provision of this Agreement shall be held invalid, illegal or unenforceable, the validity, legality or enforceability of the other provisions hereof shall not be affected thereby, and there shall be deemed substituted for the provision at issue a valid, legal and enforceable provision as similar

as possible to the provision at issue.

10.11 Entire Understanding. This Agreement, the Related Agreements and the Non-Disclosure Agreement between Seller and Purchaser dated as of June 2, 2002 set forth the entire agreement and understanding of the parties hereto with respect to the transactions contemplated hereby and supersede any and all prior agreements, arrangements and understandings among the parties relating to the subject matter hereof.

10.12 Language. Seller and Purchaser agree that the language used in this Agreement is the language chosen by the parties to express their mutual intent, and that no rule of strict construction is to be applied against Seller or Purchaser.

10.13 Applicable Law. This Agreement shall be governed by and construed and enforced in accordance with the internal Laws of the State of Virginia without giving effect to the principles of conflicts of law thereof.

10.14 Remittances. All remittances, payments, mail and other communications relating to the Acquired Assets or the Assumed Obligations received by Seller shall be promptly turned over to Purchaser by Seller. All remittances, payments, mail and other communications relating to the Excluded Assets or the Excluded Obligations received by Purchaser shall be promptly turned over to Seller by Purchaser.

10.15 Bulk Sales. Purchaser hereby waives compliance by Seller with the provisions of the Laws of any jurisdiction relating to the bulk sale or transfer of assets that may be applicable to the transfer of the Acquired Assets.

10.16 Jurisdiction of Disputes; Waiver of Jury Trial. In the event any party to this Agreement commences any litigation, proceeding or other legal action in connection with or relating to this Agreement, any Related Agreement or any matters contemplated hereby or thereby, each party to this Agreement hereby (a) agrees that any such litigation, proceeding or other legal action may be brought in a federal court of competent jurisdiction located within the Eastern District of Virginia; (b) agrees that in connection with any such litigation, proceeding or action, such party will consent and submit to personal jurisdiction in any such court described in clause (a) of this Section 10.16 and to service of process upon it in accordance with the rules and statutes governing service of process; (c) agrees to waive to the full extent permitted by Law any objection that it may now or hereafter have to the venue of any such litigation, proceeding or action in any such court or that any such litigation, proceeding or action was brought in an inconvenient forum; (d) agrees as an alternative method of service to service of process in any such litigation, proceeding or action by mailing of copies thereof to such party at its address set forth in Section 10.3; (e) agrees that any service made as provided herein shall be effective and binding service in every respect; and (f) agrees that nothing herein shall affect the rights of either

party to effect service of process in any other manner permitted by Law. EACH PARTY HERETO WAIVES THE RIGHT TO A TRIAL BY JURY IN ANY DISPUTE IN CONNECTION WITH OR RELATING TO THIS AGREEMENT, ANY RELATED AGREEMENT OR ANY MATTERS CONTEMPLATED HEREBY OR THEREBY, AND AGREES TO TAKE ANY AND ALL ACTION(S) NECESSARY OR APPROPRIATE TO EFFECT SUCH WAIVER.

10.17 Schedules. Any information disclosed pursuant to any Schedule hereto or otherwise disclosed to Purchaser in writing shall be deemed to be disclosed to Purchaser for all purposes of this Agreement and the Related Agreements. Neither the specification of any Dollar amount or any item or matter in any provision of this Agreement nor the inclusion of any specific item or matter in any Schedule hereto is intended to imply that such amount, or higher or lower amounts, or the item or matter so specified or included, or other items or matters, are or are not material, and no party shall use the fact of the specification of any such amount or the specification or inclusion of any such item or matter in any dispute or controversy between the parties as to whether any item or matter not specified herein or included in any Schedule hereto is or is not material for purposes of this Agreement or any Related Agreements. Neither the specification of any item or matter in any provision of this Agreement nor the inclusion of any specific item or matter in any Schedule hereto is intended to imply that such item or matter, or other items or matters, are or are not in the ordinary course of business, and no party shall use the fact of the specification or the inclusion of any such item or matter in any dispute or controversy between the parties as to whether any item or matter not specified herein or included in any Schedule hereto is or is not in the ordinary course of business for purposes of this Agreement or any Related Agreements. Seller may, from time to time prior to or on each Migration Date, by notice in accordance with the terms of this Agreement, supplement or amend any Schedule hereto, including one or more supplements or amendments to correct any matter which would constitute a breach of any representation, warranty, covenant or obligation contained herein. If, however, Seller and Purchaser effect the transfer of the Assets scheduled to be transferred by Seller to Purchaser on such Migration Date, any such supplement and amendment will be effective to cure and correct for all other purposes any breach of any representation, warranty, covenant or obligation which would have existed if Seller had not made such supplement or amendment, and all references to any Schedule hereto which is supplemented or amended as provided in this Section 10.17 shall for all purposes after the applicable Migration Date be deemed to be a reference to such Schedule as so supplemented or amended, provided that no such supplement or amendment made after a Migration Date shall cure any breach existing on any prior Migration Date with respect to the Acquired Assets transferred by Seller to Purchaser on such prior Migration Date.

10.18 Disclaimer of Warranties. Seller makes no representations or warranties with respect to any projections, forecasts or forward-looking statements provided to Purchaser. There is no assurance that any projected or forecasted results will be achieved. EXCEPT TO THE EXTENT OF THE EXPRESS REPRESENTATIONS AND WARRANTIES CONTAINED IN ARTICLE IV, SELLER IS SELLING THE ACQUIRED ASSETS ON AN "AS IS, WHERE IS" BASIS AND DISCLAIMS ALL OTHER WARRANTIES, REPRESENTATIONS AND GUARANTEES, WHETHER EXPRESS OR IMPLIED. SELLER MAKES NO REPRESENTATION OR WARRANTY AS TO MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE AND NO IMPLIED WARRANTIES WHATSOEVER. Purchaser acknowledges and agrees that neither Seller, its Affiliates, any of their respective representatives nor any other Person has made any representation or warranty, express or implied, as to the accuracy or completeness of any memoranda, charts, summaries, schedules or other information heretofore made available by Seller, its Affiliates or their respective representatives to Purchaser, any of its Affiliates or their representatives or any information that is not included in this Agreement or the Schedules hereto, and neither Seller, its Affiliates, any of their respective representatives nor any other Person will have or be subject to any liability to Purchaser, any of its Affiliates or their representatives resulting from the distribution of any such information to, or

the use of any such information by, Purchaser, any of its Affiliates or any of their agents, consultants, accountants, counsel or other representatives.

10.19 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

10.20 No Recourse. In no event shall Purchaser have any recourse against any individual named on Schedule 1.1 personally under, related to, in connection with, or arising out of, this Agreement, including with respect to any representation and warranty in this Agreement or any of the Related Agreements, and Purchaser irrevocably releases all such individuals from any personal liability or obligation under, related to, in connection with, or arising out of this Agreement and the Related Agreements.

* * *

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered as of the date first above written.

CABLE & WIRELESS USA, INC.

By: /s/ PATRICIA Y. LEE

Name: Patricia Y. Lee

Title: Vice President and Associate General Counsel, Assistant Secretary

PRIMUS TELECOMMUNICATIONS, INC.

By: /s/ JAY ROSENBLATT

Name: Jay Rosenblatt

Title: Co-President

[Signature Page for Customer Transfer Agreement]

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Exhibit 99.1

CERTIFICATION

Pursuant to Section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002 (18 U.S.C. § 1350, as adopted), K. Paul Singh, the Chief Executive Officer of Primus Telecommunications Group, Incorporated (the "Company"), and Neil L. Hazard, the Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended September 30, 2002, to which this Certification is attached as Exhibit 99.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Periodic Report and results of operations of the Company for the period covered by the Periodic Report.

Dated: November 14, 2002

/s/ K. PAUL SINGH	/s/ NEIL L. HAZARD
K. Paul Singh Chairman, President and Chief Executive Officer (Principal Executive Officer) and Director	Neil L. Hazard Executive Vice President, Chief Operating Officer, and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

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Exhibit 99.1

CERTIFICATION