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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 June 30, 2002

OR

- 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

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 July 31, 2002 |
|------------------------------|------------------------------------|
| Common Stock \$.01 par value | 64,854,835 |

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 June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|------------|------------------------------|------------|
| | 2002 | 2001 | 2002 | 2001 |
| NET REVENUE | \$ 251,244 | \$ 271,083 | \$ 495,911 | \$ 551,088 |
| COST OF REVENUE | 165,904 | 195,063 | 327,462 | 403,425 |
| GROSS MARGIN | 85,340 | 76,020 | 168,449 | 147,663 |
| OPERATING EXPENSES | | | | |
| Selling, general and administrative | 61,535 | 78,838 | 123,514 | 163,711 |
| Depreciation and amortization | 20,126 | 36,992 | 40,308 | 73,463 |
| Total operating expenses | 81,661 | 115,830 | 163,822 | 237,174 |
| INCOME (LOSS) FROM OPERATIONS | 3,679 | (39,810) | 4,627 | (89,511) |
| INTEREST EXPENSE | (16,830) | (29,296) | (34,523) | (60,503) |
| INTEREST INCOME AND OTHER INCOME (EXPENSE) | 1,577 | (451) | 1,157 | (11,940) |
| LOSS BEFORE INCOME TAX BENEFIT | (11,574) | (69,557) | (28,739) | (161,954) |
| INCOME TAX BENEFIT | — | — | 10,668 | — |
| LOSS BEFORE EXTRAORDINARY ITEM | (11,574) | (69,557) | (18,071) | (161,954) |
| GAIN ON EARLY EXTINGUISHMENT OF DEBT | — | 185,662 | 27,251 | 291,757 |
| NET INCOME (LOSS) | \$ (11,574) | \$ 116,105 | \$ 9,180 | \$ 129,803 |
| INCOME (LOSS) PER COMMON SHARE: | | | | |
| Basic and diluted: | | | | |
| Loss before extraordinary item | \$ (0.18) | \$ (1.33) | \$ (0.28) | \$ (3.15) |
| Gain on early extinguishment of debt | — | 3.54 | 0.42 | 5.68 |
| Net income (loss) | \$ (0.18) | \$ 2.21 | \$ 0.14 | \$ 2.53 |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 64,821 | 52,436 | 64,367 | 51,404 |

See notes to consolidated condensed financial statements.

CONSOLIDATED CONDENSED BALANCE SHEETS
(in thousands, except share amounts)
(unaudited)

| | June 30, 2002 | December 31, 2001 |
|--|-------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 62,196 | \$ 83,953 |
| Marketable securities | — | 538 |
| Accounts receivable (net of allowance for doubtful accounts receivable of \$26,001 and \$22,389) | 200,341 | 190,293 |
| Prepaid expenses and other current assets | 43,130 | 34,170 |
| Total current assets | 305,667 | 308,954 |
| RESTRICTED CASH | 5,463 | 4,961 |
| PROPERTY AND EQUIPMENT — Net | 362,492 | 375,464 |
| GOODWILL — Net | 65,556 | 63,385 |
| OTHER INTANGIBLE ASSETS — Net | 35,629 | 46,115 |
| OTHER ASSETS | 16,142 | 17,335 |
| TOTAL ASSETS | \$ 790,949 | \$ 816,214 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 102,464 | \$ 118,176 |
| Accrued interconnection costs | 121,301 | 105,872 |
| Accrued expenses and other current liabilities | 78,325 | 74,754 |
| Accrued interest | 18,317 | 20,746 |
| Current portion of long-term obligations | 63,203 | 51,996 |
| Total current liabilities | 383,610 | 371,544 |
| LONG-TERM OBLIGATIONS | 551,432 | 615,591 |
| OTHER LIABILITIES | 6,988 | 7,563 |
| Total liabilities | 942,030 | 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 64,840,203 and 63,457,554 shares | 648 | 635 |
| Additional paid-in capital | 607,939 | 607,123 |
| Accumulated deficit | (696,049) | (705,229) |
| Accumulated other comprehensive loss | (63,619) | (81,013) |
| Total stockholders' deficit | (151,081) | (178,484) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ 790,949 | \$ 816,214 |

See notes to consolidated condensed financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|------------|
| | 2002 | 2001 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 9,180 | \$ 129,803 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation, amortization and accretion | 40,385 | 73,644 |
| Allowance for doubtful accounts receivable | 11,931 | 22,886 |
| Stock issuance — 401(k) Plan and Restricted Stock Plan | — | 132 |
| Minority interest share of income (loss) | (370) | 68 |
| Marketable securities write-off | — | 15,000 |

| | | |
|--|------------------|-------------------|
| Deferred income taxes | (5,668) | — |
| Gain on early extinguishment of debt | (27,251) | (291,757) |
| Changes in assets and liabilities, net of acquisitions: | | |
| Increase in accounts receivable | (8,160) | (5,168) |
| Increase in prepaid expenses and other current assets | (1,181) | (8,135) |
| Decrease in other assets | 2,489 | 2,847 |
| Decrease in accounts payable | (22,525) | (17,542) |
| (Increase) decrease in accrued expenses, other current liabilities and other liabilities | 8,299 | (34,017) |
| Decrease in accrued interest payable | (1,011) | (7,735) |
| Sale of trading marketable securities | 532 | — |
| | <u>6,650</u> | <u>(119,974)</u> |
| Net cash provided by (used in) operating activities | 6,650 | (119,974) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (13,350) | (61,997) |
| Cash used for business acquisitions, net of cash acquired | (348) | (863) |
| | <u>(13,698)</u> | <u>(62,860)</u> |
| Net cash used in investing activities | (13,698) | (62,860) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of long-term obligations | 9,509 | — |
| Purchase of the Company's debt securities | (4,383) | (63,854) |
| Principal payments on capital leases, vendor financing and other long-term obligations | (21,224) | (7,113) |
| Proceeds from sale of common stock | 86 | 10,390 |
| | <u>(16,012)</u> | <u>(60,577)</u> |
| Net cash used in financing activities | (16,012) | (60,577) |
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 1,303 | 556 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (21,757) | (242,855) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 83,953 | 398,378 |
| | <u>\$ 62,196</u> | <u>\$ 155,523</u> |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 62,196 | \$ 155,523 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Cash paid for interest | \$ 34,373 | \$ 70,597 |

See notes to consolidated condensed financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|----------------|------------------------------|----------------|
| | 2002 | 2001 | 2002 | 2001 |
| NET INCOME (LOSS) | \$ (11,574) | \$ 116,105 | \$ 9,180 | \$ 129,803 |
| OTHER COMPREHENSIVE INCOME — | | | | |
| Foreign currency translation adjustment | 15,665 | 4,667 | 17,394 | (36,281) |
| Unrealized gain (loss) on marketable securities: | | | | |
| Unrealized holding loss arising during period | — | — | — | (747) |
| Reclassification adjustment for loss included in net loss | — | — | — | 15,000 |
| | <u>4,091</u> | <u>120,772</u> | <u>26,574</u> | <u>107,775</u> |
| COMPREHENSIVE INCOME | \$ 4,091 | \$ 120,772 | \$ 26,574 | \$ 107,775 |

See notes to consolidated condensed financial statements.

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PART I. FINANCIAL INFORMATION

ITEM 1. 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 for the interim periods. The results for the six months ended June 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.

Simultaneously with the filing of this Form 10-Q, the Company is revising 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 in the first quarter 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"), 37% of Bekkoame Internet, Inc. ("Bekko"), and 60% of Direct Internet Private Limited ("DIPL"), in all of which the Company has a controlling interest. 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.

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. We do not expect the adoption of SFAS No. 146 to have a material effect on our consolidated financial position, results of operations, or cash flows.

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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 must be reclassified to other income or expense. 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 first quarter of fiscal year 2003. For the six months ended June 30, 2002, the Company recorded extraordinary gains on the early extinguishment of debt \$27.3 million. 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 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. 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 impairment tests during the second quarter of 2002. Based on the results of this test, there are indicators that a potential impairment of goodwill within the Company's European segment may have to be recognized. The Company will measure and record the potential impairment loss, if any, by December 31, 2002. Although the amount of the potential loss has not been determined, goodwill related to the European segment as of June 30, 2002 is \$17.7 million.

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

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(3) Goodwill and Other Intangible Assets

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

| | June 30, 2002 | | December 31, 2001 | |
|----------------|-----------------------|--------------------------|-----------------------|--------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Customer lists | \$ 145,890 | \$ (111,095) | \$ 139,771 | \$ (96,955) |
| Other | 2,084 | (1,250) | 4,961 | (1,662) |
| Total | \$ 147,974 | \$ (112,345) | \$ 144,732 | \$ (98,617) |

Amortization expense for customer lists and other intangible assets for the six months ended June 30, 2002 and 2001 was \$10.4 million and \$17.4 million, respectively. Amortization expense for goodwill for the six months ended June 30, 2001 was \$12.2 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):

| | June 30, 2002 | December 31, 2001 |
|----------|---------------------|---------------------|
| | Net Carrying Amount | Net Carrying Amount |
| Goodwill | \$65,556 | \$63,385 |

The changes in the carrying amount of goodwill for the three-month periods ended 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 |
| 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 |

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, we assumed a zero percent effective tax rate applied to the deductible goodwill as all of our 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 June 30, 2001 | For the Six Months Ended June 30, 2001 |
|---|--|--|
| | (unaudited) | (unaudited) |
| | (in thousands, except per share amounts) | |
| Reported net income | \$ 116,105 | \$ 129,803 |
| Add: goodwill amortization, net of income tax | 5,671 | 12,176 |
| Adjusted net income | 121,776 | 141,979 |
| Less: gain on early extinguishment of debt | (185,662) | (291,757) |
| Adjusted loss before extraordinary item | \$ (63,886) | \$ (149,778) |
| Reported income (loss) per common share: | | |
| Basic and diluted: | | |
| Loss before extraordinary item | \$ (1.33) | \$ (3.15) |
| Gain on early extinguishment of debt, net of income taxes | 3.54 | 5.68 |

| | | | | |
|---|----|--------|----|--------|
| Net income | \$ | 2.21 | \$ | 2.53 |
| Add: goodwill amortization, net of income tax | \$ | 0.11 | \$ | 0.24 |
| Adjusted income (loss) per common share: | | | | |
| Basic and diluted: | | | | |
| Loss before extraordinary item | \$ | (1.22) | \$ | (2.91) |
| Gain on early extinguishment of debt, net of income taxes | | 3.54 | | 5.68 |
| Net income | \$ | 2.32 | \$ | 2.77 |
| Weighted average number of common shares outstanding | | 52,436 | | 51,404 |

(4) Long-Term Obligations

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

| | June 30, 2002 | December 31 2001 |
|--|------------------|---------------------|
| (unaudited) | | |
| Obligations under capital leases | \$ 12,159 | \$ 28,754 |
| Equipment financing | 72,234 | 71,492 |
| Leased fiber capacity | 35,003 | 53,713 |
| Accounts receivable financing facility and other | 34,372 | 20,365 |
| Senior notes | 389,748 | 422,144 |
| Convertible subordinated debentures | 71,119 | 71,119 |
| Subtotal | 614,635 | 667,587 |
| Less: Current portion of long-term obligations | (63,203) | (51,996) |
| Total long-term obligations | \$ 551,432 | \$ 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 5³/₄% 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 \$36.4 million in principal amount of the 2000 Convertible Debentures that had been previously purchased by the Company in December 2000 and January 2001. 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 12³/₄% 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 2002, the Company retired \$6.8 million in principal amount of the October 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.

In January 1999, the Company completed the sale of \$200 million aggregate principal amount of 11¹/₄% 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 11¹/₄% 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 9⁷/₈% 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

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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 August 4, 1997, the Company completed the sale of \$225 million 11³/₄% 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 six months ended June 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 six months ended June 30, 2002

| | Balance at December 31, 2001 | Principal Purchases | Conversion to Common Stock | Warrant Amortization | Balance at June 30, 2002 | Cash Paid for Purchase of Principal |
|---|---------------------------------|------------------------|-------------------------------|-------------------------|-----------------------------|--|
| 2000 5 ³ / ₄ % Convertible Debentures due 2007 | \$ 71,119,000 | \$ — | \$ — | \$ — | \$ 71,119,000 | \$ — |
| October 1999 12 ³ / ₄ % Senior Notes due 2009 | 126,680,000 | (11,000,000) | — | — | 115,680,000 | 1,485,000 |
| January 1999 11 ¹ / ₄ % Senior Notes due 2009 | 139,587,000 | (21,467,000) | — | — | 118,120,000 | 2,898,045 |
| 1998 9 ⁷ / ₈ % Senior Notes due 2008 | 69,020,000 | — | — | — | 69,020,000 | — |
| 1997 11 ³ / ₄ % Senior Notes due 2004 | 86,857,345 | — | — | 70,191 | 86,927,536 | — |
| Total | \$ 493,263,345 | \$ (32,467,000) | \$ — | \$ 70,191 | \$ 460,866,536 | \$ 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 ³ / ₄ % Convertible Debentures due 2007 | \$ 296,610,000 | \$ (33,027,000) | \$ (192,464,000) | \$ — | \$ 71,119,000 | \$ 65,147,343 |
| October 1999 12 ³ / ₄ % Senior Notes due 2009 | 239,350,000 | (112,670,000) | — | — | 126,680,000 | 25,806,250 |
| January 1999 11 ¹ / ₄ % Senior Notes due 2009 | 245,467,000 | (105,880,000) | — | — | 139,587,000 | 24,032,724 |
| 1998 9 ⁷ / ₈ % Senior Notes due 2008 | 150,000,000 | (80,980,000) | — | — | 69,020,000 | 18,694,158 |
| 1997 11 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 |

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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 June 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 June 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 (7.84% at June 30, 2002). At June 30, 2002, the Company had a liability recorded under this agreement in the amount of \$12.4 million.

In December 2000, the Company entered into a financing arrangement to purchase fiber optic capacity on an IRU basis in Australia for \$28.8 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 June 30, 2002, the Company had a liability recorded in the amount of \$17.1 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 June 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 June 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 \$30.3 million (21.3 million British pounds) in financing to fund the purchase of network equipment, secured by the equipment purchased. At June 30, 2002 and December 31, 2001

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\$18.5 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% (10.47% at June 30, 2002) for 50% of the capital and at 3.8% above LIBOR (8.47% at June 30, 2002) for the other 50%, and are payable over a five-year term. The Company had liabilities recorded at June 30, 2002 and December 31, 2001 of \$14.5 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 June 30, 2002 and December 31, 2001, \$12.7 million was utilized under this facility. The Company had liabilities recorded at June 30, 2002 and December 31, 2001 of \$12.7 million. 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%.

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 \$13.7 million as collateral as of June 30, 2002, and recorded a liability of \$11.6 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 (10.71% at June 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 \$15.9 million and \$17.4 million of its accounts receivable as collateral as of June 30, 2002 and December 31, 2001, respectively, and recorded a liability of \$11.6 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 July 2003 and bears fees at a rate of Canada Prime Rate plus 3.25% (7.5% at June 30, 2002), plus an additional \$297,777 (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.

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

Three Months Ended June 30,

| | 2002 | 2001 |
|--------------------------------------|------------------|----------------------|
| | (unaudited) | |
| Net Revenue | | |
| North America | | |
| United States | \$ 48,352 | \$ 72,490 |
| Canada | 40,525 | 42,472 |
| Other | 1,740 | 2,255 |
| Total North America | 90,617 | 117,217 |
| Europe | | |
| United Kingdom | 37,007 | 34,818 |
| Germany | 17,336 | 24,501 |
| Netherlands | 14,502 | 2,564 |
| Other | 22,208 | 25,605 |
| Total Europe | 91,053 | 87,488 |
| Asia-Pacific | | |
| Australia | 64,822 | 59,944 |
| Other | 4,752 | 6,434 |
| Total Asia-Pacific | 69,574 | 66,378 |
| Total | \$ 251,244 | \$ 271,083 |
| Income (Loss) From Operations | | |
| North America | \$ (1,540) | \$ (20,706) |
| Europe | 905 | (15,447) |
| Asia-Pacific | 4,314 | (3,657) |
| Total | \$ 3,679 | \$ (39,810) |
| | June 30, 2002 | December 31, 2001 |
| | (unaudited) | |
| Assets | | |
| North America | | |
| United States | \$ 223,532 | \$ 264,149 |
| Canada | 99,791 | 112,483 |
| Other | 9,001 | 10,379 |
| Total North America | 332,324 | 387,011 |
| Europe | | |
| United Kingdom | 152,486 | 143,582 |
| Germany | 42,159 | 62,892 |
| Netherlands | 47,983 | 37,651 |
| Other | 15,528 | (8,332) |
| Total Europe | 258,156 | 235,793 |
| Asia-Pacific | | |
| Australia | 162,284 | 158,902 |
| Other | 38,185 | 34,508 |
| Total Asia-Pacific | 200,469 | 193,410 |
| Total | \$ 790,949 | \$ 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):

| | 2002 | 2001 | 2002 | 2001 |
|---------------|-------------|------------|-------------|------------|
| | (unaudited) | | (unaudited) | |
| Voice | \$ 208,911 | \$ 233,496 | \$ 412,159 | \$ 481,408 |
| Data/Internet | 28,697 | 28,210 | 57,146 | 52,876 |
| VoIP | 13,636 | 9,377 | 26,606 | 16,804 |
| Total | \$ 251,244 | \$ 271,083 | \$ 495,911 | \$ 551,088 |

(6) Commitments and Contingencies

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 \$1.3 million under the agreement as of June 30, 2002, and is scheduled to receive delivery of all capacity by May 2003.

On December 9, 1999, Empresa Hondurena de Telecomunicaciones, S.A., 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. 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 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.

(7) Subsequent Events

None

(8) Restatement of Financial Statements

Simultaneously with the filing of this Form 10-Q, the Company is revising its results for the three month period ended March 31, 2002 by filing a Form 10-Q/A for that period. In this Form 10Q, references or comparisons to the results in the first quarter 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 have been restated from the amounts previously reported to correct the accounting for this transaction. 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) |

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"), e-commerce, Web hosting, enhanced application, VoIP, virtual private network ("VPN") 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 and Internet traffic. The Company provides services over its network, which consists of (i) 21 carrier-grade switches, including 14 international gateway switches in the United States, Australia, Canada, France, Germany, Japan, Puerto Rico and the United Kingdom and three domestic switches in the United States and four domestic switches in Australia; (ii) more than 300 points of presence (POPs) and Internet access nodes 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 2.4 million 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." Through various cost-cutting programs, Primus has realized significant savings in sales and marketing expenses, salaries and benefits, occupancy costs and other administrative expenses.

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.

Other Operating Data

The following information for the three months ended June 30, 2002 and 2001 (in thousands) is provided for informational purposes and should be read in conjunction with the unaudited

| | Net Revenue | Minutes of Long Distance Use | | |
|---------------|-------------|------------------------------|----------|-----------|
| | | International | Domestic | Total |
| North America | \$ 90,617 | 387,061 | 543,606 | 930,667 |
| Europe | 91,053 | 539,849 | 233,466 | 773,315 |
| Asia-Pacific | 69,574 | 47,018 | 166,296 | 213,314 |
| Total | \$ 251,244 | 973,928 | 943,368 | 1,917,296 |

Three Months Ended June 30, 2001

| | Net Revenue | Minutes of Long Distance Use | | |
|---------------|-------------|------------------------------|----------|-----------|
| | | International | Domestic | Total |
| North America | \$ 117,217 | 502,644 | 548,220 | 1,050,864 |
| Europe | 87,488 | 518,206 | 271,637 | 789,843 |
| Asia-Pacific | 66,378 | 50,115 | 160,295 | 210,410 |
| Total | \$ 271,083 | 1,070,965 | 980,152 | 2,051,117 |

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

Net revenue decreased \$19.8 million or 7% to \$251.2 million for the three months ended June 30, 2002 from \$271.1 million for the three months ended June 30, 2001. The Company's data/Internet and VoIP revenue contributed \$28.7 million and \$13.6 million, respectively, for the three months ended June 30, 2002, as compared to \$28.2 million and \$9.4 million, respectively, for the three months ended June 30, 2001.

North America: North American net revenue decreased \$26.6 million or 23% to \$90.6 million for the three months ended June 30, 2002 from \$117.2 million for the three months ended June 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 \$20.8 million, or 57.3% from the same period last year. Additionally, a decrease of \$4.7 million in retail voice traffic in the United States and Canada along with a decrease of \$1.1 million in data/Internet revenue, and 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 \$3.6 million or 4% to \$91.1 million for the three months ended June 30, 2002 from \$87.5 million for the three months ended June 30, 2001. The European net revenue increase is mainly attributable to a \$4.9 million increase in the usage of prepaid cards. The increase is also attributed to a \$1.0 million net increase in carrier services in Italy and United Kingdom offset by a decrease in Germany, as well as the positive impact of strengthening foreign currency exchange rates against the United States dollar. The increase is also partially offset by a decrease of \$2.5 million in Germany's mobile business and \$0.6 million decline in data/Internet revenue.

Asia-Pacific: Asia-Pacific net revenue increased \$3.2 million or 5% to \$69.6 million for the three months ended June 30, 2002 from \$66.4 million for the three months ended June 30, 2001. The increase is primarily attributable to an increase of \$4.9 million from the Company's Australian operation, of which \$4.5 million is associated with the positive impact of strengthening

Australian dollar against the United States dollar. The increase is partially offset by a decrease of \$1.9 million in the Company's Japanese operation which primarily resulted from a decline in its data and Internet services.

Cost of revenue decreased \$29.2 million to \$165.9 million, or 66.0% of net revenue, for the three months ended June 30, 2002 from \$195.1 million, or 72.0% of net revenue, for the three months ended June 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 34.0% for the three months ended June 30, 2002 from 28.0% for the three months ended June 30, 2001, due to a reduction in the lower-margin wholesale business as well as improved efficiencies in network routing by diversifying the Company's base of traffic suppliers, frequently evaluating and eliminating under-utilized fixed circuit costs, and increasing the utilization of the Company's own network.

Selling, general and administrative expenses decreased \$17.3 million to \$61.5 million, or 24.5% of net revenue, for the three months ended June 30, 2002 from \$78.8 million, or 29.1% of net revenue, for the three months ended June 30, 2001. The decrease is primarily attributable to a \$7.6 million reduction in salaries and benefits, a reduction of \$4.4 million in general and administrative expenses, and a reduction of \$3.3 million in sales and marketing. 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, sales and marketing, and to a lesser extent, professional services and travel expenses is a result of management initiatives to reduce overhead spending.

Depreciation and amortization expense decreased \$16.9 million to \$20.1 million for the three months ended June 30, 2002 from \$37.0 million for the three months ended June 30, 2001. The decrease consists of reductions of \$8.9 million in amortization expense and \$8.0 million in depreciation expense. The decrease is primarily associated with the Company's asset impairment write-down of \$526.3 million during the fourth quarter of 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 June 30, 2001 was \$5.7 million. The Company performed the first of the impairment tests required by SFAS No. 142 during the second quarter of 2002. Based on the results of this test, there are indicators that a potential impairment of goodwill within the Company's European segment may have to be recognized. The Company will measure and record the potential impairment loss, if any, by

December 31, 2002. Although the amount of the potential loss has not been determined, goodwill related to the European segment as of June 30, 2002 is \$17.7 million.

Interest expense decreased \$12.5 million to \$16.8 million for the three months ended June 30, 2002 from \$29.3 million for the three months ended June 30, 2001. The decrease is primarily attributed to \$11.3 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. The decrease is also attributed to a reduction of \$1.3 million in interest expense related to capital leases.

Interest and other income (expense) increased to an income of \$1.6 million for the three months ended June 30, 2002 from an expense of \$0.5 million for the three months ended June 30, 2001. The increase is primarily attributed to a loss of \$2.5 million associated with asset disposals during the three months ended June 30, 2001, and to a lesser extent, the increase of \$1.1 million in foreign currency transaction gains resulted from the positive impact of strengthening foreign exchange rates against the United States dollar. The increase is partially offset by the decrease of \$2.2 million in interest income due to a lower cash balance during the three months ended June 30, 2002.

Gain on early extinguishment of debt for the three months ended June 30, 2001 was \$185.7 million. This gain resulted from the Company's purchase of \$244.8 million in principal amount of high-yield debt, prior to maturity, for \$52.2 million in cash.

Results of operations for the six months ended June 30, 2002 as compared to the six months ended June 30, 2001.

Net revenue decreased \$55.2 million or 10% to \$495.9 million for the six months ended June 30, 2002 from \$551.1 million for the six months ended June 30, 2001. The Company's data/Internet and VoIP revenue contributed \$57.1 million and \$26.6 million, respectively, for the six months ended June 30, 2002, as compared to \$52.9 million and \$16.8 million, respectively, for the six months ended June 30, 2001.

North America: North American net revenue decreased \$56.8 million or 23% to \$185.8 million for the six months ended June 30, 2002 from \$242.6 million for the six months ended June 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 \$46.4 million, or 57.5% from the same period last year. Additionally, a decrease of \$4.3 million in retail voice traffic in the United States and Canada, a decrease of \$2.1 million in net revenue from data/Internet services, and a decrease of \$2.2 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 \$5.3 million or 3% to \$175.2 million for the six months ended June 30, 2002 from \$169.9 million for the six months ended June 30, 2001. The European net revenue increase is mainly attributed to an increase of \$11.7 million in carrier services in Italy, Denmark, France, Switzerland, Spain and United Kingdom, along with an increase of \$9.8 million in the usage of prepaid cards. The increase is also attributed to the positive impact of strengthening foreign currency exchange rates against the United States dollar. The increase is offset by a reduction of \$10.1 million associated with the decline in net revenue for carrier services in Germany and Germany's mobile operations. Also, there was a reduction of \$3.7 million in the net revenue of the Company's international agents operations, and a reduction of \$1.0 million associated with the decline in the data and Internet revenue in France and Spain.

Asia-Pacific: Asia-Pacific net revenue decreased \$3.6 million or 3% to \$135.0 million for the six months ended June 30, 2002 from \$138.6 million for the six months ended June 30, 2001. The decrease is primarily attributable to the decrease of \$4.1 million in the Company's operations in Japan. The decrease is partially offset by an increase of \$0.3 million in the Company's operations in India.

Cost of revenue decreased \$76.0 million to \$327.5 million, or 66.0% of net revenue, for the six months ended June 30, 2002 from \$403.4 million, or 73.2% of net revenue, for the six months ended June 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 34.0% for the six months ended June 30, 2002 from 26.8% for the six months ended June 30, 2001, due to a reduction in the lower-margin wholesale business as well as improved efficiencies in network routing by diversifying the Company's base of traffic suppliers, frequently evaluating and eliminating under-utilized fixed circuit costs, and increasing the utilization of the Company's own network.

Selling, general and administrative expenses decreased \$40.2 million to \$123.5 million, or 24.9% of net revenue, for the six months ended June 30, 2002 from \$163.7 million, or 29.7% of net revenue, for the six months ended June 30, 2001. The decrease is primarily attributable to an \$18.9 million

reduction in salaries and benefits, a reduction of \$8.4 million in general and administrative expenses, and a reduction of \$8.0 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, professional services and travel expenses is a result of management initiatives to reduce overhead spending.

Depreciation and amortization expense decreased \$33.1 million to \$40.3 million for the six months ended June 30, 2002 from \$73.5 million for the six months ended June 30, 2001. The decrease consists of reductions of \$19.1 million in amortization expense and \$14.0 million in depreciation expense. The decrease is primarily associated with the Company's asset impairment write-down of \$526.3 million during the fourth quarter of 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 six months ended June 30, 2001 was \$12.2 million. The Company performed the first of the impairment tests required by SFAS No. 142 during the second quarter of 2002. Based on the results of this test, there are indicators that a potential impairment of goodwill within the Company's European segment may have to be recognized. The Company will measure and record the potential impairment loss, if any, by December 31, 2002. Although the amount of the potential loss has not been determined, goodwill related to the European segment as of June 30, 2002 is \$17.7 million.

Interest expense decreased \$26.0 million to \$34.5 million for the six months ended June 30, 2002 from \$60.5 million for the six months ended June 30, 2001. The decrease is primarily attributed to \$26.0 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 \$1.2 million for the six months ended June 30, 2002 from an expense of \$11.9 million for the six months ended June 30, 2001. The increase is primarily associated with 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. The increase is also attributed to a loss of \$2.5 million associated with asset disposals during the three months ended June 30, 2001, and to a lesser extent, the increase of \$0.9 million in foreign currency transaction gains resulted from the positive impact of strengthening foreign exchange rates against the United States dollar. The increase is partially offset by the decrease of \$6.3 million in interest income due to a lower cash balance during the six months ended June 30, 2002.

Gain on early extinguishment of debt decreased to \$27.3 million for the six months ended June 30, 2002 from \$291.8 million for the six months ended June 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 earth stations and 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 \$6.7 million for the six months ended June 30, 2002 as compared to net cash used by operating activities of \$120.0 million for the six months ended June 30, 2001. The increase in operating cash generated was comprised of an increase in gross margin of \$20.8 million due to cost savings generated through network efficiencies, a decrease in sales, general and administrative expenses of \$40.2 million due to substantial cost savings measures, a decrease in interest expense of \$26.0 million, and \$40.9 million in additional funds generated from working capital.

Net cash used by investing activities was \$13.7 million for the six months ended June 30, 2002 compared to net cash used by investing activities of \$62.9 million for the six months ended June 30, 2001. Net cash used by investing activities during the six months ended June 30, 2002 included \$13.4 million of capital expenditures primarily for the enhancement of the Company's global network and back office support systems as compared to \$62.0 million during the six months ended June 30, 2001.

Net cash used by financing activities was \$16.0 million for the six months ended June 30, 2002 as compared to net cash used by financing activities of \$60.6 million for the six months ended June 30, 2001. During the six months ended June 30, 2002, cash used by financing activities was consisted of \$4.4 million for the purchase of certain of the Company's debt securities, \$21.2 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 six months ended June 30, 2001, cash used by financing activities was \$63.9 million for the purchase of certain of the Company's debt securities, \$7.1 million of payments on capital leases, vendor financing and other long-term obligations, offset by \$10.0 million in cash received from Inktomi Corporation in exchange for 2,862,254 shares of the Company's common stock.

As of June 30, 2002, the Company had \$614.6 million of indebtedness.

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 quarter 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 third quarter of 2002. As of June 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, \$62.2 million as of June 30, 2002, accounts receivable financing, 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 through March 2003. Nonetheless, the Company will continue to have significant debt and debt

service obligations. As of June 30, 2002, the Company has \$614.6 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 | \$ 22,448 | \$ 22,551 | \$ 2,172 | \$ 2,045 | \$ 49,216 |
| 2003 | 43,016 | 45,102 | 19,655 | 4,089 | 111,862 |

| | | | | | |
|---|------------|------------|-----------|-----------|------------|
| 2004 | 43,585 | 132,029 | 12,863 | 4,089 | 192,566 |
| 2005 | 28,357 | 34,853 | 328 | 4,089 | 67,627 |
| 2006 | 4,672 | 34,853 | 294 | 4,089 | 43,908 |
| Thereafter | 66 | 390,513 | 1,274 | 73,165 | 465,018 |
| | | | | | |
| Total Minimum Principal & Interest Payments | 142,144 | 659,901 | 36,586 | 91,566 | 930,197 |
| Less: Amount Representing Interest | (22,748) | (270,153) | (2,214) | (20,447) | (315,562) |
| | | | | | |
| | \$ 119,396 | \$ 389,748 | \$ 34,372 | \$ 71,119 | \$ 614,635 |

The Company maintains an active dialogue with certain holders of its debt securities regarding the consensual restructuring of those obligations and is currently attempting to renegotiate some of its equipment financing arrangements, which includes capital leases and vendor financing obligations with various vendors. 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 mutually 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 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 purchasing, refinancing or otherwise retiring certain of the Company's outstanding debt, debt exchanges, restructuring of obligations, financings, capital expenditure investments in the Company's network, systems and lines of business, and issuances of 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. We do 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 must be reclassified to other income or expense. 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 first quarter of fiscal year 2003. For the six months ended June 30, 2002, the Company recorded extraordinary gains on the early extinguishment of debt \$27.3 million. 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 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. 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 impairment tests during the second quarter of 2002. Based on the results of this test, there are indicators that a potential impairment of goodwill within the Company's European segment may have to be recognized. The Company will measure and record the potential impairment loss, if any, by December 31, 2002. Although the amount of the potential loss has not been determined, goodwill related to the European segment as of June 30, 2002 is \$17.7 million.

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, 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 our 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; 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 provisioning VoIP services; changes in the regulatory schemes and regulatory enforcement in the markets in which we operate; restrictions on our ability to follow certain strategies or complete certain transactions as a result of our capital structure or debt covenants; the inability to reduce debt significantly; risks associated with the 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, accounts receivable financing, 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 March 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, we may not be able to service our debt or other obligations and could, among other things, be required to seek protection under the bankruptcy laws of the United States or other similar laws in other countries.

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. If the Company continues to fail to satisfy the \$1 minimum bid price requirement but on August 13, 2002 satisfies certain of the Small Cap Market initial listing criteria, it will be given an additional 180-day period (through February 14, 2003) in order to satisfy the minimum \$1 bid price requirement. If the Company fails such requirements, 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 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 and data 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 and Internet 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, France 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 \$696.0 million as of June 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 put 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.

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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.

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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' equity (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, 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 June 30, 2002 was \$219 million.

The interest rate sensitivity table below summarizes our market risks associated with fluctuations in interest rates as of June 30, 2002 in U.S. 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 June 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 | \$ 13,647 | \$ 26,045 | \$ 118,441 | \$ 20,819 | \$ 3,569 | \$ 375,259 | \$ 557,780 |
| Average Interest Rate | 10% | 11% | 12% | 8% | 6% | 9% | 9% |
| Variable Rate | \$ 23,229 | \$ 8,665 | \$ 4,826 | \$ 4,826 | \$ 1,206 | — | \$ 42,752 |
| Average Interest Rate | 9% | 4% | 9% | 9% | 2% | — | 7% |

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On December 9, 1999, Empresa Hondurena de Telecomunicaciones, S.A., 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. 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 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.

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

At the Company's Annual Meeting of Stockholders held on June 6, 2002, the stockholders of the Company, holding 64,840,203 shares of record, elected Mr. K. Paul Singh and Mr. John F. DePodesta as directors of the Company. The voting results were as follows: 47,578,233 and 47,574,275 shares were in favor of Mr. K. Paul Singh and Mr. John F. DePodesta, respectively, no shares against either Mr. K. Paul Singh and Mr. John F. DePodesta, and 352,021 and 355,979 were withheld against Mr. K. Paul Singh and Mr. John F. DePodesta, respectively. David E. Hershberg, Nick Earle, John G. Puente, Douglas M. Karp and Pradman P. Kaul continued as directors of the Company after the meeting.

ITEM 5. OTHER INFORMATION

Effective May 10, 2002, Pradman P. Kaul, Chairman and Chief Executive Officer of Hughes Network Systems, was appointed to the Company's Board of Directors. The Company now has a seven-member Board of Directors with Mr. Kaul being the Company's fifth non-management Director. Additionally, at a meeting of the Company's Board of Directors held on May 1, 2002, David Hershberg was appointed to serve as a member of the Audit Committee, joining John Puente and Douglas Karp.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits (see index on page 33)
- (b) Reports on Form 8-K

Not applicable.

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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 August 14, 2002

By: /s/ NEIL L. HAZARD

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

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EXHIBIT INDEX

| Exhibit Number | Description |
|---------------------------|--|
| 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. |

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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 June 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: August 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)

QuickLinks

[Exhibit 99.1](#)

[CERTIFICATION](#)