

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2000

OR

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

Commission File No. 0-29-092

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## 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)

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
None	N/A

**Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, par value \$.01 per share**

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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Non-affiliates of Primus Telecommunications Group, Incorporated held 40,773,012 shares of Common Stock as of February 28, 2001. The fair market value of the stock held by non-affiliates is \$121,044,879 based on the sale price of the shares on February 28, 2001.

As of February 28, 2001, 52,188,437 shares of Common Stock, par value \$.01, were outstanding.

Documents Incorporated by Reference:

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Portions of the definitive Proxy Statement to be delivered to Stockholders in connection with the Annual Meeting of Stockholders are incorporated by reference into Part III.

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### PART I

#### ITEM 1. BUSINESS

##### General

We are a global facilities-based Total Service Provider offering bundled international and domestic Internet, data and voice services to business and residential retail customers and other carriers located in the United States, Canada, Brazil, the United Kingdom, continental Europe, Australia and Japan. We serve the 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 data and Internet traffic.

We primarily target customers with significant international long distance usage, including small- and medium-sized enterprises (SMEs), multinational corporations, ethnic residential customers and other telecommunications carriers and resellers. We also target Internet-based businesses as we deploy our global asynchronous transfer mode (ATM) + Internet protocol (IP) network. As of December 31, 2000, we had approximately 2.0 million customers. We provide our customers with a portfolio of competitively priced services, including:

- international and domestic long distance services and private networks;
- prepaid and calling cards, toll-free services and reorigination services;
- local services in Australia, Canada, Puerto Rico and the United States Virgin Islands;
- ATM+IP broadband services;
- dial-up, dedicated and high-speed Internet access;
- managed and shared Web hosting services and applications;
- voice over IP (VOIP) services;
- e-commerce applications and services; and
- co-location services.

By constructing and expanding our network, we have reduced costs, improved service reliability and increased flexibility to introduce new products and services. We believe that, as the volume of telecommunications traffic carried on our network increases, we should continue to improve profitability as we more fully utilize our network capacity and realize economies of scale. Currently, over 25 countries are connected directly to our network. We expect to continue to expand our data and voice network as customer demand justifies the capital investment.

## Strategy

Our objective is to become a leading global provider of international and domestic Internet, data, e-commerce and voice services. Key elements of our strategy include:

- *Provide One-Stop Shopping for Internet, Data and Voice Services:* We offer in selected markets, and intend to offer our customers in each of the markets we serve, a portfolio of bundled Internet, data and voice services. We typically enter international markets in the early stages of deregulation by initially offering international long distance voice services and subsequently expanding our portfolio of offerings to include Internet access and data services. By bundling our traditional voice services with data and Internet services, we believe that we will attract and retain a strong base of retail business and residential customers.

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- *Expand the Reach and Data Capabilities of Our Global Network:* Through the geographic expansion of our global network, we expect to be able to increase the amount of our on-net traffic and thereby continue to reduce transmission costs and operating costs as a percentage of revenue, improve gross margins, reduce reliance on other carriers, and improve service reliability. In addition, we are leveraging our existing network to provide an ATM, frame relay and IP-based data and voice communications over a global broadband ATM+IP network. We also offer Web hosting services at various locations in our core markets.
- *Build Base of Retail Customers with Significant International Communications Usage:* We are focused on building a retail customer base with significant demand for international Internet, data and voice services. These customers typically include small- and medium-sized enterprises, multinational corporations, Internet-based businesses and ethnic residential customers. We are particularly targeting SME customers worldwide by focusing on the need SMEs have for secure Internet and data services and e-commerce services and solutions. By offering high quality services at competitive prices through experienced sales and service representatives and bundling a comprehensive portfolio of communications services, we intend to further broaden our retail base.
- *Grow Through Selected Acquisitions, Joint Ventures and Strategic Investments:* As part of our business strategy, we frequently evaluate potential acquisitions, joint ventures and strategic investments, some of which may be material, with companies in the voice, data and Internet businesses. We view acquisitions, joint ventures and strategic investments as a means to enter additional markets, add new products and market segments, expand our operations within existing markets and generally accelerate the growth of our customer and revenue base. We target voice and data service providers, Internet service providers (ISPs) and Web hosting companies with an established customer base, complementary operations, telecommunications licenses, experienced management or network facilities in our target markets. In particular, we anticipate that we will make additional investments in or acquisitions of ISPs and other Internet-related and data service businesses worldwide.

## RECENT DEVELOPMENTS, INVESTMENTS AND ACQUISITIONS

### Early Extinguishment of Debt

In January 2001, we purchased \$38.2 million of principal amount of our high yield debt and convertible debentures, prior to maturity, and exchanged \$129.6 million in principal amount of the 2000 Convertible Debentures for 8,308,258 shares of our common stock. The after-tax extraordinary gain of approximately \$106.0 million on early extinguishment of the debt is expected to be reflected in the first quarter 2001 results.

In December 2000, we purchased \$60.1 million principal amount of our high yield debt and convertible debentures, prior to maturity, for \$19.2 million in cash. This resulted in an after-tax extraordinary gain of \$41.0 million for the year ended December 31, 2000.

#### **Acquisition of iO2**

In September 2000, we acquired 100% of the assets of iO2Group, Inc. ("iO2"), an Internet services firm, for approximately \$0.4 million in cash. The terms of the acquisition agreement provide for additional consideration to be paid if the acquired company's results of operations exceed certain targeted levels and certain other business requirements are met. Such consideration will be paid in shares of our common stock and the maximum number of shares payable as of December 31, 2000 is 42,707. The value of the shares, if any, will be recorded as additional cost of the acquired company when the number of shares to be delivered becomes probable.

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#### **Acquisition of Seker**

In August 2000, we acquired 100% of Seker BBS S.A. ("Seker"), a Spanish ISP, for \$1.1 million. We paid \$0.5 million in cash and 21,953 shares of our common stock; \$0.1 million remained payable in cash at December 31, 2000. The terms of the acquisition agreement provide for additional consideration to be paid if the acquired company's results of operations exceed certain targeted levels and certain other business requirements are met. The maximum amount of remaining consideration payable at December 31, 2000 is approximately \$0.1 million, and will be recorded as additional cost of the acquired company when the amount to be paid, if any, becomes probable.

#### **Acquisition of Nexus**

In August 2000, we acquired 100% of Nexus Comunicaciones S.A. ("Nexus"), a Spanish ISP, for \$0.9 million. We paid \$0.4 million in cash and 16,618 shares of our common stock; \$0.1 million remained payable in cash at December 31, 2000. The terms of the acquisition agreement provide for additional consideration to be paid if the acquired company's results of operations exceed certain targeted levels and certain other business requirements are met. The maximum amount of remaining consideration payable at December 31, 2000 is approximately \$0.1 million, and will be recorded as additional cost of the acquired company when the amount to be paid, if any, becomes probable.

#### **Acquisition of CTE**

In June 2000, we acquired 100% of CTE Networks ("CTE"), a long distance reseller, for \$12.3 million. We paid \$8.3 million in cash and 50,269 shares of our common stock; \$2.6 million remained payable in cash and shares at December 31, 2000.

#### **Acquisition of A-Tel**

In May 2000, we acquired 90.1% of A-Tel GmbH ("A-Tel"), a German reseller of voice traffic to small- and medium-sized enterprises for \$1.4 million in cash. Subsequently, in December 2000, we acquired the remaining 9.9% for \$0.1 million in cash.

#### **Acquisition of InterNeXt**

In May 2000, we acquired 100% of InterNeXt S.A. ("InterNeXt"), an ISP with national facilities in France, for \$13.1 million, comprised of \$12.0 million in cash and 33,446 shares of our common stock. At December 31, 2000, \$1.3 million remained payable in cash.

#### **Acquisition of Global Sales**

In May 2000, we acquired 100% of Global Sales Pty., Ltd. ("Global Sales"), an agent serving our retail operations in Australia, for \$1.3 million in cash.

#### **Acquisition of DIPL**

In April 2000, we acquired a controlling interest in Direct Internet Private Limited ("DIPL"), an India-based company providing Internet services, for \$2.6 million in cash.

#### **Acquisition of Bekko**

In March 2000, we acquired 37% and control of Bekkoame Internet, Inc. ("Bekko"), a Japanese facilities-based ISP, for \$11.0 million in cash.

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#### **Acquisition of Shore.Net**

In March 2000, we acquired 100% of Eco Software, Inc. ("Shore.Net"), a business-focused ISP based in the United States, for \$44.5 million, comprised of \$22.9 million in cash and 477,886 shares of our common stock.

#### **Acquisition of Citrus**

In February 2000, we acquired 51% of each of CS Communications Systems GmbH and CS Network GmbH ("Citrus"), a reseller of voice traffic and seller of telecommunications equipment and accessories, for \$1.0 million, comprised of \$0.9 million in cash and 2,092 shares of our common stock.

#### **Acquisition of LCR Telecom**

In February 2000, we acquired over 96% of the common stock of LCR Telecom Group, Plc ("LCR Telecom"), and subsequently we acquired the remaining shares for a total of 100%, in exchange for 2,216,632 shares of our common stock valued at \$93.2 million. Acquisition expenses increased the total purchase price to \$96.1 million. The purchase price is subject to adjustment and may be increased to a total of 2,278,632 shares.

#### **Acquisition of Sensitel**

In January 2000, we acquired 100% of Sensitel Communications Inc. ("Sensitel"), a Canadian reseller of local services to small- and medium-sized business customers, for \$0.1 million in cash.

## Acquisition of Infinity Online

In January 2000, we acquired 100% of Infinity Online Systems ("Infinity Online"), an ISP based in Ontario, Canada, for \$2.3 million, comprised of \$1.2 million in cash and 29,919 shares of our common stock.

## Description of Operating Markets

The following is a description of our operations in each of our primary service regions:

*United States.* In the United States, we provide long distance services to small- and medium-sized businesses, residential customers, multinational corporations and other telecommunication carriers. We operate international gateway telephone switches in the New York City area, Washington, Fort Lauderdale and Los Angeles which are connected with countries in Europe, Latin America and the Asia-Pacific region through owned and leased international fiber cable systems. We maintain a direct sales organization in New York and Virginia to sell to business customers and have telemarketing centers in Tampa and Iowa. To reach residential customers, we advertise nationally in ethnic newspapers and other publications, offering discounted rates for international calls to targeted countries. We also utilize independent agents to reach and enhance sales to both business and residential customers and have established a direct sales force for marketing international services to other long distance carriers. We maintain customer service centers in Florida, Virginia and Iowa, and operate a 24-hour global network management control center in Virginia that monitors our network. We also operate network management control centers in London and Sydney. In addition to international long distance services, we provide local service in Puerto Rico and the United States Virgin Islands.

In the United States, we also offer digital subscriber line (DSL) Internet access services to business and residential customers through the assets acquired from Digital Select in November 1999. In addition, we provide Web site development and services through our acquisition of 1492 Technologies in November 1999, Shore.Net in March 2000 and iO2 in September 2000. We also provide managed

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and shared Web hosting and e-commerce applications and services through our data centers located in McLean, Virginia and Lynn, Massachusetts.

*Canada.* In Canada, we provide long distance services to small- and medium-sized businesses, residential customers and other telecommunication carriers and have sales and customer service offices in Vancouver, Toronto and Montreal. We operate international gateway switches in Toronto and Vancouver, maintain points-of-presence (POPs) in Ottawa, Montreal and Calgary, and own interexchange circuits on an indefeasible rights of use (IRU) basis. In Canada, we offer Internet access services through our February 1999 acquisition of GlobalServe Communications, Inc., our May 1999 acquisition of ACC Telenterprises and January 2000 acquisition of Infinity Online. In June 2000, we acquired CTE, a long distance reseller. We are also building a second state-of-the-art data center outside of Toronto, Canada.

*Europe.* We are a fully-licensed carrier in the United Kingdom and provide domestic and international long distance services to residential customers, small businesses, and other telecommunications carriers. We have expanded our base of customers through our acquisition of LCR Telecom in February 2000. We operate an Ericsson AXE-10 international gateway telephone switch in London, which is directly connected to the United States and is directly connected to continental Europe via our international gateway switch in Frankfurt, Germany. In addition, in London we have an Intelsat earth station and lease capacity on the Intelsat-62 satellite. This earth station is able to carry voice, data and Internet traffic to and from countries in the Indian Ocean/Southeast Asia region. Our European operations are headquartered in London. We maintain both a 24-hour customer service call center and a 24-hour network management control center which monitors our European network. We have constructed a state-of-the-art data center for Web hosting and e-commerce services in London. We market our services in the United Kingdom using a combination of direct sales, agents, and direct media advertising primarily to ethnic customers who make a higher-than-average percentage of international calls.

We operate an Ericsson AXE-10 switch in Paris and provide service to retail business and residential customers in France. In Germany, we operate an AXE-10 switch in Frankfurt with POPs in Munich, Dusseldorf, Berlin and Hamburg. We hold a Class-4 switched voice telephone license in Germany, an L34.1 switched voice license in France and a voice services license in Switzerland. We have expanded our base of SME customers in Germany through our acquisitions of A-Tel and Citrus. We have recently acquired two Spanish ISPs, Nexus and Seker, which operate an Internet backbone in Spain. With these acquisitions we can now begin to offer bundled voice, data and Internet services to existing and new customers in Spain. Through our acquisition of InterNeXt, we have begun providing value-added ISP services and Web hosting services in France, and have opened a state-of-the-art data center in London's Canary Wharf section which offers shared and managed hosting services as well as e-commerce applications and services.

*Asia-Pacific.* We are a licensed carrier permitted to own and operate transmission facilities in Australia. We are the fourth largest long distance company in Australia based on revenues, providing domestic and international long distance services, data and Internet access services, as well as local and cellular service on a resale basis, to small- and medium-sized business customers and ethnic residential customers. We have invested substantial resources to build a national domestic long distance network. We operate a five-city switched network using Northern Telecom switches in Sydney, Melbourne, Perth, Adelaide and Brisbane with over 100 POPs covering over 90% of Telstra local exchanges. We maintain both a 24-hour customer service center and a network management control center in Australia.

In March 1998, we purchased a controlling interest in Hotkey, an Australia-based ISP, and in April 1998, we acquired all of the outstanding stock of Eclipse, an Australia-based data communications service provider. In February 1999, we purchased the remaining stock in Hotkey. In May 2000, we acquired Global Sales, an agent serving the Company's retail operations in Australia. We

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also recently constructed our Australian data center in Melbourne which offers hosting, bandwidth and e-commerce applications and services. The acquisitions positioned us to offer a complete range of telecommunications services for corporate customers in Australia, including fully integrated voice and data networks, as well as Internet access. We market our services through a combination of direct sales to small- and medium-sized business customers, independent agents which market to business and residential customers and media advertising aimed at ethnic residential customers living in Australia who make a high volume of international calls.

We entered the Japanese market in late 1997 through the TelePassport/USFI acquisition. In March 2000, we purchased 37% and control of Bekko, a Japanese ISP. We maintain an office in downtown Tokyo and operate an international gateway switch to provide international calling services to resellers and small businesses. We interconnect our Tokyo switch to Los Angeles. We have a Type I carrier license, which permits us to provide selected telecommunications services using our own facilities in Japan. We market our services in Japan through direct sales and relationships that we are establishing with business partners.

## Services

We offer a broad array of communications services through our network and through interconnection with the networks of other carriers. Our decision to offer certain services in a market is based on competitive factors and regulatory restraints within the market. Below is a summary of services we offer:

*International and Domestic Long Distance.* We provide international long distance voice services terminating in over 240 countries, and provide domestic long distance voice services within selected countries within our principal service regions.

- *Private Network Services.* For business customers, we design and implement international private network services that may be used for voice, data and video applications.

- *Data and Internet Services.* In Australia, we offer data transfer services over ATM and frame relay networks in addition to Internet access services. In Canada, we offer Internet access services through our February 1999 acquisition of GlobalServe, our May 1999 acquisition of ACC Telenterprises and our January 2000 acquisition of Infinity Online. In Germany, we offer Internet access services through our May 1999 acquisition of TCP/IP, and September 1999 acquisition of TouchNet. In Brazil, we offer Internet access services through our November 1999 acquisition of 51% of Matrix Internet, which also maintains an Internet portal. In France we offer value-added ISP services through our acquisition of InterNeXt. We also offer Web design, Web hosting, co-location and e-commerce services in our primary operating regions, including the United States, Canada, the United Kingdom, France, Germany and Australia. In November 1999 we acquired 1492 Technologies, an Internet Web site development and service firm, and substantially all of the assets of Digital Select, a provider of DSL Internet access. In March 2000, we acquired Shore.Net, a provider of Web hosting services.

- *Reorigination Services.* In selected countries, we provide call reorigination services which allow non-United States country to country calling to originate from the United States, thereby taking advantage of lower United States accounting rates.

- *Voice over IP Services.* We offer to ISPs and telecommunications carriers worldwide VOIP services both over the public Internet as well as direct point-to-point VOIP services over our ATM+IP network.

- *Local Switched Services.* We intend to provide local service on a resale basis as part of our "multi-service" marketing approach, subject to commercial feasibility and regulatory limitations.

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We currently provide local service in Australia, Canada, Puerto Rico and the United States Virgin Islands.

- *Toll-free Services.* We offer domestic and international toll-free services within selected countries in our principal service regions.

- *Cellular Services.* We resell Telstra digital cellular services in Australia.

- *Prepaid and Calling Cards.* We offer prepaid and calling cards that may be used by customers for domestic and international telephone calls both within and outside of their home country.

## Network

*General.* We have deployed a global intelligent telecommunications network consisting of international and domestic switches, related peripheral equipment, undersea fiber optic cable systems and leased satellite and cable capacity. We believe that our network allows us to control both the quality and cost of the on-net communications services we provide to our customers. To ensure high-quality communications services, our network employs digital switching and fiber optic technologies, uses SS7 signaling and is supported by comprehensive monitoring and technical services. Our network consists of:

- a global backbone network connecting international gateway switches in our principal service regions;
- a domestic long distance network presence within certain countries within our principal service regions; and
- a combination of owned and leased transmission facilities, resale arrangements and foreign carrier agreements.

Each of our international gateway switches is connected to our domestic and international networks as well as those of other carriers in a particular market, allowing us to:

- provide seamless service;
- package and market the voice and data services purchased from other carriers under the "Primus" brand name; and
- maintain a substantial portion of each market's United States-bound return traffic through our integrated communications network to maintain quality of service and cost efficiencies and increase gross margins.

*Switches and Points of Presence.* Our network consists of 23 carrier-grade switches, including 19 international gateway switches and four domestic switches in Australia. We currently operate more than 300 POPs and Internet access nodes within our principal service regions.

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Here is further information about the location and type of our switches:

Location	Type of Switch
New York City(3)	International Gateway
Los Angeles	International Gateway

Washington	International Gateway
Fort Lauderdale	International Gateway
Toronto	International Gateway
Vancouver	International Gateway
London(2)	International Gateway
Paris	International Gateway
Frankfurt	International Gateway
Sydney	International Gateway
Tokyo	International Gateway
Copenhagen	International Gateway
Milan	International Gateway
Madrid	International Gateway
Zurich	International Gateway
Puerto Rico	International Gateway
Adelaide	Domestic
Brisbane	Domestic
Melbourne	Domestic
Perth	Domestic

*Fiber Optic Cable Systems.* Where our customer base has developed sufficient traffic, we have purchased and leased undersea and land-based fiber optic cable transmission capacity to connect to our various switches. Where traffic is light or moderate, we obtain capacity to transmit traffic on a per-minute variable cost basis. When traffic volume increases and such commitments are cost effective, we either purchase lines or lease lines on a monthly or longer term basis at a fixed cost and acquire economic interests in transmission capacity through minimum assignable ownership units (MAOUs) and indefeasible rights of use (IRUs) to international traffic destinations. The following chart sets forth a listing of the undersea fiber optic cable systems in which we have capacity (which includes both MAOUs and IRUs):

Cable System	Countries Served	Status
TAT <sup>12/13</sup>	United States—United Kingdom	Existing
Gemini	United States—United Kingdom	Existing
CANTAT	United States—Germany	Existing
	United States—Canada	Existing
CANUS	United States—Canada	Existing
FLAG	United Kingdom—Italy	Existing
	United Kingdom—Israel	Existing
UK—France 5	United Kingdom—France	Existing
Ariane	France—Greece	Existing
CIOS	United Kingdom—Israel	Existing
Aphrodite	United Kingdom—Cyprus	Existing
TPC 5	United States—Japan	Existing
APCN	Japan—Indonesia	Existing
Jasaurus	Indonesia—Australia	Existing
Atlantic	United States—United Kingdom	Existing
Crossing-1		

Columbus II	United States—Mexico	Existing
Americas I	United States—Brazil	Existing
	United States—United States Virgin Islands	Existing
	United States Virgin Islands—Trinidad	Existing
PTAT-1	United States—United States Virgin Islands	Existing
CARAC	United States—United States Virgin Islands	Existing
Taino—Carib	United States Virgin Islands—Puerto Rico	Existing
Bahamas I	United States—Bahamas	Existing
ECMS	United States Virgin Islands—Antigua—St. Martin—St. Kitts—Martinique—Guyana	Existing
CANTAT 3	United States—Denmark	Existing
ODIN	Netherlands—Denmark	Existing
RIOJA	Netherlands—Belgium	Existing
Pacific	United States—Japan	Existing
Crossing I		
Semewea 3	Germany—Cyprus	Existing
Antillas 1	Puerto Rico—Dominican Republic	Existing
Columbus III	United States—Spain	Existing
Southern Cross	United States—Australia	Existing
JPN—US	United States—Japan	Under Construction
Americas II	United States—Brazil—Puerto Rico	Under Construction
Pan American	United States Virgin Islands—Aruba—Venezuela—Panama—Colombia—Ecuador—Peru—Chile—Panama	Under Construction
Bahamas 2	United States—Bahamas	Under Construction
MONA	Puerto Rico—Dominican Republic	Under Construction

In December 1999, we expanded our existing fiber capacity agreement with Qwest. Pursuant to this expansion, we agreed to purchase approximately \$23.2 million of fiber capacity which will provide us with an ATM+IP based international broadband backbone of nearly 11,000 route miles of fiber optic cable in the United States and overseas, and will provide us with access to OC-3 and OC-12 capacity between our six existing gateway switches in the United States and up to at least nine future POPs in 12 cities in the United States including New York, Los Angeles, San Francisco, Chicago, Boston and Washington, DC. Under the agreement, we also may choose to expand to OC-48 capacity as our bandwidth requirements increase. This network expansion has enabled us to carry an increasing percentage of our global data, Internet and voice traffic on our network, particularly from our international ISP customers whose Internet traffic is often routed through the United States. In March 2000, we agreed to purchase an additional \$20.8 million of fiber capacity. On May 24, 1999 through a capacity purchase agreement with Global Crossing Holdings Ltd., we agreed to purchase up to \$50 million of fiber capacity on Global Crossing's Canada-wide network. In June 2000, we committed to purchase on an IRU basis a national network from AT&T Canada. In December 2000, we committed to purchase fiber from Optus in Australia to eliminate leased domestic lines from Telstra.

other service providers which permit us to provide traffic into and receive return traffic from these countries. We have existing foreign carrier agreements with PTTs and other licensed operators in Cyprus, Greece, India, Iran, Italy, New Zealand, the Philippines, Belgium, Denmark, Israel, Ireland, Singapore, Malaysia, Japan, Australia, France, Switzerland, Argentina, the Bahamas and the Dominican Republic and maintain additional agreements with other foreign carriers in other countries.

*Network Management and Control.* We own and operate network management control centers in McLean, Virginia, London, Sydney and, with the Telegroup acquisition, in Cedar Rapids, Iowa, which are used to monitor and control a majority of the switches and other transmission equipment used in our network. These network management control centers operate seven days a week, 24 hours per day, 365 days a year. We are continually upgrading the existing network management control centers so that they can monitor all of our switching and other transmission equipment throughout the entire network.

*Planned Expansion of Network.* We provide services over our network, which consists of 23 carrier-grade switches, including 19 international gateway switches in the United States, Australia, Canada, France, Germany, Japan, Puerto Rico and the United Kingdom and four domestic switches in Australia. We intend to continue to invest in additional switches and POPs in major metropolitan areas of our principal service regions as the traffic usage warrants the expenditure.

*Planned Enhancement of Network for Data and Internet Services.* Pursuant to our agreement with Qwest, we have invested in an Internet backbone network and an overlay to our existing network architecture that will enable our existing global network to carry Internet and data traffic for our business, residential, carrier and ISP customers. This network uses packet switched technology, including Internet protocol and ATM, in addition to traditional circuit switched voice traffic. This network investment will allow us to offer to existing and new customers a full range of data and voice communications services, including, in selected geographic areas, dial-up and dedicated Internet access, Web hosting, e-commerce, managed virtual private network services, and ATM and frame relay data services.

## Customers

As of December 31, 2000, Primus had approximately 2.0 million business and residential customers. Set forth below is a description of our customer base:

- *Businesses.* Our business sales and marketing efforts target small- and medium-sized businesses with significant international long distance traffic. More recently, we also have targeted larger multi-national businesses. We now offer a broad array of bundled services (including long distance voice, Internet, data and cellular services) in approximately 10 major markets, including the United States, Canada, Australia, the United Kingdom, Germany, France, Japan and Italy. We believe that businesses are and will continue to be attracted to us primarily due to price savings compared to traditional carriers and, secondarily, due to our personalized approach to customer service and support, including customized billing and bundled service offerings.
- *Residential Customers.* Our residential sales and marketing strategy targets ethnic residential customers who generate high international long distance traffic volumes. We believe that such customers are attracted to us because of price savings as compared to traditional carriers, simplified pricing structure, and multilingual customer service and support. We are now offering Internet access to our residential customers in select markets and expanding our Internet and data offerings to additional markets and bundle them with traditional voice services.
- *Telecommunications Carriers, Resellers and ISPs.* We compete for the business of other telecommunications carriers and resellers primarily on the basis of price and service quality. Sales to other carriers and resellers help us maximize the utilization of our network and thereby reduce our fixed costs per minute of use.

We strive to provide personalized customer service and believe that the quality of our customer service is one of our competitive advantages. Our larger customers are covered actively by dedicated account and service representatives who seek to identify, prevent and solve problems. We provide toll-free, 24-hour a day customer service which can be accessed to complete collect, third party, person-to-person, station-to-station and credit card validation calls. We also provide a multi-lingual "Trouble Reporting Center" for our residential customers.

## Sales and Marketing

We market our services through a variety of sales channels, as summarized below:

- *Direct Sales Force.* As of December 31, 2000, our direct sales force was comprised of 486 full-time employees who focus on business customers with substantial international traffic, including multinational businesses and international governmental organizations. We use our direct sales force to offer bundled voice, Internet and data services to existing and new business customers. As of December 31, 2000, we employed approximately 85 full-time direct sales representatives focused on ethnic residential consumers and direct sales representatives who exclusively sell wholesale services to other long distance carriers and resellers. Direct sales personnel are compensated with a base salary plus commissions. We currently have offices in New York City, Virginia, Tampa, Puerto Rico, St. Thomas, Montreal, Toronto, Vancouver, Mexico City, London, Frankfurt, Adelaide, Brisbane, Melbourne, Perth, Sydney and Tokyo.
- *Independent Sales Agents.* We also sell our services through independent sales agents and representatives, who typically focus on residential consumers and small- and medium-sized businesses. An agent receives commissions based on revenue generated by customers obtained for us by the agent. We also provide additional incentives in the form of restricted stock to those agents that meet certain revenue growth targets. We usually grant only nonexclusive sales rights and require our agents and representatives to maintain minimum revenues. We also market our services through representatives of network marketing companies.
- *Telemarketing.* We employ full-time telemarketing sales personnel in our Tampa call center to supplement sales efforts to ethnic residential consumers and small- and medium-sized business customers.
- *Media and Direct Mail.* We use a variety of print, television and radio advertising to increase name recognition and generate new customers. We reach ethnic residential customers by print advertising campaigns in ethnic newspapers, and by advertising on select radio and television programs.

## Management Information and Billing Systems

We have various management information, network and customer billing systems in our different operating subsidiaries to support the functions of network and traffic management, customer service and customer billing. For financial reporting, we consolidate information from each of our markets into a single database. For our billing requirements in the United States, we use a customer billing system developed by Electronic Data Systems Inc. (EDS) which supplies, operates and maintains this system and is responsible for providing backup facilities and disaster recovery. The EDS system is widely used in the telecommunications industry and has been customized to meet our specific needs. Elsewhere, we use other third party systems or systems developed in-house to handle our billing requirements. We bill all of our business, reseller and residential customers directly in all of our principal service regions. We have also chosen Portal Software, Inc.'s customer management and billing software to provide a business infrastructure for our worldwide Internet and data service offerings.

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We believe that our financial reporting and billing systems are generally adequate to meet our needs in the near term. We are working to ensure that our European financial systems are adequate to handle the conversion to the Euro currency for 2002. As we continue to grow, we will need to invest additional capital to purchase hardware and software, license more specialized software, increase capacity and link our systems among different countries.

## Competition

### Voice

The international communications industry is highly competitive and significantly affected by regulatory changes, marketing and pricing decisions of the larger industry participants and the introduction of new services made possible by technological advances. We believe that long distance service providers compete on the basis of price, customer service, product quality and breadth of services offered. In each country of operation, we have numerous competitors. We believe that as the international communications markets continue to deregulate, competition in these markets will increase, similar to the competitive environment that has developed in the United States following the AT&T divestiture in 1984. Prices for long distance voice calls in the markets in which we compete have declined historically and are likely to continue to decrease. In addition, many of our competitors are significantly larger, have substantially greater financial, technical and marketing resources and larger networks.

Privatization and deregulation have had, and are expected to continue to have, significant effects on competition in the industry. For example, as a result of legislation enacted in the United States, regional Bell operating companies will be allowed to enter the long distance market; AT&T, MCI/WorldCom and other long distance carriers will be allowed to enter the local telephone services market and cable television companies and utilities will be allowed to enter both the local and long distance telecommunications markets. In addition, competition has begun to increase in the European Union communications markets in connection with the deregulation of the telecommunications industry in most EU countries, which began in January 1998. This increase in competition could adversely affect net revenue per minute and gross margin as a percentage of net revenue.

The following is a brief summary of the competitive environment in selected countries within each of its principal service regions:

#### *North America.*

- *The United States.* In the United States, which is the most competitive and among the most deregulated long distance markets in the world, competition primarily is based upon pricing, customer service, network quality and the ability to provide value-added services. AT&T is the largest supplier of long distance services, with MCI/WorldCom and Sprint being the next largest providers. As a result of recently enacted federal legislation, we now also compete with regional Bell operating companies, local exchange carriers and ISPs in providing domestic and international long distance services.
- *Canada.* The Canadian communications market is highly competitive and is dominated by a few established carriers whose marketing and pricing decisions have a significant impact on the other industry participants including us. We compete with facilities-based carriers, other resellers and rebillers, primarily on the basis of price. The principal facilities-based competitors include the former Stentor member companies, in particular, Bell Canada, the dominant supplier of local and long distance services in Canada, and TELUS Communications, the next largest Stentor company, as well as non-Stentor companies, Teleglobe Canada and Call-Net Enterprises (Sprint Canada). The former Stentor member companies discontinued their alliance on January 1, 1999 and now Bell Canada and TELUS compete against one another for the first time. In a

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significant development, Bell Canada's parent, BCE Inc., announced a C\$9.6 billion stock bid for Teleglobe in February 2000.

#### *Europe.*

- *United Kingdom.* Our principal competitors in the United Kingdom are British Telecom, the dominant supplier of telecommunications services in the United Kingdom, and Cable & Wireless Communications. Other competitors in the United Kingdom include Colt, Energis, GTS/Esprit and RSL Communications. We compete in the United Kingdom and continental Europe, and expect to compete in other European countries, by offering competitively-priced bundled and stand-alone services, personalized customer service and value-added services.
- *Germany.* Our principal competitor in Germany is Deutsche Telekom, the dominant carrier. We also compete with Mannesmann ARCOR/O.tel.o Communications, VIAG Interkom, MobilCom, Talkline, NTS/Colt, MCI/WorldCom and RSL Communications. Additionally, we also face competition from other licensed public telephone operators that are constructing their own facilities-based networks, cable companies and switch-based resellers, including the emerging German local exchange carriers known as "City Carriers".

#### *Asia-Pacific.*

- *Australia.* Australia is one of the most deregulated and competitive communications markets in the Asia-Pacific region. Our principal competitors in Australia are Telstra, the dominant carrier, Cable & Wireless Optus, AAPT and a number of other switchless resellers. We compete in Australia by offering a comprehensive menu of competitively-priced products and services, including value-added services, and by providing superior customer service and support. We believe that competition in Australia will increase as more companies are awarded carrier licenses in the future.

## Data/Internet

The market for data services and Internet services is extremely competitive. We anticipate that competition will continue to intensify. Our current and prospective competitors offering these services include national, international, regional and local Internet service providers such as AOL and EarthLink, Web hosting companies including Exodus and Digex, other long distance and international long distance telecommunications companies, including AT&T, MCI/WorldCom and Sprint, local exchange telecommunications companies such as Verizon and SBC, cable television, direct broadcast satellite, wireless communications providers and on-line service providers. Many of these competitors have a significantly greater market presence, experience, expertise and brand recognition than we do. Many of our competitors also have greater financial, technological and marketing resources than those available to us.

## Government Regulation

As a global communications company, we are subject to varying degrees of regulation in each of the jurisdictions in which we provide services. Local laws and regulations, and the interpretation of such laws and regulations, differ significantly among the jurisdictions in which we operate. There can be no assurance that future regulatory, judicial and legislative changes will not have a material adverse effect on us, that domestic or international regulators or third parties will not raise material issues with

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regard to our compliance or noncompliance with applicable regulations or that regulatory activities will not have a material adverse effect on us.

Regulation of the telecommunications industry is changing rapidly both domestically and globally. The Federal Communications Commission is considering a number of international service issues in the context of several policy rulemaking proceedings in response to specific petitions and applications filed by other international carriers. We are unable to predict how the FCC will resolve the pending international policy issues or how such resolution will effect its international business. In addition, the World Trade Organization Agreement, which reflects efforts to dismantle government-owned telecommunications monopolies throughout Europe and Asia may affect us. Although we believe that these deregulation efforts will create opportunities for new entrants in the telecommunications service industry, there can be no assurance that they will be implemented in a manner that would benefit us.

The regulatory framework in certain jurisdictions in which we provide services is described below:

### United States

In the United States, our services are subject to the provisions of the Communications Act of 1934, FCC regulations thereunder, as well as the applicable laws and regulations of the various states and state regulatory commissions.

As a carrier offering services to the public, we must comply with the requirements of common carriage under the Communications Act, including the offering of service on a non-discriminatory basis at just and reasonable rates, and obtaining FCC approval prior to any assignment of authorizations or any transfer of de jure or de facto control of the company. We are classified as a non-dominant common carrier for domestic service and are not required to obtain specific prior FCC approval to initiate or expand domestic interstate services.

*International Service Regulation.* International common carriers like us are required to obtain authority under Section 214 of the Communications Act and file a tariff containing the rates, terms and conditions applicable to their services prior to initiating or transferring their international telecommunications services. We have obtained all required authorizations from the FCC to use, on a facilities and resale basis, various transmission media for the provision of international switched services and international private line services and have filed a tariff. The FCC recently announced that international services would be detariffed. This detariffing will give us greater pricing flexibility in our service offerings. Absent a tariff filing, however, we will no longer be entitled to legal protection under "filed rate doctrine" which provides protection to carriers from customers' legal actions challenging terms and conditions of services.

In addition to the general common carrier principles, we must conduct our international business in compliance with the FCC's International Settlements Policy, the rules that establish the permissible boundaries for United States-based carriers and their foreign correspondents to settle the cost of terminating each others' traffic over their respective networks.

*Domestic Service Regulation.* We are considered a non-dominant domestic interstate carrier subject to minimal regulation by the FCC. We are not required to obtain FCC authority to expand our domestic interstate operations, but we are required to obtain FCC approval to transfer control or discontinue service and to maintain a tariff on file at the FCC, file various reports and pay various fees and assessments. Among other things, interstate common carriers must offer service on a nondiscriminatory basis at just and reasonable rates. As a nondominant carrier, we are subject to the FCC's complaint jurisdiction. In particular, we may be subject to complaint proceedings in conjunction with alleged noncompliance such as unauthorized changes in a customer's preferred carrier. The Telecommunications Act of 1996 also addresses a wide range of other telecommunications issues that may potentially impact our operations.

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As of July 31, 2001, the FCC will require all common carriers of Domestic Interstate services to cancel their tariffs and provide service in accordance with contracts with customers. As a result, we will no longer be subject to protection under the filed rate doctrine which provides protection to carriers from customers' legal actions challenging terms and conditions of services.

Our costs of providing long distance services will be affected by changes in the access charge rates imposed by incumbent local exchange carriers for origination and termination of calls over local facilities. The FCC has significantly revised its access charge rules in recent years to permit incumbent local exchange carriers greater pricing flexibility and relaxed regulation of new switched access services in those markets where there are other providers of access services. The FCC recently granted local exchange carriers pricing flexibility. As such, the carriers may offer volume discounts that may benefit larger long distance carriers.

The FCC has also significantly revised the universal service subsidy regime to be funded by interstate carriers, such as us, and certain other entities. The FCC recently established new universal service funds to support qualifying schools, libraries, and rural health care providers and expanded subsidies for low income consumers. Recently the United States Court of Appeals for the Fifth Circuit reversed and remanded for reconsideration portions of the FCC's universal service subsidy plan. The FCC has requested certiorari from the United States Supreme Court. The outcome of these proceedings or their effect cannot be predicted.

*State Regulation.* Our intrastate long distance operations are subject to various state laws and regulations, including, in most jurisdictions, certification and tariff filing requirements. Some states also require the filing of periodic reports, the payment of various fees and surcharges and compliance with service standards and consumer protection rules. States often require pricing approval or notification for certain stock or asset transfers or, in several states, for the issuance of securities, debt or for name changes. We have received the necessary certificate and tariff approvals to provide intrastate long distance service in 48 states. Certificates of authority can generally be conditioned, modified, canceled, terminated, or revoked by state regulatory authorities for failure to comply with state law and/or the rules, regulations, and policies of the

state regulatory authorities. Fines and other penalties also may be imposed for such violations. Public service commissions also regulate access charges and other pricing for telecommunications services within each state. The regional Bell operating companies and other local exchange carriers have been seeking reduction of state regulatory requirements, including greater pricing flexibility which, if granted, could subject us to increased price competition. We may also be required to contribute to universal service funds in some states.

*Wireless Service Regulations.* Through TresCom, we hold a variety of wireless licenses issued by the FCC. As a licensee authorized to provide microwave and satellite earth station services, we are subject to Title III of the Communications Act of 1934, as amended by the 1996 Telecommunications Act, and FCC regulations promulgated thereunder. Pursuant to Title III, foreign entities may not directly hold more than 20% of the stock or other ownership interests in an entity, including Primus, that holds certain types of FCC licenses, such as the wireless licenses held by TresCom and referred to above. In addition, unless granted an FCC waiver, foreign citizens and entities may not indirectly hold 25% or more of the stock or other ownership interest in such entities.

## **Canada**

The operations of telecommunications carriers are regulated by the Canadian Radio-television and Telecommunications Commission (CRTC), which has recently established a new competitive regulatory framework governing the international segment of the long distance market, eliminating certain barriers to competition, consistent with Canada's commitments in the World Trade Organization Agreement. As a result, full facilities-based and resale competition has been introduced in the provision of international services in Canada, effective October 1, 1998, coincident with the elimination of traffic

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routing limitations on switched hubbing through the United States. In addition, foreign ownership rules for facilities-based carriers have now been waived in relation to ownership of international submarine cables landed in Canada and satellite earth stations used for telecommunications purposes. Effective January 1, 1999, all international service providers must be licensed by the CRTC under the Telecommunications Act of 1993, and we received our international license as of December 23, 1998. Our international operations will remain subject to conditions of our CRTC license, which address matters such as competitive conduct and consumer safeguards, and to a regime of contribution charges (roughly the equivalent of access charges in the United States). The CRTC recently adjusted its international services contribution regime and is preparing to conduct a review of its domestic services contribution regime in light of its recent decision to move from a per circuit to a per minute contribution charge arrangement.

Primus, as a reseller of domestic Canadian telecommunications, virtually is unregulated by the CRTC. In particular, because we do not own or operate transmission facilities in Canada, we are not subject to the Canadian Telecommunications Act or the regulatory authority of the CRTC, except to the extent that our provision of international telecommunications services is subject to CRTC licensing and other regulations. Therefore we may provide resold Canadian domestic long distance service without rate, price or tariff regulation, ownership limitations, or other regulatory requirements.

*Competition.* Long distance competition has been in place in Canada since 1990 for long distance resellers and since 1992 for facilities-based carriers. Since 1994, the incumbent local exchange carriers have been required to provide "equal access" which eliminated the need for customers of competitive long distance providers to dial additional digits when placing long distance calls. In June 1992, the CRTC issued its ground-breaking Telecom Decision CRTC 92-12 requiring the incumbent local exchange carriers to interconnect their networks with their facilities-based as well as resale competitors. However, these companies have now disbanded the Stentor alliance effective January 1, 1999, and former Stentor companies, Bell Canada and TELUS Communications, the two largest carriers in Canada, have begun to compete against one another. Other nationwide providers are AT&T Canada Corp., and Sprint Canada. Additional long distance services competition is provided by a substantial resale long distance industry in Canada.

*Foreign Ownership Restrictions.* Under Canada's Telecommunications Act and certain regulations promulgated pursuant to such Act, foreign ownership restrictions are applicable to facilities-based carriers (known as "Canadian carriers"), but not resellers, which may be wholly foreign-owned and controlled. These restrictions limit the amount of direct foreign investment in Canadian carriers to no more than 20% of the voting equity of a Canadian carrier operating company and no more than 33<sup>1</sup>/<sub>3</sub>% of the voting equity of a Canadian carrier holding company. The restrictions also limit the number of seats which may be occupied by non-Canadians on the board of directors of a Canadian carrier operating company to 20%. In addition, under Canadian law, a majority of Canadians must occupy the seats on the board of directors of a Canadian carrier holding company. Although it is possible for foreign investors to also hold non-voting equity in a Canadian carrier, the law requires that the Canadian carrier not be "controlled in fact" by non-Canadians.

## **Australia**

The provision of our services is subject to federal regulation. The two primary instruments of regulation are the Australian Telecommunications Act of 1997 and federal regulation of anti-competitive practices pursuant to the Australian Trade Practices Act of 1974. The current regulatory framework came into effect in July 1997.

We are licensed under the Telecommunications Act of 1997 to own and operate transmission facilities in Australia. Under the regulatory framework, we are not required to maintain a carriage license in order to supply carriage services to the public using network facilities owned by another

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carrier. Instead, with respect to carriage services, we must comply with legislated "service provider" rules contained in the Telecommunications Act of 1997 covering matters such as compliance with the Telecommunications Act of 1997, operator services, regulation of access, directory assistance, provision of information to allow maintenance of an integrated public number database and itemized billing.

Two federal regulatory authorities exercise control over a broad range of issues affecting the operation of the Australian telecommunications industry. The Australian Communications Authority (ACA) is the authority regulating matters including the licensing of carriers and technical matters, and the Australian Competition and Consumer Commission (ACCC) has the role of promotion of competition and consumer protection. We are required to comply with the terms of our own license, are subject to the greater controls applicable to licensed facilities-based carriers and are under the regulatory control of the ACA and the ACCC. In addition, other federal legislation, various regulations pursuant to delegated authority and legislation, ministerial declarations, codes, directions, licenses, statements of Australian government policy and court decisions affecting telecommunications carriers also apply to us.

There is no limit to the number of carriers who may be licensed. Any company that meets the relevant financial and technical standards and complies with the license application process can become a licensed carrier permitted to own and operate transmission facilities in Australia. Carriers are licensed individually, are subject to charges that are intended to cover the costs of regulating the telecommunications industry and are obliged to comply with license conditions (including obligations to comply with the Telecommunications Act of 1997, with certain commitments made in their industry development plan and with the telecommunications access regime and related facilities access obligations). Carriers also must meet the universal service obligation, to assist in providing all Australians, particularly in remote areas, with reasonable access to standard telephone services. The levy required to be paid in connection with this obligation has been set previously at a level that is not material. The levy is currently under review. The outcome from the Australian Communications Authority's assessment and the Australian Government's policy considerations is expected to result in a levy that will not be material for us. However, there can be no guarantee that the Australian Communications Authority will not make an assessment of a universal service levy that would be material or that the Australian Government will not legislate for an outcome that would be material.

*Fair Trading Practices.* The ACCC enforces legislation for the promotion of competition and consumer protection, particularly rights of access (including pricing for access) and interconnection. The ACCC can issue a competition notice to a carrier which has engaged in anti-competitive conduct. Where a competition notice has been issued, the ACCC can seek pecuniary penalties, and other carriers can seek damages, if the carrier continues to engage in the specified conduct.

The Telecommunications Act of 1997 package of legislation includes a telecommunications access regime that provides a framework for regulating access rights for specific carriage services and related services through the declaration of services by the ACCC. The regime establishes mechanisms within which the terms and conditions of access can be determined. The Australian government intends the access regime to reduce the power of Telstra and Cable & Wireless Optus (as the former protected fixed line carriers) and other carriers who may come to own or control important infrastructure or services necessary for competition.

The access regime establishes a mechanism for the industry to develop an access code containing model terms and conditions for access to particular declared services. Once approved by the ACCC, those model terms and conditions may be adopted in an undertaking by individual carriers who are under an access obligation.

Since July 1997, the ACCC has mandated progressively that Telstra provide access to a range of its facilities at specified rates to other service providers including us. We have negotiated access arrangements with Telstra in substitution for certain mandated arrangements. In July 1999, the ACCC

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mandated access to Telstra's local call network. We expect that access to Telstra's local call network will provide us with new opportunities.

*Foreign Ownership Limitations.* Foreign investment in Australia is regulated by the Foreign Acquisitions and Takeovers Act 1975. We notified the Australian government of our proposed acquisition of Axicorp in 1996 and were informed at that time that there were no objections to the investment in terms of Australia's foreign investment policy. There can be no assurance, however, that additional foreign ownership restrictions will not be imposed on the telecommunications industry or other foreign investors, including us, in the future.

## **Japan**

Our services in Japan are subject to regulation by the Japanese Ministry of Post and Telecommunications under the Japanese Telecommunications Business Law. We have obtained licenses as a Type I business, and as a Special Type II business, and also as a General Type II business through the Telegroup acquisition. Our licenses allow us to provide selected international telecommunications services using our own facilities, as well as leased facilities, and domestic telecommunications services using leased facilities. There can be no guarantee that the Japanese regulatory environment will allow us to provide service in Japan at competitive rates.

## **European Union**

In Europe, the regulation of the telecommunications industry is governed at a supra national level by the European Parliament, Council and Commission, consisting of members from the following countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom, and these institutions are responsible for creating pan-European policies and, through legislation, developing a regulatory framework to ensure an open, competitive telecommunications market.

In March 1996, the EU adopted the Full Competition Directive containing two provisions which required EU member states to allow the creation of alternative telecommunications infrastructures by July 1, 1996, and which reaffirmed the obligations of EU member states to abolish the PTTs' monopolies in voice telephony by 1998. Certain EU countries were allowed to delay the abolition of the voice telephony monopoly based on derogations established in the Full Competition Directive. These countries include Luxembourg (July 1, 1998), Spain and Ireland (which were liberalized on December 1, 1998), Portugal (January 1, 2000) and Greece (December 31, 2000).

Each EU member state in which we currently conduct or plan to conduct our business has a different regulatory regime and such differences have continued beyond January 1998. The requirements for us to obtain necessary approvals vary considerably from country to country and are likely to change as competition is permitted in new service sectors. Most EU member states require companies to obtain a license in order to provide voice telephony services or construct and operate telecommunications networks. However, the EU generally does not permit its member states to require individual licenses for other types of services. In addition, we have obtained and will continue to seek to obtain interconnection agreements with other carriers within the EU. While EU directives require that dominant carriers offer cost-based and non-discriminatory interconnection to competitors, individual EU member states have implemented and may implement this requirement differently. As a result, we may be delayed in obtaining or may not be able to obtain interconnection in certain countries that would allow us to compete effectively. Moreover, there can be no guarantee that long distance providers like us will be able to afford customers "equal access" to their networks, and the absence of such equal access could put such long distance companies at a disadvantage with respect to existing PTTs.

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The European Commission proposed a new legislative package to the European Parliament and Council on July 12, 2000. The proposed new regulatory regime seeks to reinforce competition, particularly at a local level, mainly by opening up the competition in the local loop. The Regulation of the European Parliament and Council on unbundled access to the local loop came into force on January 2, 2000 and the rest of the legislative package (comprising of directives on the new framework of the legislation, licensing and authorisation, access and interconnection, universal service and data protection) is due to be in place by the beginning of 2002.

## **United Kingdom**

Our services are subject to the provisions of the United Kingdom Telecommunications Act. The Secretary of State for Trade and Industry, acting on the advice of the United Kingdom Department of Trade and Industry, is responsible for granting UK telecommunications licenses, while the Director General of Telecommunications and Ofcom are responsible for enforcing the terms of such licenses. Ofcom attempts to promote effective competition both in networks and in services to redress anti-competitive behavior.

In 1991, the British government established a "multi-operator" policy to replace the duopoly that had existed between British Telecom and Cable & Wireless Communications. Under the multi-operator policy, the Department of Trade and Industry recommends the grant of a license to operate a telecommunications network to any applicant that it believes has a reasonable business plan and where there are no other overriding considerations not to grant such license. All public telecommunications operators operate under individual licenses granted by the Secretary of State for Trade and Industry pursuant to the United Kingdom Telecommunications Act. An operator with who is providing certain publicly available network or telecommunications services (bearer services) and running a system with which to interconnect to others can apply for listing in the United Kingdom as an Annex II operator under the Telecommunications (Interconnection) Regulations 1997 and as such will be entitled to request interconnection from other Annex II operators. Under the terms of British Telecom's license, it is required to allow any such licensed operator to interconnect its system to British Telecom's system, unless it is not reasonably practicable to do so (e.g., due to incompatible equipment).

Our subsidiary, Primus Telecommunications Limited, holds a Public Telecommunications Operator ("PTO") license that authorizes it to provide fixed link telecommunications services of all types in the United Kingdom, all international resale services and international facilities based services including switched voice services over leased private lines to all international points and international and United Kingdom domestic facilities-based voice services. The PTO license enables the holder to acquire ownership interests in or construct the United Kingdom half circuit of any IRU as well as backhaul and other United Kingdom domestic facilities provision. In

addition the PTO license enables us to acquire ownership interests in the United Kingdom half-circuit of satellite space segment in order to provide satellite-based services, it is also necessary to apply for a Wireless Telegraphy Act 1949 license which authorizes the use of the spectrum.

Telegroup UK Ltd. also holds a Annex II PTO license which was originally an international facilities based license granted on December 30, 1997 amended as effective September 27, 1999.

*Tariffs.* Telecommunications tariffs on operators in the United Kingdom (excluding British Telecom) are generally not subject to prior review or approval by regulatory authorities, although OfTel has historically imposed price caps on British Telecom. British Telecom has advocated and will likely continue to advocate for greater pricing flexibility, including flexibility for pricing toll free and other services. Greater pricing flexibility could allow British Telecom to charge us higher prices for certain services or to charge end user customers prices that are lower than we are able to charge.

*Interconnection and Indirect Access.* We must interconnect our United Kingdom network to networks of other service providers in the United Kingdom and allow our end user customers to obtain

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access to our services in order to compete effectively in the United Kingdom. In the United Kingdom, licensed long distance carriers like us can obtain interconnection to British Telecom at cost-based rates. As of December 2000, OfTel introduced a permanent carrier pre-selection obligation into British Telecom's license which allows customers to choose between operators for different type of calls without dialing extra digits or using an autodialer box.

*Fair Trading Practices.* Under the general competition regime in the United Kingdom, the Office of Fair Trading ("OFT") is the competent authority for dealing with anti-competitive agreements and abuses of market power across all sectors of the economy. OfTel is the sector specific regulator for telecommunications with a statutory duty to promote competition in the telecommunications market which works closely with OFT on competition issues involving the telecommunications sector. There are no foreign ownership restrictions that apply to telecommunications company licensing in the United Kingdom although the Department of Trade and Industry does have a discretion as to whether to award licenses on a case by case basis. We also are subject to general European law, which, among other things, prohibits certain anti-competitive agreements and abuses of dominant market positions through Articles 81 and 82 of the Treaty of Rome.

*Anticipated Regulatory Changes.* On December 12, 2000, the UK Government published its Communications White Paper on the reform of the regulatory framework of the telecommunications and broadcasting sectors. The White Paper does not indicate whether the existing legislative framework will be repealed in its entirety and new legislation introduced, or whether the Government will simply amend the current legislation, or a combination of both. The Government has invited comments on the proposed reforms and the date/outcome of the next general election will dictate the formal implementation of programme.

## **Germany**

The German Telecommunications Act of 1996 liberalized all telecommunications activities as of January 1, 1998. The German Telecom Act has been complemented by several ordinances. Under the German regulatory scheme, licenses are required for the operation of transmission lines and the provision of voice telephony services. Licenses required for the operation of transmission lines are divided into 3 license classes: mobile telecommunications (license class 1); satellite (license class 2); and other telecommunications services for the general public (license class 3). In addition to the infrastructure licenses, a separate license is required for provision of voice telephony services to the general public on the basis of self-operated telecommunications networks (license class 4). A class 4 license does not include the right to operate transmission lines. All other telecommunications services (e.g. valued-added, data, etc.) are only subject to a notification requirement. We operate under a license class 4 which has been extended to a Germany-wide area license under a change of regulatory policy that requires Germany-wide area licenses for the Germany-wide offer of public switched voice telephony. License fees caused by this license extension are high, but are being challenged by a German court and have therefore not yet been imposed.

Under the German Telecommunications Act, companies that desire to connect with Deutsche Telekom's network must enter into an interconnection agreement with the regulated interconnection tariffs. We entered into an interconnection agreement with Deutsche Telekom on February 27, 1998 at the regulated standard interconnection rates presently under court review. The interconnection agreement may be terminated by commencing a six month notice period at the end of the calendar year. After the public announcement on December 15, 1998, Deutsche Telekom, by letter of December 23, 1998, informed us that, as a matter of precaution, it terminated the interconnection agreements with us and all other carriers as of December 31, 1999 and it asked that renegotiations be opened.

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Several complaints, the outcome of which may affect our business, currently are pending before the Regulierungsbehörde für Telekommunikation und Post (RegTP) or German courts concerning interconnection with Deutsche Telekom. The RegTP issued a decision in January 2000 on Primus' application. Aspects of the RegTP's decision are being disputed in German courts. It is possible that the final resolution of these disputes and the interconnection agreement with Deutsche Telekom will include terms that are adverse to Primus, including minimum traffic requirements and restrictions on sharing points of interconnection. We cannot predict the results of the new interconnection regulation, but the results may severely affect our business in Germany.

The RegTP established provisional interconnection tariffs in September 1997 which Deutsche Telekom has since challenged in court. These rates have been part of the standard offer of Deutsche Telekom and were valid for all interconnected and licensed carriers until the end of 1999. On December 23, 1999, RegTP adopted a decision with which new, substantially lower interconnection rates, effective as of January 1, 2000, have been permitted based on a higher rate application by Deutsche Telekom. Deutsche Telekom may have attacked these in court. Other pending complaints concern the costs of billing services provided by Deutsche Telekom to other carriers and rates for direct access to the end-user lines of Deutsche Telekom. It is expected that a final resolution to these matters will take several years.

The first new interconnection agreement signed with Mannesmann Arcor, the major market player besides Deutsche Telekom, however, introduced a reduction of interconnection tariffs by extending off-peak times to comply with end-user off-peak times. These new lower rates were undercut by the RegTP decision as of December 23, 1999 described above. Non-discrimination with regard to all other terms of this agreement between large and smaller carriers such as Primus will become an important regulatory issue in the market once this new agreement comes into force. Discrimination would severely affect our business.

Further, the general price depression in the end-customer market along with the fact that the RegTP has authorized Deutsche Telekom's price cuts in the end-customer market (announced to be effective as of January 1, April 1 and July 1, 1999 and subsequent price cuts) may adversely affect us. Other large operators also have reduced their prices which may adversely affect our business. These price cuts have come under attack before the European Commission and the courts. The outcome of these proceedings is, however, difficult to predict; decision-making may take years.

Finally, RegTP has auctioned off various wireless local loop licenses and frequencies. This has attracted additional competitors to enter the German market, which may also affect our business even though we are not active in the local exchange market.

We are or may become subject to certain other requirements as a licensed telecommunications provider in Germany. For example, licensed providers are under an obligation to present their standard terms and conditions to the RegTP. The RegTP may, based upon certain criteria, decide not to accept these terms and conditions. We also may become subject to universal service financing obligations. Currently, it is unlikely that the universal service financing system will be implemented in Germany in the foreseeable

future. However, in the event that the system is implemented, we could be subject to such universal service requirements and financing schemes if we at that time should have a market share in Germany of at least 4%.

## France

The French Telecommunications Act of 26 July 1996 further developed the new legal framework for the development of a competitive telecommunications market in France.

As a result, the French Regulator (Autorite de Regulation des Telecommunications) was created on January 1, 1997 with the task of overseeing the development of a competitive telecommunications

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sector which would provide benefits to the user. In addition, the monopoly on the provision of voice telephony services to the public was abolished as of January 1, 1998.

Under the French regulatory regime, an L33.1 license is required for the establishment and running by the operator of a telecommunications network open to the public (an infrastructure licence) and the provision of public voice telephony services requires an L34.1 license. An infrastructure license is required by those operators who wish to install or purchase dark fiber for the running of a network. As with the L34.1 voice license, L33.1 infrastructure licenses are granted on a regional or nation-wide basis and it is possible to be granted a license just for the region of Paris and its suburbs. Primus Telecommunications S.A. was awarded the first L34.1 only license on May 29, 1998. Call back operators and least cost routing operators not using their own leased lines as defined by the French Regulator, do not need to apply and obtain an L34.1 license.

Effective January 1, 2000, Primus Telecommunications S.A. merged with Telecontinent S.A. and formed Primus Telecommunications France S.A. This merged company has both an L33.1 license and L34.1 license. Following the merger of the two entities, Primus Telecommunications France S.A. handed back to the French Regulator the 1633 carrier selection code held by Telecontinent S.A. The merged company has also the use of two "3PBQ" numbers which are equivalent to four digit free phone access numbers for use in regions where the carrier selection code is not operational due to the lack of point of interconnection.

Companies that desire to interconnect with France Telecom's network must enter into an interconnection agreement which applies certain fixed interconnection tariffs set out in an interconnection catalog. In order to obtain the lowest available interconnection tariffs throughout France, we would need to obtain a nation-wide infrastructure licence and install dark fiber and points of interconnection in all the different French regions (a minimum of 18 regions) where we are to be originating and terminating traffic.

We have entered into an interconnection agreement with France Telecom at the regulated standard interconnection rates applicable to L34.1 voice license holders set out in the interconnection catalog. In order to interconnect with France Telecom, we are required to install, in addition to our principal switch in the city of Paris, a second point of presence to be interconnected with France Telecom in the outer zone of the Parisian region as defined for telecommunications purposes. We have located a site for our principal Ericsson AXE-10 switch and have ordered the leased lines from France Telecom to interconnect our switch with the most convenient France Telecom points of interconnection. France Telecom estimates and sets out in the interconnection agreement that leased lines so requested will be provided within a period of 6 to 18 months.

It is possible that the licence fees currently paid could be further increased. In addition, the interconnection fees payable to France Telecom include an element relating to the funding of France Telecom's universal service financing obligations, and it is possible that the levels of such contributions will be raised in the foreseeable future.

We have been granted the 1656 four digit indirect access code; however, there have been seven one digit indirect access numbers granted to other telecommunications providers in France. Those operators with a one digit access number will have a competitive advantage. It is highly unlikely that we will be able to obtain a one digit access number.

## Latin America

Various countries in Latin America have taken initial steps towards deregulating their telecommunications markets. Each Latin American country has a different national regulatory regime and each country is in a different stage of liberalization. Historically, Latin American countries have reserved the provision of voice services to the state-owned PTTs. In the last few years, several Latin

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American countries have privatized completely or partially their national carriers, including Argentina, Chile, Mexico, Peru and Venezuela. In addition, certain countries have opened partially or completely their local and/or long distance markets, most notably Chile, which has competitive operators in all sectors. Argentina has liberalized certain telecommunications services, such as value-added, paging, data transmission and personal communications services. Brazil currently is in the process of opening its telecommunications market to competition. Brazil intends to privatize Telecomunicas Brasileiras S.A. (Telebras), which, through its 28 regional subsidiaries, holds a monopoly over the provision of local telephone services, as well as Empresa Brasileira de Telecomunicacoes S.A., the monopoly provider of long distance and international telephone services. Moreover, Colombia recently has opened national and international long distance services to competition, and has awarded two new concessions for the provision of these services to two major local exchange carriers in Colombia—Empresa Brasileira de Telecomunicaciones S.A. de Bogota and Orbitel, S.A. In Colombia the provision of value-added services and voice services to closed-user groups is open to competition. Mexico initiated competition in the domestic and international long distance services market on January 1, 1996, which are subject to a concession requirement. In addition, the Mexican government has opened recently basic telephony, and currently is auctioning radio-electric spectrum frequencies for the provision of personal communications services and Local Multipoint Distribution System Services. Value-added services are also fully open to competition in Mexico. Finally, in the Central American region, Guatemala and El Salvador recently have opened their telecommunications market to competition, abolishing all restrictions on foreign investment in this sector. Other countries in Central America, such as Nicaragua and Honduras, are in the process of privatizing their state-owned carriers, and have not opened fully their markets to competition.

## Employees

The following table summarizes the number of our full-time employees as of December 31, 2000, by region and classification:

	North America	Europe	Asia- Pacific	Total
Sales and Marketing	438	261	283	982
Technical	458	159	148	765
Management and Administrative	442	137	81	660
Customer Service and Support	386	156	69	611
Total	1,724	713	581	3,018

We have never experienced a work stoppage, and none of our employees is represented by a labor union or covered by a collective bargaining agreement. We consider our employee relations to be excellent.

## ITEM 2. PROPERTIES

We currently lease our corporate headquarters which is located in McLean, Virginia. Additionally, we also lease administrative, technical and sales office space, as well as space for our switches and data centers in various locations in the countries in which we operate. Total leased space in the United States, Canada, Australia, the United Kingdom, Japan, Mexico, Germany and France, as well as other countries in which we operate, approximates 854,000 square feet and the total annual lease costs are approximately \$16.3 million. The operating leases expire at various times with the longest commitment expiring in 2012.

Certain communications equipment which includes network switches and transmission lines is leased through operating leases, capital leases and vendor financing agreements. We believe that our

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present administrative and sales office facilities are adequate for our anticipated operations and that similar space can be obtained readily as needed, and we further believe that the current leased facilities are adequate to house existing communications equipment. However, as our network grows, we expect to lease additional locations to house the new equipment.

## ITEM 3. 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. We acquired TresCom in June 1998 and TresCom is currently our subsidiary. Plaintiff is seeking approximately \$14 million in damages, plus legal fees and costs. We filed an answer on January 25, 2000 and discovery has commenced. Our 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 our financial results. We intend to defend the case vigorously. Management believes that this suit will not have a material adverse effect on our financial condition, results of operations or cash flows.

We are 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 us. Management believes that any aggregate liability that may ultimately result from the resolution of these matters will not have any material adverse effect on our financial condition or results of operations or cash flows.

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

None.

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## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

#### Common Stock

Primus Telecommunications Group, Incorporated ("Primus" or the "Company") Common Stock trades on the Nasdaq Stock Market under the symbol "PRTL". On March 15, 2001, the last sale price of the Company's common stock was \$2.59375. The following table sets forth, for the period indicated, the high and low sales prices of the Company's Common Stock.

Period	High	Low
<b>2000</b>		
1 <sup>st</sup> Quarter	\$ 51 <sup>3</sup> / <sub>4</sub>	\$ 30 <sup>1</sup> / <sub>2</sub>
2 <sup>nd</sup> Quarter	\$ 49 <sup>7</sup> / <sub>8</sub>	\$ 19 <sup>1</sup> / <sub>2</sub>
3 <sup>rd</sup> Quarter	\$ 26 <sup>3</sup> / <sub>4</sub>	\$ 9 <sup>5</sup> / <sub>32</sub>
4 <sup>th</sup> Quarter	\$ 9 <sup>3</sup> / <sub>4</sub>	\$ 1 <sup>5</sup> / <sub>8</sub>
<b>1999</b>		
1 <sup>st</sup> Quarter	\$ 18 <sup>1</sup> / <sub>4</sub>	\$ 9 <sup>7</sup> / <sub>8</sub>
2 <sup>nd</sup> Quarter	\$ 23 <sup>3</sup> / <sub>8</sub>	\$ 8 <sup>7</sup> / <sub>8</sub>
3 <sup>rd</sup> Quarter	\$ 25 <sup>1</sup> / <sub>8</sub>	\$ 15 <sup>3</sup> / <sub>4</sub>
4 <sup>th</sup> Quarter	\$ 39	\$ 17 <sup>7</sup> / <sub>16</sub>

#### Dividend Policy

The Company has not paid any cash dividends on its Common Stock to date. The payment of dividends, if any, in the future is within the discretion of the Board of Directors and will depend on the Company's earnings, its capital requirements and financial condition. Dividends are currently restricted by the senior note indentures, and may be restricted by other credit arrangements entered into in the future by the Company. It is the present intention of the Board of Directors to retain all earnings, if any, for use in the Company's business operations, and accordingly, the Board of Directors does not expect to declare or pay any dividends in the foreseeable future.

#### Holdings

As of February 28, 2001, the Company had approximately 458 holders of record of its Common Stock. The Company believes that it has in excess of 400 beneficial owners.

#### Recent Sales of Unregistered Securities

On January 10, 2001, the Company received from Inktomi Corporation an investment, which is a part of a strategic alliance created between the two companies in June 2000, of \$10 million in exchange for 2,862,254 restricted shares of the Company's common stock.

In January 2001, the Company purchased \$38.2 million of principal amount of its high yield debt and convertible debentures, and exchanged \$129.6 million in principal amount of the 2000 Convertible Debentures for 8,308,258 shares of the Company's common stock. The after-tax extraordinary gain of \$106.1 million on early extinguishment of the debt will be reflected in the first quarter 2001 results.

In September 2000, the Company acquired 100% of the assets of iO2Group, Inc. ("iO2"), an Internet services firm, for approximately \$0.4 million in cash. The terms of the acquisition agreement provide for additional consideration to be paid if the acquired company's results of operations exceed certain targeted levels and certain other business requirements are met. Such consideration will be paid

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in shares of the Company's common stock and the maximum number of shares payable as of December 31, 2000 is 42,707. The value of the shares, if any, will be recorded as additional cost of the acquired company when the number of shares to be delivered becomes probable.

In August 2000, the Company acquired 100% of Seker BBS S.A. ("Seker"), a Spanish ISP Provider, for \$1.1 million. The Company paid \$0.5 million in cash and 21,953 shares of the Company's common stock.

In August 2000, the Company acquired 100% of Nexus Comunicaciones S.A. ("Nexus"), a Spanish ISP, for \$0.9 million. The Company paid \$0.4 million in cash and 16,618 shares of the Company's common stock.

In June 2000, the Company acquired 100% of CTE Networks ("CTE"), a long distance reseller, for \$12.3 million. The Company paid \$8.3 million in cash and 50,269 shares of the Company's common stock.

In May 2000, the Company acquired 100% of InterNeXt S.A. ("InterNeXt"), an ISP with national facilities in France, for \$13.1 million, comprised of \$12.0 million in cash and 33,446 shares of the Company's common stock.

In March 2000, the Company acquired 100% of Eco Software, Inc. ("Shore.Net"), a business-focused ISP based in the United States, for \$44.5 million, comprised of \$22.9 million in cash and 477,886 shares of the Company's common stock.

In February 2000, the Company acquired 51% of each of CS Communications Systems GmbH and CS Network GmbH ("Citrus"), a reseller of voice traffic and seller of telecommunications equipment and accessories, for \$1.0 million, comprised of \$0.9 million in cash and 2,092 shares of the Company's common stock.

In February 2000, the Company acquired over 96% of the common stock of LCR Telecom Group, Plc ("LCR Telecom"), and subsequently the Company acquired the remaining shares for a total of 100%, in exchange for 2,216,632 shares of the Company's common stock valued at \$93.2 million.

In January 2000, the Company acquired 100% of Infinity Online Systems ("Infinity Online"), an ISP based in Ontario, Canada, for \$2.3 million, comprised of \$1.2 million in cash and 29,919 shares of the Company's common stock.

In June 1999, the Company acquired Telephone Savings Network Limited ("TelSN"), a Canadian reseller of local services to small- and medium-sized business customers, for a purchase price of \$5.3 million comprised of \$2.6 million in cash and 152,235 shares of the Company's common stock. In October 1999, February 2000 and August 2000, pursuant to earn-out provisions of the purchase agreement, the Company issued an additional 74,641 shares of the Company's common stock.

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## ITEM 6. SELECTED FINANCIAL DATA

The following sets forth selected consolidated financial data of the Company for the years ended December 31, 2000, 1999, 1998, 1997 and 1996 as derived from the historical financial statements of the Company:

### Statement of Operations Data:

	For the Period Ended December 31,				
	2000	1999	1998	1997	1996
	(in thousands, except per share data)				
Net revenue	\$ 1,199,422	\$ 832,739	\$ 421,628	\$ 280,197	\$ 172,972
Gross margin	\$ 338,241	\$ 208,140	\$ 68,612	\$ 27,466	\$ 14,127
Selling, general and administrative expenses	\$ 330,411	\$ 199,581	\$ 79,532	\$ 50,622	\$ 20,114
Loss from operations	\$ (112,865)	\$ (46,398)	\$ (35,105)	\$ (29,889)	\$ (8,151)
Loss before extraordinary item	\$ (215,616)	\$ (112,736)	\$ (63,648)	\$ (36,239)	\$ (8,764)
Gain on early extinguishment of debt	\$ 40,952	—	—	—	—
Net loss	\$ (174,664)	\$ (112,736)	\$ (63,648)	\$ (36,239)	\$ (8,764)
Basic and diluted net loss per share:					
Loss before extraordinary item	\$ (5.43)	\$ (3.72)	\$ (2.61)	\$ (1.99)	\$ (0.75)
Gain on early extinguishment of debt	1.03	—	—	—	—
Net loss	\$ (4.40)	\$ (3.72)	\$ (2.61)	\$ (1.99)	\$ (0.75)

As of December 31, 2000, 1999, 1998, 1997 and 1996, the Company's earnings were insufficient to cover the fixed charges by approximately \$174.7 million, \$113.0 million, \$63.6 million, \$36.4 million and \$8.6 million, respectively.

### Balance Sheet Data:

As of December 31,				
2000	1999	1998	1997	1996

(in thousands)

Total assets	\$	1,748,126	\$	1,450,746	\$	673,963	\$	355,393	\$	135,609
Total long-term obligations	\$	1,256,453	\$	929,944	\$	420,174	\$	231,211	\$	17,248
Total stockholders' equity	\$	83,695	\$	190,859	\$	114,917	\$	42,526	\$	76,440

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OVERVIEW

### Overview

Primus is a global facilities-based Total Service Provider offering bundled voice, data, Internet, DSL, e-commerce, Web hosting, enhanced application, VOIP, virtual private network (VPN) and other value-added services. Primus's customers are primarily in North America, Europe and selected markets within the Asia-Pacific region. The Company provides services over its network, which consists of:

- 23 carrier-grade switches, including 19 international gateway switches in the United States, Australia, Canada, France, Germany, Japan, Puerto Rico and the United Kingdom, and four domestic switches in Australia;
- more than 300 POPs and Internet access nodes in additional markets within its principal service regions;
- both owned and leased transmission capacity on undersea and land-based fiber optic cable systems; and

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- an international satellite earth station located in London, together with the capacity the Company leased on an Intelsat satellite.

Utilizing this network, along with resale arrangements and foreign carrier agreements, Primus offers service to approximately 2.0 million customers as of December 31, 2000.

Primus was founded in February 1994, and through the first half of 1995 the Company was a development stage enterprise involved in various start-up activities. It began generating revenue during March 1995. On March 1, 1996 it acquired Axicorp Pty. Ltd., the fourth largest telecommunications provider in Australia. Primus then entered the Japanese and German markets with its October 1997 acquisition of TelePassport/USFI and expanded its service offerings in Australia with the March 1998 acquisition of a controlling interest in Hotkey Internet Services Pty. Ltd., an Australia-based ISP, and the April 1998 acquisition of Eclipse Telecommunications Pty. Ltd., an Australia-based data communications service provider.

On June 9, 1998, Primus acquired the operations of TresCom. The TresCom merger expanded the scope and coverage of the Company's communications network, thereby providing additional opportunities to migrate traffic onto the network, resulting in better utilization of the network and reduced variable costs.

In 1999, among other things, Primus:

- acquired London Telecom, a Canadian long distance provider, and certain related companies;
- purchased a residential long distance customer base, customer support assets and residential Internet customers and network from AT&T Canada and ACC Telenterprises;
- purchased Telegroup's global retail customer businesses, which included retail customers primarily in North America and Europe; and
- organized its Internet and data services business into a new subsidiary, iPRIMUS.com, acquired GlobalServe, a Canadian ISP, Matrix, a Brazilian ISP, TCP/IP and TouchNet, two independent German ISPs, and the remaining interest in Hotkey Internet Services, entered into agreements with Covad Communications and NorthPoint Communications to offer DSL services, acquired Digital Select, a provider of DSL Internet access and Web content, and 1492 Technologies, a Web site development, consulting and service firm and began to build an IP-based network platform in Australia.

In 2000, among other things, Primus:

- acquired LCR Telecom Group, Plc, an international telecommunications company operating principally in European markets, providing least cost routing, international callback and other value-added services primarily to small- and medium-sized enterprises;
- purchased CTE Networks, a Canadian long distance reseller;
- purchased A-Tel GmbH, a German reseller of voice traffic to small- and medium-sized enterprises; and
- expanded its Internet and data services business, enhanced by acquisitions such as iO2Group, Inc., a United States-based Internet services firm, Eco Software, Inc., a United States-based business-focused ISP, Bekkoame Internet, Inc., a Japanese facilities-based ISP, InterNeXt S.A., a value-added ISP with national facilities in France, Seker BBS S.A. and Nexus Comunicaciones S.A., two Spanish ISPs, and Infinity Online Systems, a Canada-based ISP.

Net revenue is earned based on the number of minutes billable and is recorded upon completion of a call, adjusted for sales allowance. The Company generally prices its services at a savings compared to the major carriers operating in Primus's principal service regions. Net revenue is derived from

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carrying a mix of business, residential and carrier long distance traffic, data and Internet traffic in the United States, Canada, Brazil, the United Kingdom, continental Europe, Australia and Japan, also from the provision of local and cellular services. Primus expects to continue to generate net revenue from internal growth through sales and marketing efforts focused on customers with significant international long distance usage, including small- and medium-sized businesses, multinational corporations, ethnic residential customers and other telecommunications carriers and resellers.

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 only recently have begun to affect non-United States and non-United Kingdom telecommunications markets, including Australia, the deregulatory trend in such markets 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.

Cost of revenue is comprised primarily of costs incurred from other domestic and foreign telecommunications carriers to originate, transport and terminate calls. The majority of Primus's cost of revenue is variable, based upon the number of minutes of use, with transmission and termination costs being the most significant expense. 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, next 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 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. These expenses have been increasing consistently with the expansion of operations. Primus expects this trend

to continue and believes that it will incur additional selling, general and administrative expenses to support the expansion of sales and marketing efforts and operations in current markets as well as new markets in the principal service regions.

Although the Company's functional currency is the United States dollar, a significant portion of net revenue is derived from sales and operations outside the United States. 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 may have a significant 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.

#### Other Operating Data

The following information for the years ended December 31, 2000 and 1999 is provided for informational purposes and should be read in conjunction with the Consolidated Financial Statements and Notes.

	For the Year Ended December 31, 2000			
	Minutes of Long Distance Use			
	Net Revenue	International	Domestic	Total
	(in thousands)			
North America	\$ 533,027	1,795,139	2,116,293	3,911,432
Europe	358,986	1,319,198	976,512	2,295,710
Asia-Pacific	307,409	171,188	640,882	812,070
Total	\$ 1,199,422	3,285,525	3,733,687	7,019,212
	For the Year Ended December 31, 1999			
	Minutes of Long Distance Use			
	Net Revenue	International	Domestic	Total
	(in thousands)			

North America	\$	406,083	1,219,997	1,314,528	2,534,525
Europe		195,477	600,317	300,578	900,895
Asia-Pacific		231,179	150,981	450,143	601,124
Total	\$	832,739	1,971,295	2,065,249	4,036,544

**Results of operations for the year ended December 31, 2000 as compared to the year ended December 31, 1999**

Net revenue increased \$366.7 million or 44.0% to \$1,199.4 million for the year ended December 31, 2000, from \$832.7 million for the year ended December 31, 1999. The Company's data/Internet and VOIP revenue contributed \$99.7 million and \$22.0 million, respectively, for the year ended December 31, 2000, as compared to \$30.3 million of data/Internet revenue for the year ended December 31, 1999.

North America: The Company's North American net revenue increased \$126.9 million or 31.3% to \$533.0 million for the year ended December 31, 2000, from \$406.1 million for the year ended December 31, 1999. The growth reflects the Company's 1999 and 2000 acquisitions including Telegroup (since the June 1999 acquisition), CTE (since the June 2000 acquisition), Shore.Net (since the March 2000 acquisition), Matrix Internet S.A. (since the November 1999 acquisition), 1492 Technologies (since the November 1999 acquisition), TelSN (since the June 1999 acquisition), the LTN and Wintel Companies (since the March 1999 acquisition), and Digital Select (since the November 1999 acquisition). Increased retail business and residential traffic also contributed to the increase in net revenue.

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Europe: Of the total net revenue increase, \$163.5 million was associated with the Company's European operations, which represents a growth rate of approximately 83.6%. The European net revenue increased to \$359.0 million for the year ended December 31, 2000, from \$195.5 million for the year ended December 31, 1999, despite the negative impact of declining foreign currency exchange rates against the United States dollar. The European net revenue increase is primarily attributed to increased carrier services in Germany, the United Kingdom, and France, as well as the Company's 1999 and 2000 acquisitions, including LCR Telecom (since the February 2000 acquisition), Cards & Parts (since the September 1999 acquisition), InterNext (since the May 2000 acquisition), Citrus (since the February 2000 acquisition), and A-Tel (since the May 2000 acquisition).

Asia-Pacific: The Company's Asia-Pacific net revenue increased by \$76.2 million or 33.0% to \$307.4 million for the year ended December 31, 2000 from \$231.2 million for the year ended December 31, 1999, despite the negative impact of declining foreign currency exchange rates against the United States dollar. The net revenue increase in the Asia-Pacific region was from the provision of local access in Australia, continued growth in the Company's voice business, data and Internet services growth and the acquisition of Bekko (since the March 2000 acquisition). Also, efforts were made during 2000 to focus on higher margin SME and data and Internet customers.

Cost of revenue increased \$236.6 million, from \$624.6 million, or 75.0% of net revenue, for the year ended December 31, 1999 to \$861.2 million, or 71.8% of net revenue, for the year ended December 31, 2000. The increase in the cost of revenue is primarily attributable to the increased traffic volumes associated with net revenue growth, and the addition of expense from acquired operations including LCR Telecom, CTE and Bekko. The cost of revenue as a percentage of net revenue decreased by 320 basis points from 75.0% to 71.8% as a result of expansion of the Company's global Network, a greater mix of retail versus carrier traffic, the continuing migration of existing and newly generated customer traffic onto the Company's Network and new higher margin product offerings such as data and Internet services.

Selling, general and administrative expenses increased \$130.8 million to \$330.4 million, or 27.5% of net revenue, for the year ended December 31, 2000 from \$199.6 million, or 24.0% of net revenue, for the year ended December 31, 1999. The increase is attributable to additional spending to grow the Company's data and Internet business, particularly technical sales and engineering personnel staffing to expand the Company's managed hosting and applications services. The increase from prior year also reflects the impact of the Company's SME and Internet acquisitions which include LCR Telecom, CTE, Shore.Net and Bekko.

Depreciation and amortization increased from \$55.0 million for the year ended December 31, 1999 to \$120.7 million for the year ended December 31, 2000. The increase is associated with increased amortization expense related to intangible assets arising from the Company's acquisitions and with increased depreciation expense related to capital expenditures for fiber optic cable, switching, data center and other network equipment being placed into service.

Interest expense increased to \$132.1 million for the year ended December 31, 2000 from \$79.6 million for the year ended December 31, 1999. The increase is primarily attributable to the interest expense associated with the \$300 million 5<sup>3</sup>/<sub>4</sub>% Convertible Subordinated Debentures due 2007 ("2000 Convertible Debentures"), approximately nine additional months of interest expense associated with the Company's October 1999 \$250 million 12<sup>3</sup>/<sub>4</sub>% Senior Notes Offering due 2009, ("October 1999 Senior Notes"), and to a lesser extent, increased equipment financing commitments from 2000 and 1999.

Interest and other income increased from \$13.3 million for the year ended December 31, 1999 to \$29.4 million for the year ended December 31, 2000. The increase is a result of the investment of the net proceeds of the Company's securities offerings.

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**Results of operations for the year ended December 31, 1999 as compared to the year ended December 31, 1998**

Net revenue increased \$411.1 million or 97.5% to \$832.7 million for the year ended December 31, 1999, from \$421.6 million for the year ended December 31, 1998. Of the net revenue increase, \$218.1 million was associated with the Company's North American operations, which represents a growth rate of approximately 116.0%. The growth reflects increased traffic volumes in business and ethnic residential retail operations and in carrier operations, and a full year's results of the acquired TresCom operations, as compared to approximately 7 months' TresCom operations in 1998. The 1999 results also include operations of Telegroup (since the June 1, 1999 effective date of the acquisition), AT&T Canada (since the May 31, 1999 customer base acquisition), and the LTN and Wintel Companies (since the March 31, 1999 acquisition). The total of these acquisitions contributed \$124.7 million or 57.2% of the total North American increase. The European net revenue increased from \$60.9 million for the year ended December 31, 1998 to \$195.5 million for the year ended December 31, 1999, resulting from the acquisition of Telegroup, increased retail business and residential traffic and a full year of carrier services, in the United Kingdom and Germany. The Company's Asia-Pacific net revenue increased by \$58.4 million or 33.8% to \$231.2 million for the year ended December 31, 1999 from \$172.8 million for the year ended December 31, 1998.

Cost of revenue increased \$271.6 million, from \$353.0 million, or 83.7% of net revenue, for the year ended December 31, 1998 to \$624.6 million, or 75.0% of net revenue, for the year ended December 31, 1999. The increase in the cost of revenue is primarily attributable to the increased traffic volumes and associated net revenue growth. The cost of revenue as a percentage of net revenue decreased by 870 basis points as a result of expansion of the Company's global Network, the continuing migration of existing and newly generated customer traffic onto the Company's Network, and the increase and introduction of new higher margin product offerings such as data and Internet services.

Selling, general and administrative expenses increased \$120.1 million to \$199.6 million for the year ended December 31, 1999 from \$79.5 million for the year ended December 31, 1998. The increase is attributable to the impact of increased advertising, marketing and sales expenses focused on retail revenue growth. Also, the increase is

primarily attributable to the addition of expenses from acquired operations including GlobalServe, London Telecom, the retail customer base of AT&T Canada, Telegroup, TelSN, Digital Select, and Matrix Internet.

*Depreciation and amortization* increased from \$24.2 million for the year ended December 31, 1998 to \$55.0 million for the year ended December 31, 1999. The increase is associated with increased amortization expense related to intangible assets arising from the Company's acquisitions and with increased depreciation expense related to capital expenditures for fiber optic cable, switching and other network equipment being placed into service.

*Interest expense* increased to \$79.6 million for the year ended December 31, 1999 from \$40.0 million for the year ended December 31, 1998. The increase is primarily attributable to the interest expense associated with five additional months of interest expense associated with the Company's May 1998 \$150 million 9<sup>7</sup>/<sub>8</sub>% Senior Notes Offering, due 2008 ("1998 Senior Notes"), the January 1999 \$245.5 million 11<sup>1</sup>/<sub>4</sub>% Senior Notes Offering, due 2009, ("January 1999 Senior Notes") and the Company's October 1999 \$250 million 12<sup>3</sup>/<sub>4</sub>% Senior Notes Offering, due 2009, ("October 1999 Senior Notes") and, to a lesser extent, the Company's capital lease financing.

*Interest and other income* increased from \$11.5 million for the year ended December 31, 1998 to \$13.3 million for the year ended December 31, 1999. The increase is a result of the investment of the net proceeds of the Company's 1999 and 1998 Senior Notes offerings, and the secondary equity offering.

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## Liquidity and Capital Resources

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 and private placements of debt and equity securities, bank debt, vendor financing and capital lease financing.

Net cash used in operating activities was \$131.0 million for the year ended December 31, 2000 as compared to net cash used in operating activities of \$55.6 million for the year ended December 31, 1999. The increase in the net loss before gain on early extinguishment of debt from 1999 to 2000 was \$102.9 million. This was partially offset by increased non-cash operating expenses of \$55.6 million, with the remainder of the increase in net loss resulting from increased interest expense. The remaining increase in operating cash used is primarily comprised of an increase in accounts receivable of \$79.7 million caused by higher revenue in 2000. This is partially offset by the net increase in accounts payable and accrued expenses resulting from higher expenses in 2000 due to acquisition and internal growth, as well as decreases in prepaid expenses and other current assets and increase in accrued interest payable due to the interest due on the 2000 Convertible Debentures.

Net cash used in investing activities was \$240.0 million for the year ended December 31, 2000 compared to net cash used in investing activities of \$200.2 million for the year ended December 31, 1999 reflecting the Company's strategy to continue to develop its network and acquire strategic companies. The \$240.0 million used during the year ended December 31, 2000 includes \$193.8 million used in the purchase of fiber optic cable, switching, data center and other network equipment and \$57.2 million used to acquire Shore.Net, Infinity Online, Citrus, LCR Telecom, Bekko, DIPL, A-Tel, Global Sales, InterNeXt, CTE, Nexus, Seker and iO2. Cash was also used to purchase \$15.0 million of marketable securities of Pilot Network Services. Offsetting these investments is the sale of \$25.9 million of the Company's restricted investments used to fulfill its sixth interest obligation on the 1997 Senior Notes.

Net cash provided by financing activities was \$307.3 million for the year ended December 31, 2000 as compared to net cash provided by financing activities of \$591.0 million during the year ended December 31, 1999. Cash provided by financing activities for the year ended December 31, 2000 resulted primarily from \$300 million of proceeds from the sale of the 2000 Convertible Debentures, as well as \$50.0 million from the Hewlett-Packard investment, partially offset by \$19.2 million used for the purchase of certain of the Company's debt securities, \$16.3 million of payments on capital leases and other long-term obligations, and \$10.3 million used for deferred financing costs associated with the 2000 Convertible Debentures and other financing arrangements.

In December 2000, the Company entered into a financing arrangement for the purchase of fiber optic capacity under an IRU Agreement in Australia for 67.6 million Australian Dollars from Optus Networks Pty. Limited. The lease term begins in fiscal year 2001 and is payable over a four-year term with an interest rate of 14.29%.

During the year ended December 31, 2000, Cisco Systems Capital Corporation provided to the Company \$50.0 million in financing to fund the purchase of network equipment, secured by the equipment purchased. At December 31, 2000, \$4.4 million was utilized under this facility and is recorded as obligations under capital lease. Borrowings under this credit facility as of December 31, 2000 are payable over a four-year term and bear an interest rate of 13.28%.

During the years ended December 31, 2000 and December 31, 1999, NTFC Capital Corporation provided to the Company \$15.0 million and \$30.0 million, respectively, in financing to fund the

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purchase of network equipment, secured by the equipment purchased. At December 31, 2000 and 1999, approximately \$43.6 million and \$24.4 million, respectively, was utilized by the Company. Borrowings under this credit facility 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% and are payable over a five-year term.

During the year ended December 31, 1999, Ericsson Financing Plc provided to the Company \$31.7 million (21.3 million British Pounds) in financing to fund the purchase of network equipment, secured by the equipment purchased. At December 31, 2000, \$12.6 million (8.5 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% and are payable over a five-year term.

During the year ended December 31, 2000, General Electric Capital Corporation provided to the Company \$20.0 million in financing to fund the purchase of network equipment, secured by the equipment purchased. At December 31, 2000, \$5.3 million was utilized under this facility. Borrowings under this credit 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 rate on funds borrowed as of December 31, 2000 is approximately 10.15%.

In March 2000, the Company entered into a strategic business alliance agreement with Hewlett-Packard Company pursuant to which Hewlett-Packard will provide products and services to enable the Company to develop data centers in Europe, Australia, Japan and Brazil. Hewlett-Packard also agreed to purchase up to \$50 million in convertible debt. Such debt will bear interest at a rate of 9.25% per annum and is convertible into the Company's common stock at a price of \$60 per share. The Company has the right under certain circumstances to require Hewlett-Packard to convert the debt to equity. As of December 31, 2000, Hewlett-Packard funded the entire \$50 million under the agreement, which is included in other long-term obligations, and is due in March 2005. Until converted, the debt will be secured by equipment purchased from Hewlett-Packard with the proceeds of the investment.

In February and March 2000, Primus completed an offering of \$300,000,000 in aggregate principal amount of 5.75% convertible subordinated debentures due February 15, 2007 ("2000 Convertible Debentures") in a private placement. The debentures are convertible into PRIMUS common stock at a price of \$49.7913 per share. The purpose of

the offering was to fund capital expenditures to expand and enhance the Company's communications network and for other permitted corporate purposes, including possible acquisitions.

The Company anticipates aggregate capital expenditures of approximately \$150 million to \$200 million during 2001, but may decide to alter its plans depending upon capital market conditions. Such capital expenditures will be primarily to expand and enhance the Company's existing communications network, to deploy the Company's global broadband ATM+IP network, and to purchase international and domestic switches, POPs and data centers for voice, data and Internet services, other transmission equipment and support systems.

The Company believes that its existing cash and available capital lease and equipment financing (subject to the limitations in the Indentures related to the Company's senior notes) will be sufficient to fund the Company's operating losses, debt service requirements, capital expenditures, acquisitions and other cash needs for its operations through the second quarter of 2002. The Company is continually evaluating the expansion of its service offerings and plans to make further investments in and enhancements to its switches and distribution channels in order to expand its service offerings. In order to fund these additional cash requirements, the Company anticipates that it will be required to raise additional financing from public or private equity or debt sources. However, the Company may also be required to reduce its expansion and capital expenditures in the event it cannot raise additional capital when needed. In that event, the Company may not be able to service its debt or other obligations and could be required to seek relief from such obligations. Additionally, if the Company's plans or

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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 be required to seek additional capital sooner than expected.

The Company presently has no binding commitment or binding agreement with respect to any material acquisition, joint venture or strategic investment. However, from time to time, the Company may be party to one or more non-binding letters of intent regarding material acquisitions which, if consummated, may be paid for with cash or through the issuance of a significant number of shares of the Company's common stock. The Company and/or its subsidiaries will evaluate on a continuing basis the most efficient use of the Company's capital, including investment in the Company's network and systems, lines of business, potential acquisitions, and, depending upon market conditions, purchasing, refinancing or otherwise retiring certain of the Company's outstanding debt and/or equity securities in the open market or by other means to the extent permitted by its existing covenant restrictions.

### Special Note Regarding Forward Looking Statements

Statements in this Annual Report on Form 10-K, including those concerning the Company's expectations of future sales, net revenue, gross profit, net income, network development, traffic development, capital expenditures, selling, general and administrative expenses, service introductions and cash requirements include certain forward-looking statements. As such, actual results may vary materially from such expectations. Factors, which could cause results to differ from expectations, include risks associated with:

*Liquidity Restrictions; Possible Inability to Obtain Necessary Financing.* The Company believes that its existing cash and available capital lease and equipment financing (subject to the limitations in the Indentures related to the Company's senior notes) will be sufficient to fund the Company's operating losses, debt service requirements, capital expenditures, acquisitions and other cash needs for its operations through the second quarter of 2002. The Company is continually evaluating the expansion of its service offerings and plans to make further investments in and enhancements to its switches and distribution channels in order to expand its service offerings. In order to fund these additional cash requirements, the Company anticipates that it will be required to raise additional financing from public or private equity or debt sources. However, the Company may also be required to reduce its expansion and capital expenditures in the event it cannot raise additional capital when needed. In that event, the Company may not be able to service its debt or other obligations and could be required to seek protection under the bankruptcy laws of the United States or other similar laws in other countries. 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 be required to seek additional capital sooner than expected.

*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

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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.

*Limited Operating History; Entry into Developing Markets.* The Company was founded in February 1994, began generating revenue in March 1995. The Company intends to enter additional markets or businesses, including establishing an Internet business, where the Company has limited or no operating experience. Accordingly, the Company cannot provide assurance that its future operations will generate operating or net income, 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.

*Limited Operating History; Entry into Internet and data business.* The Company has recently begun targeting businesses and residential customers for Internet and data services through its subsidiary iPRIMUS.com and other recently 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, Brazil and Germany, and offers Internet transmission services in the Indian Ocean/Southeast Asia regions through its satellite earth station in London.

The market for Internet connectivity and related services is extremely competitive. The Company's primary competitors include 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;

- 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 in a highly competitive market;
- 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;

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- 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.

Finally, the Company expects to incur operating losses and negative cash flow from its Internet and data business as the Company expands, builds out and upgrades this part of the business. Any such losses and negative cash flow are expected to partially offset the expected positive cash flow generated by the voice business and effectively reduce the overall cash flow of the Company as a whole.

*Managing Rapid Growth.* The Company's strategy of rapid growth has placed, and is expected to continue to place, 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 approximately \$399 million as of December 31, 2000. The Company expects to continue to incur additional operating losses and negative cash flow as it expands its operations and continues to build-out and upgrade its network. 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 profitability or positive cash flow from operations in any future period.

*Acquisition and Strategic Investment Risks.* Acquisitions, a key element in the Company's growth strategy, involve operational risks, including the possibility that an acquisition does not ultimately provide the benefits originally anticipated by management, while the Company continues to incur operating expenses to provide the services formerly provided by the acquired company, and financial risks including the incurrence of indebtedness by the Company in order to affect the acquisition and the consequent need to service that indebtedness.

*Integration of Acquired Businesses.* 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.

*Intense Competition.* The long distance telecommunications 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 increase 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

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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.

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

*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.

*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. The financial systems in Europe must also be made compliant with the conversion to the Euro currency. There can be no assurance that the Company will not encounter delays or cost-overruns or suffer adverse consequences in implementing new systems when required.

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

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

*Dependence on Key Personnel.* The loss of the services of K. Paul Singh, the Company's Chairman and Chief Executive Officer, or the services of its other key personnel, or the inability of the Company to attract and retain additional key management, technical and sales personnel (for which competition is intense in the telecommunications industry), 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.

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*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 material adverse effect on the business by damaging the network facilities or curtailing telephone traffic as a result of the effects of such events, such as destruction of homes and businesses.

## ITEM 7A. 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*—Although the Company's functional currency is the United States dollar, a significant portion of the Company's net revenue is derived from its sales and operations outside the United States. 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. For example, the Company estimates that the total adverse impact of foreign currency exchange rate changes from the fourth quarter 1999 reduced the reported revenue for the twelve month period ended December 31, 2000 by approximately \$60 million. Due to the large percentage of the Company's revenues derived outside of the United States, continuing strengthening of the United States Dollar would continue to 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 loss" within the stockholders' equity section of the consolidated balance sheet. The Company historically has not engaged in hedging transactions to mitigate foreign exchange risk.

*Interest rates*—We are currently not exposed to material future earnings or cash flow exposures from changes in interest rates on long-term debt obligations because a substantial majority of our long-term debt obligations are at fixed interest rates. However, we are exposed to interest rate risk as additional financing may be required due to the large operating losses and capital expenditures associated with establishing and expanding our networks and facilities. The interest rates that we will be able to obtain on additional financing, if any, will depend on market conditions at that time, and may differ from the rates we have secured on our current debt. We do 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 \$1,109 million), based on quoted market prices, at December 31, 2000 was \$285 million.

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## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Independent Auditors' Report	F-2
Consolidated Financial Statements	
Consolidated Statements of Operations for the years ended December 31, 2000, 1999 and 1998	F-3
Consolidated Balance Sheets as of December 31, 2000 and 1999	F-4
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998	F-6
Consolidated Statements of Comprehensive Loss for the years ended December 31, 2000, 1999 and 1998	F-7

**PART III**

The information required by Part III will be provided in the Company's definitive proxy statement for the Company's 2001 annual meeting of stockholders (involving the election of directors), which definitive proxy statement will be filed pursuant to Regulation 14A not later than April 30, 2001 ("2000 Proxy Statement"), and is incorporated herein by this reference.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Information relating to directors of the Company is set forth under the caption entitled "Election of Directors" in the Company's 2001 Proxy Statement and is incorporated herein by reference. Information relating to the executive officers of the Company is set forth in the Company's 2001 Proxy Statement under the caption "Executive Officers, Directors and Key Employees" and is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION**

The information regarding compensation of officers and directors of the Company is set forth under the caption entitled "Executive Compensation" in the Company's 2001 Proxy Statement and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

Information regarding ownership of certain of the Company's securities is set forth under the captions entitled "Security Ownership of Certain Beneficial Owners" and "Security Ownership of Management" in the Company's 2001 Proxy Statement and is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Information regarding certain relationships and related transactions with the Company is set forth under the caption entitled "Certain Relationships and Related Transactions" in the Company's 2001 Proxy Statement and is incorporated herein by reference.

**PART IV****ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K**

- a)  
Financial Statements and Schedules

The financial statements as set forth under Item 8 of this report on Form 10-K are incorporated herein.

**Financial Statement Schedules:****Page**

(II) Valuation and Qualifying Accounts

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All other financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included.

- b)  
Reports on 8-K

Form 8-K dated November 3, 2000 was filed to disclose the Company's financial results for the quarter ended September 30, 2000.

- c)  
Exhibit listing

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").
4.1	Specimen Certificate of Primus Common Stock; Incorporated by reference to Exhibit 4.1 of the IPO Registration Statement.

- 4.2 Form of Indenture; Incorporated by reference to Exhibit 4.1 of the Registration Statement on Form S-1, No 333-30195 (the "1997 Senior Note Registration Statement").
- 4.3 Form of Indenture of Primus, as amended and restated on January 20, 1999, between Primus and First Union National Bank; Incorporated by reference to Exhibit 4.3 of the 1998 Form 10-K.
- 4.4 Form of Warrant Agreement of Primus; Incorporated by reference to Exhibit 4.2 of the 1997 Senior Note Registration Statement.
- 4.5 Indenture, dated May 19, 1998, between Primus and First Union National Bank; Incorporated by reference to Exhibit 4.4 of the Registration Statement on Form S-4, No 333-58547 (the "1998 Senior Note Registration Statement").
- 4.6 Specimen 9<sup>7</sup>/<sub>8</sub>% Senior Note due 2008; Incorporated by reference to Exhibit A included in Exhibit 4.4 of the 1998 Senior Note Registration Statement.
- 4.7 Indenture, dated January 29, 1999, between Primus and First Union National Bank; Incorporated by reference to Exhibit 4.3 of the 1998 Form 10-K.
- 4.8 Specimen 11<sup>1</sup>/<sub>4</sub>% Senior Note due 2009; Incorporated by reference to Exhibit A included in Exhibit 4.7.

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- 4.9 Rights Agreement, dated as of December 23, 1998, between Primus and StockTrans, Inc., including the Form of Rights Certificate (Exhibit A), the Certificate of Designation (Exhibit B) and the Form of Summary of Rights (Exhibit C); Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A, No 000-29092 filed with the Commission on December 30, 1998.
  - 4.10 Form of legend on certificates representing shares of Common Stock regarding Series B Junior Participating Preferred Stock Purchase Rights; Incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form 8-A, No 000-29092 filed with the Commission on December 30, 1998.
  - 4.11 Supplemental Indenture between Primus and First Union National Bank dated January 20, 1999; Incorporated by reference to Exhibit 4.3 to Amendment No. 1 to the Company's Registration Statement on Form S-4, No. 333-76965, filed with the Commission on May 6, 1999.
  - 4.12 Amendment 1999-1 to the Primus Telecommunications Group, Incorporated Stock Option Plan; Incorporated by reference to Exhibit 10.14 to Post-Effective Amendment No. 1 to the Company's Registration Statement on Form S-4, No. 333-76965, filed with the Commission on August 2, 1999.
  - 4.13 Specimen 11<sup>3</sup>/<sub>4</sub>% Senior Note Due 2004; Incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-4, No. 333-90179, filed with the Commission on November 2, 1999 (the "November S-4").
  - 4.14 Indenture, dated October 15, 1999, between the Company and first Union National Bank; Incorporated by reference to the November S-4.
  - 4.15 Specimen 12<sup>3</sup>/<sub>4</sub>% Senior Note due 2009; Incorporated by reference to Exhibit A to Exhibit 4.14 hereto.
  - 4.16 Indenture, dated February 24, 2000, between the Company and First Union National Bank.\*
  - 4.17 Specimen 5<sup>3</sup>/<sub>4</sub>% convertible subordinated debenture due 2007; Incorporated by reference to Exhibit A to Exhibit 4.16 hereto.
  - 10.1 Amendment No. 1 to Stockholder Agreement among Warburg, Pincus, K. Paul Singh, Primus, and TresCom, dated as of April 16, 1998; Incorporated by reference to Exhibit 10.1 of the Form 8-K for Amendments.
  - 10.2 Switched Transit Agreement, dated June 5, 1995, between Teleglobe USA, Inc. and Primus for the provision of services to India; Incorporated by reference to Exhibit 10.2 of the IPO Registration Statement.
  - 10.3 Hardpatch Transit Agreement, dated February 29, 1996, between Teleglobe USA, Inc. and Primus for the provision of services to Iran; Incorporated by reference to Exhibit 10.3 of the IPO Registration Statement.
  - 10.4 Employment Agreement, dated June 1, 1994, between Primus and K. Paul Singh; Incorporated by reference to Exhibit 10.5 of the IPO Registration Statement.\*\*
  - 10.5 Primus 1995 Stock Option Plan; Incorporated by reference to Exhibit 10.6 of the IPO Registration Statement. \*\*
  - 10.6 Primus 1995 Director Stock Option Plan; Incorporated by reference to Exhibit 10.7 of the IPO Registration Statement. \*\*

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- 10.7 Registration Rights Agreement, dated July 31, 1996, among Primus, Quantum Industrial Partners LDC, S-C Phoenix Holdings, L.L.C., Winston Partners II LDC and Winston Partners LLC; Incorporated by reference to Exhibit 10.11 of the IPO Registration Statement.

- 10.8 Service Provider Agreement between Telstra Corporation Limited and Axicorp Pty., Ltd., dated May 3, 1995; Incorporated by reference to Exhibit 10.12 of the IPO Registration Statement.
- 10.9 Dealer Agreement between Telstra Corporation Limited and Axicorp Pty., Ltd. dated January 8, 1996; Incorporated by reference to Exhibit 10.13 of the IPO Registration Statement.
- 10.10 Hardpatch Transit Agreement dated October 5, 1995 between Teleglobe USA, Inc. and Primus regarding the provision of services to India; Incorporated by reference to Exhibit 10.14 of the IPO Registration Statement.
- 10.11 Master Lease Agreement dated as of November 21, 1997 between NTFC Capital Corporation and Primus Telecommunications, Inc.; Incorporated by reference to Exhibit 10.17 of Primus's Annual Report on Form 10-K for the year ended December 31, 1997 (the "1997 10-K"), as amended on Form 10-K/A dated April 30, 1998.
- 10.12 Primus Employee Stock Purchase Plan; Incorporated by reference to Exhibit 10.15 of the 1997 Senior Note Registration Statement. \*\*
- 10.13 Primus 401(k) Plan; Incorporated by reference to Exhibit 4.4 of the Primus Registration Statement on Form S-8 (No. 333-35005).
- 10.14 Registration Rights Agreement, dated May 19, 1998, among Primus Telecommunications Group, Incorporated, Primus Telecommunications, Incorporated, Primus Telecommunications Pty. Ltd. and Lehman Brothers, Inc.; Incorporated by reference to Exhibit 10.23 of the 1998 Senior Note Registration Statement.
- 10.15 Primus Telecommunications Group, Incorporated-TresCom International Stock Option Plan Incorporated by reference to Exhibit 4.1 of the S-8 Registration Statement. \*\*
- 10.16 Warrant Agreement between the Company and Warburg, Pincus Investors, L.P.; Incorporated by reference to Exhibit 10.6 to the TresCom Form S-1.
- 10.17 Form of Indemnification Agreement between the Company and its directors and executive officers Incorporated by reference to Exhibit 10.23 to the TresCom Form S-1.
- 10.18 The Company's 1998 Restricted Stock Plan; Incorporated by reference to Exhibit 10.33 to Amendment No. 1 to the Company's Registration Statement on Form S-3, No. 333-86839, filed with the Commission on September 17, 1999.
- 10.19 Agreement for the Reciprocal Purchase of Capacity On the Systems of Each of the Company and Global Crossing Holdings Ltd. Effective as of May 24, 1999, incorporated by reference to Exhibit 10.19 of the Company's Annual Report of Form 10-K for the year ended December 31, 1999. \*
- 10.20 Indefeasible Right of Use Agreement between Primus Telecommunications, Inc. and Qwest Communications Corporation dated December 30, 1999, incorporated by reference to Exhibit 10.20 of the Company's Annual Report of Form 10-K for the year ended December 31, 1999.
- 10.21 Common Stock Purchase Agreement between the Company and Pilot Network Services, Inc. dated December 28, 1999, incorporated by reference to Exhibit 10.21 of the Company's Annual Report of Form 10-K for the year ended December 31, 1999. \*

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- 10.22 Warrant to purchase up to 200,000 shares of common stock of Pilot Network Services, Inc. dated December 28, 1999, incorporated by reference to Exhibit 10.22 of the Company's Annual Report of Form 10-K for the year ended December 31, 1999. \*
  - 10.23 Loan Agreement between Primus Telecommunications, Inc. and NTFC Capital Corporation dated November 22, 1999, incorporated by reference to Exhibit 10.23 of the Company's Annual Report of Form 10-K for the year ended December 31, 1999. \*
  - 10.24 Resale Registration Rights Agreement among the Company, certain of its subsidiaries, Lehman Brothers Inc., Merrill Lynch, Pierce, Fenner & Smith, Incorporated and Morgan Stanley & Co. Incorporated dated February 24, 2000, incorporated by reference to Exhibit 10.24 of the Company's Annual Report of Form 10-K for the year ended December 31, 1999.\*
  - 10.25 Form of Loan Agreement between the Company and GE Capital Corporation.\*
  - 10.26 Form of Promissory Note issued by the Company to GE Capital Corporation.\*
  - 10.27 Cisco Systems Capital Corporation \$50 million Letter of Commitment to the Company dated November 2000.\*
  - 10.28 Form of Promissory Note issued by certain officers to the Company.\*
  - 10.29 Form of Security Agreement issued by certain officers to the Company.\*
  - 21.1 Subsidiaries of the Registrant. \*
  - 23.1 Independent Auditors' Consent. \*

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EXHIBITS**

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Stockholders  
of Primus Telecommunications Group, Incorporated

We have audited the accompanying consolidated balance sheets of Primus Telecommunications Group, Incorporated and subsidiaries (the "Company") as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity, comprehensive loss and cash flows for each of the three years in the period ended December 31, 2000. Our audits also included the financial statement schedule on page S-1. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Primus Telecommunications Group, Incorporated and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP  
McLean, Virginia  
February 8, 2001

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per share amounts)**

	For the Year Ended December 31,		
	2000	1999	1998
NET REVENUE	\$ 1,199,422	\$ 832,739	\$ 421,628
COST OF REVENUE	861,181	624,599	353,016
GROSS MARGIN	338,241	208,140	68,612
OPERATING EXPENSES			

Selling, general and administrative	330,411	199,581	79,532
Depreciation and amortization	120,695	54,957	24,185
<b>Total operating expenses</b>	<b>451,106</b>	<b>254,538</b>	<b>103,717</b>
<b>LOSS FROM OPERATIONS</b>	<b>(112,865)</b>	<b>(46,398)</b>	<b>(35,105)</b>
INTEREST EXPENSE	(132,137)	(79,629)	(40,047)
INTEREST AND OTHER INCOME	29,386	13,291	11,504
<b>LOSS BEFORE INCOME TAXES</b>	<b>(215,616)</b>	<b>(112,736)</b>	<b>(63,648)</b>
INCOME TAXES	—	—	—
<b>LOSS BEFORE EXTRAORDINARY ITEM</b>	<b>(215,616)</b>	<b>(112,736)</b>	<b>(63,648)</b>
GAIN ON EARLY EXTINGUISHMENT OF DEBT	40,952	—	—
<b>NET LOSS</b>	<b>\$ (174,664)</b>	<b>\$ (112,736)</b>	<b>\$ (63,648)</b>
<b>NET LOSS PER COMMON SHARE:</b>			
<b>Basic and diluted:</b>			
Loss before extraordinary item	\$ (5.43)	\$ (3.72)	\$ (2.61)
Gain on early extinguishment of debt	1.03	—	—
Net loss	\$ (4.40)	\$ (3.72)	\$ (2.61)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<b>39,691</b>	<b>30,323</b>	<b>24,432</b>

See notes to consolidated financial statements.

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share amounts)

	December 31, 2000	December 31, 1999
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 398,378	\$ 471,542
Marketable securities	747	—
Restricted investments	—	25,932
Accounts receivable (net of allowance for doubtful accounts of \$34,464 and \$36,453)	228,877	165,384
Prepaid expenses and other current assets	46,051	63,978
<b>Total current assets</b>	<b>674,053</b>	<b>726,836</b>
PROPERTY AND EQUIPMENT—Net	466,704	285,390
GOODWILL AND OTHER INTANGIBLE ASSETS—Net	559,551	402,030
OTHER ASSETS	47,818	36,490
<b>TOTAL ASSETS</b>	<b>\$ 1,748,126</b>	<b>\$ 1,450,746</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 146,536	\$ 106,603
Accrued interconnection costs	124,854	106,623
Accrued expenses and other current liabilities	90,324	79,754
Accrued interest	37,933	32,420
Current portion of long-term obligations	14,404	16,438
<b>Total current liabilities</b>	<b>414,051</b>	<b>341,838</b>
LONG-TERM OBLIGATIONS	1,242,049	913,506
OTHER LIABILITIES	8,331	4,543
<b>Total liabilities</b>	<b>1,664,431</b>	<b>1,259,887</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$.01 par value—authorized 2,455,000 shares; none issued and outstanding	—	—
Common stock, \$.01 par value—authorized 150,000,000 and 80,000,000 shares; issued and outstanding 40,635,701 and 37,101,464 shares	406	371

Additional paid-in capital	540,321	416,433
Accumulated deficit	(399,053)	(224,389)
Accumulated other comprehensive loss	(57,979)	(1,556)
<b>Total stockholders' equity</b>	<b>83,695</b>	<b>190,859</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,748,126</b>	<b>\$ 1,450,746</b>

See notes to consolidated financial statements.

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	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Stockholders' Equity
	Shares	Amount				
<b>BALANCE, JANUARY 1, 1998</b>	19,662	\$ 197	\$ 92,181	\$ (48,005)	\$ (1,847)	\$ 42,526
Common shares issued for business acquisitions	7,864	79	137,547	—	—	137,626
Common shares issued for 401(k) Plan	9	—	119	—	—	119
Common shares issued upon exercise of stock options	489	5	4,334	—	—	4,339
Common shares issued for employee stock purchase plan	24	—	263	—	—	263
Common shares issued upon exercise of warrants	11	—	105	—	—	105
Foreign currency translation adjustment	—	—	—	—	(6,413)	(6,413)
Net loss	—	—	—	(63,648)	—	(63,648)
<b>BALANCE, DECEMBER 31, 1998</b>	<b>28,059</b>	<b>281</b>	<b>234,549</b>	<b>(111,653)</b>	<b>(8,260)</b>	<b>114,917</b>
Common shares issued for secondary equity offering, net	8,000	80	169,230	—	—	169,310
Common shares issued for business acquisitions	457	5	7,845	—	—	7,850
Common shares issued for 401(k) Plan	20	—	372	—	—	372
Common shares issued upon exercise of stock options	355	4	3,277	—	—	3,281
Common shares issued for employee stock purchase plan	39	—	494	—	—	494
Common shares issued upon exercise of warrants	41	—	376	—	—	376
Common shares issued for Restricted Stock Plan	130	1	290	—	—	291
Foreign currency translation adjustment	—	—	—	—	6,704	6,704
Net loss	—	—	—	(112,736)	—	(112,736)
<b>BALANCE, DECEMBER 31, 1999</b>	<b>37,101</b>	<b>371</b>	<b>416,433</b>	<b>(224,389)</b>	<b>(1,556)</b>	<b>190,859</b>
Common shares issued for business acquisitions	2,946	29	120,677	—	—	120,706
Common shares issued for 401(k) Plan	2	—	80	—	—	80
Common shares issued upon exercise of stock options	489	5	2,067	—	—	2,072
Common shares issued for employee stock purchase plan	89	1	985	—	—	986
Common shares issued upon exercise of warrants	6	—	55	—	—	55
Common shares issued for Restricted Stock Plan	3	—	24	—	—	24
Foreign currency translation adjustment	—	—	—	—	(42,170)	(42,170)
Unrealized loss on marketable securities	—	—	—	—	(14,253)	(14,253)
Net loss	—	—	—	(174,664)	—	(174,664)
<b>BALANCE, DECEMBER 31, 2000</b>	<b>40,636</b>	<b>\$ 406</b>	<b>\$ 540,321</b>	<b>\$ (399,053)</b>	<b>\$ (57,979)</b>	<b>\$ 83,695</b>

See notes to consolidated financial statements.

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

For the Year Ended December 31,

	2000	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (174,664)	\$ (112,736)	\$ (63,648)
Adjustments to reconcile net loss to net cash used in operating activities:			

Depreciation, amortization and accretion	121,058	55,319	24,547
Sales allowance	17,756	27,908	9,431
Stock issuance—401(k) Plan and Restricted Stock Plan	99	328	119
Minority interest share of loss	(72)	(291)	—
Gain on early extinguishment of debt	(40,952)	—	—
<b>Changes in assets and liabilities, net of acquisitions:</b>			
Increase in accounts receivable	(79,707)	(64,835)	(20,765)
(Increase) decrease in prepaid expenses and other current assets	9,553	(34,049)	(7,027)
(Increase) decrease in other assets	(2,065)	(11,749)	735
Increase (decrease) in accounts payable	37,600	56,167	(8,196)
Increase (decrease) in accrued expenses, other current liabilities and other liabilities	(25,263)	9,145	(8,073)
Increase in accrued interest payable	5,637	19,223	1,581
<b>Net cash used in operating activities</b>	<b>(131,020)</b>	<b>(55,570)</b>	<b>(71,296)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	(193,772)	(110,582)	(75,983)
Sale of restricted investments	25,933	24,691	22,927
Purchase of marketable securities	(15,000)	—	—
Cash used for business acquisitions, net of cash acquired	(57,175)	(114,282)	(1,165)
<b>Net cash used in investing activities</b>	<b>(240,014)</b>	<b>(200,173)</b>	<b>(54,221)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of long-term obligations	350,000	450,000	150,000
Deferred financing costs	(10,265)	(15,125)	(5,500)
Purchase of the Company's debt securities	(19,168)	—	—
Principal payments on capital leases, vendor financing and long-term obligations	(16,342)	(21,927)	(2,373)
Proceeds from sale of common stock and exercise of stock options	3,123	173,587	4,707
Cash received from minority interest holder	—	4,479	—
<b>Net cash provided by financing activities</b>	<b>307,348</b>	<b>591,014</b>	<b>146,834</b>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(9,478)</b>	<b>75</b>	<b>(353)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(73,164)</b>	<b>335,346</b>	<b>20,964</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>471,542</b>	<b>136,196</b>	<b>115,232</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 398,378</b>	<b>\$ 471,542</b>	<b>\$ 136,196</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>			
Cash paid for interest	\$ 126,623	\$ 60,076	\$ 38,466
<b>Non-cash investing and financing activities:</b>			
Capital leases for acquisition of equipment	\$ 12,510	\$ 1,987	\$ 10,958
Equipment financing for acquisition of equipment	\$ 37,338	\$ 24,394	\$ 6,000

See notes to consolidated financial statements.

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**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(in thousands)

	For the Year Ended December 31,		
	2000	1999	1998
<b>NET LOSS</b>	<b>\$ (174,664)</b>	<b>\$ (112,736)</b>	<b>\$ (63,648)</b>
<b>OTHER COMPREHENSIVE GAIN (LOSS)—</b>			
Foreign currency translation adjustment	(42,170)	6,704	(6,413)
Unrealized loss on marketable securities	(14,253)	—	—
<b>COMPREHENSIVE LOSS</b>	<b>\$ (231,087)</b>	<b>\$ (106,032)</b>	<b>\$ (70,061)</b>

See notes to consolidated financial statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**1. ORGANIZATION AND BUSINESS**

Primus Telecommunications Group, Incorporated ("Primus" or the "Company") is a global facilities-based Total Service Provider offering bundled voice, data, Internet, DSL, e-commerce, Web hosting, enhanced application, VOIP, virtual private network (VPN) and other value-added services in the United States, Canada, Brazil, the United Kingdom, continental Europe, Australia and Japan. The Company is incorporated in the state of Delaware and operates as a holding company of wholly-owned operating subsidiaries in North America, Europe and the Asia-Pacific region.

**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"), all of which the Company has a controlling interest. All material 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.

*Revenue Recognition and Deferred Revenue*—The Company records revenue from the sale of telecommunications services at the time of customer usage primarily based upon minutes of use. Service activation and certain installation fees are recorded as deferred revenue and amortized over the contract term or average life of the customer. The Company records payments received in advance for prepaid calling card services and services to be provided under contractual agreements, such as Internet broadband and dial-up access, as deferred revenue until such related services are provided. Deferred revenue is reported in accrued expenses and other current liabilities. Net revenue represents gross revenue net of sales allowance, service credits and service adjustments.

*Cost of Revenue*—Cost of revenue includes network costs that consist of access, transport and termination costs. The majority of the Company's cost of revenue is variable, primarily based upon minutes of use, with transmission and termination costs being the most significant expense. Such costs are recognized when incurred in connection with the provision of telecommunications services.

*Foreign Currency Translation*—The assets and liabilities of the Company's foreign subsidiaries are translated at the exchange rates in effect on the reporting date. The net effect of such translation gains and losses are reflected within accumulated other comprehensive loss in the stockholders' equity section of the balance sheet. Income and expenses are translated at the average exchange rate during the period and reported in earnings.

*Cash and Cash Equivalents*—Cash and cash equivalents are comprised principally of amounts in money market accounts, operating accounts, certificates of deposit, and overnight repurchase agreements stated at cost which approximates market value, with original maturities of three months or less.

*Marketable Securities*—Marketable securities are classified as available-for-sale and are recorded at current market value. Net unrealized gains and losses on marketable securities are excluded from earnings and are reported as other comprehensive income/(loss) until realized.

*Restricted Investments*—Restricted investments consist of United States Federal Government-backed obligations which were recorded at amortized cost. These securities were classified as held-to-maturity

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and were restricted to satisfy the first six interest obligations on the Company's 1997 Senior Notes. During fiscal year 2000, the Company paid the sixth interest obligation.

*Advertising Costs*—In accordance with Statement of Position 93-7, *Reporting on Advertising Costs*, costs for advertising are expensed as incurred except for direct response advertising costs, which are capitalized and amortized over the lesser of the life of the customers obtained from these efforts or twelve months.

*Property and Equipment*—Property and equipment is recorded at cost less accumulated depreciation, which is provided on the straight-line method over the estimated useful lives of the assets. Cost includes major expenditures for improvements and replacements which extend useful lives or increase capacity of the assets as well as expenditures necessary to place assets into readiness for use. Expenditures for maintenance and repairs are expensed as incurred. The estimated useful lives of property and equipment are as follows: network equipment, including fiber optic and submarine cable—5 to 25 years, furniture and equipment—5 years, leasehold improvements and leased equipment—shorter of lease or useful life. In accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, costs for internal use software that are incurred in the preliminary project stage and in the post-implementation stage are expensed as incurred. Costs incurred during the application development stage are capitalized and amortized over the estimated useful life of the software.

*Fiber Optic and Submarine Cable Arrangements*—The Company obtains capacity on certain fiber optic and submarine cables under three types of arrangements. The Indefeasible Right of Use ("IRU") agreement basis provides the Company the right to use a cable for the estimated economic life of the asset according to the terms of the IRU agreement with most of the rights and duties of ownership. The Minimum Assignable Ownership Units ("MAOU") basis provides the Company an ownership interest in the fiber optic cable with certain rights to control and to manage the facility. The Company accounts for both IRU and MAOU agreements under network equipment and depreciates the recorded asset over the term of the agreement which is generally 25 years. The Company also enters into shorter-term arrangements with other carriers which provides the Company the right to use capacity on a cable but without any rights and duties of ownership. Under these shorter-term arrangements, the costs are expensed in the period the services are provided.

*Goodwill and Other Intangible Assets*—Goodwill is amortized over 5 to 30 years on a straight-line basis, and customer lists over the estimated run-off of the customer bases not to exceed five years. The Company periodically evaluates the realizability of intangible and other long-lived assets. In making such evaluations, the Company compares certain financial indicators such as expected undiscounted future revenues and cash flows to the carrying amount of the assets. The Company believes that no impairments exist as of December 31, 2000.

*Deferred Financing Costs*—Deferred financing costs incurred in connection with the February 2000 Debentures, the October 1999 Senior Notes, the January 1999 Senior Notes, the 1998 Senior Notes and the 1997 Senior Notes are reflected within other assets and are being amortized over the life of the respective Senior Notes.

*Stock-Based Compensation*—The Company follows Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation". Under the provisions of SFAS 123, the Company continues to measure compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and has provided in Note 13 pro forma disclosures of the effect on net loss and loss per share as if the fair value-based method prescribed by SFAS 123 had been applied in measuring compensation expense.

*Use of Estimates*—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of net revenue and expenses during the reporting period. Actual results may differ from these estimates.

*Concentration of Credit Risk*—Financial instruments that potentially subject the Company to concentration of credit risk principally consist of trade accounts receivable. The Company performs ongoing credit evaluations of its customers but generally does not require collateral to support customer receivables. The Company maintains its cash with high quality credit institutions, and its cash equivalents are in high quality securities.

*Income Taxes*—The Company recognizes income tax expense for financial reporting purposes following the asset and liability approach for computing deferred income taxes. Under this method, the deferred tax assets and liabilities are determined based on the difference between financial reporting and tax bases of assets and liabilities based on enacted tax rates. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

*Net Loss Per Share*—Basic loss per share is computed using the weighted average number of shares of common stock outstanding during the year. Diluted loss per share is computed using the weighted average number of shares of common stock, adjusted for the dilutive effect of potential common stock. Potential common stock, computed using the treasury stock method or the if-converted method, includes options, warrants, convertible securities and contingently issuable shares. The effect of potential common stock has been excluded from the computation of diluted loss per share as the effect would be antidilutive. Accordingly, there is no reconciliation between basic and diluted loss per share for each of the years presented.

*New Accounting Pronouncements*—In March 2000, the Financial Accounting Standards Board issued Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25," which clarifies the application of Opinion 25 for certain issues including: (1) the definition of an employee for purposes of applying APB Opinion 25, (2) the criteria for determining whether a plan qualifies as a noncompensatory plan, (3) the accounting consequences of various modifications to the terms of a previously fixed stock option or award and (4) the accounting for an exchange of stock compensation awards in a business combination. The adoption of this interpretation did not have a material effect on the consolidated financial position or results of operations of the Company.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. The adoption of SAB 101 did not have a material effect on the consolidated financial position or results of operations of the Company.

In June 1998, Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," was issued. SFAS 133 established standards for the accounting and reporting of derivative instruments and hedging activities and requires that derivative financial instruments, including certain derivative instruments embedded in other contracts, be measured at fair value and recognized as assets or liabilities in the financial statements. SFAS 133 will be adopted by the Company during fiscal 2001. The Company does not believe the adoption of SFAS 133 will have any material effect on the Company's consolidated financial position or results of operations in fiscal year 2001.

*Costs of Start-Up Activities*—The Company expenses the costs of start-up activities and organization costs as incurred. The effect of adopting Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities," during fiscal year 1999 did not have a material effect on the financial position, results of operation or liquidity of the Company.

*Reclassifications*—Certain previous year amounts have been reclassified to conform with current year presentation.

### 3. ACQUISITIONS

In September 2000, the Company acquired 100% of the assets of iO2Group, Inc. ("iO2"), an Internet services firm, for approximately \$0.4 million in cash. The terms of the acquisition agreement provide for additional consideration to be paid if the acquired company's results of operations exceed certain targeted levels and certain other business requirements are met. Such consideration will be paid in shares of the Company's common stock and the maximum number of shares payable as of December 31, 2000 is 42,707. The value of the shares, if any, will be recorded as additional cost of the acquired company when the number of shares to be delivered becomes probable.

In August 2000, the Company acquired 100% of Seker BBS S.A. ("Seker"), a Spanish ISP, for \$1.1 million. The Company paid \$0.5 million in cash and 21,953 shares of the Company's common stock; \$0.1 million remained payable in cash at December 31, 2000. The terms of the acquisition agreement provide for additional consideration to be paid if the acquired company's results of operations exceed certain targeted levels and certain other business requirements are met. The maximum amount of remaining consideration payable at December 31, 2000 is approximately \$0.1 million, and will be recorded as additional cost of the acquired company when the amount to be paid, if any, becomes probable.

In August 2000, the Company acquired 100% of Nexus Comunicaciones S.A. ("Nexus"), a Spanish ISP, for \$0.9 million. The Company paid \$0.4 million in cash and 16,618 shares of the Company's common stock; \$0.1 million remained payable in cash at December 31, 2000. The terms of the acquisition agreement provide for additional consideration to be paid if the acquired company's results of operations exceed certain targeted levels and certain other business requirements are met. The maximum amount of remaining consideration payable at December 31, 2000 is approximately \$0.1 million, and will be recorded as additional cost of the acquired company when the amount to be paid, if any, becomes probable.

In June 2000, the Company acquired 100% of CTE Networks ("CTE"), a long distance reseller, for \$12.3 million. The Company paid \$8.3 million in cash and 50,269 shares of the Company's common stock; \$2.6 million remained payable in cash and shares at December 31, 2000.

In May 2000, the Company acquired 90.1% of A-Tel GmbH ("A-Tel"), a German reseller of voice traffic to small- and medium-sized enterprises for \$1.4 million in cash. Subsequently, in December 2000, the Company acquired the remaining 9.9% for \$0.1 million in cash.

In May 2000, the Company acquired 100% of InterNeXt S.A. ("InterNeXt"), an ISP with national facilities in France, for \$13.1 million, comprised of \$12.0 million in cash and 33,446 shares of the Company's common stock. At December 31, 2000, \$1.3 million remained payable in cash.

In May 2000, the Company acquired 100% of Global Sales Pty., Ltd. ("Global Sales"), an agent serving the Company's retail operations in Australia, for \$1.3 million in cash.

In April 2000, the Company acquired a controlling interest in Direct Internet Private Limited ("DIPL"), an India-based company providing Internet services, for \$2.6 million in cash.

In March 2000, the Company acquired 37% and control of Bekkoame Internet, Inc. ("Bekko"), a Japanese facilities-based ISP, for \$11.0 million in cash.

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In March 2000, the Company acquired 100% of Eco Software, Inc. ("Shore.Net"), a business-focused ISP based in the United States, for \$44.5 million, comprised of \$22.9 million in cash and 477,886 shares of the Company's common stock.

In February 2000, the Company acquired 51% of each of CS Communications Systems GmbH and CS Network GmbH ("Citrus"), a reseller of voice traffic and seller of telecommunications equipment and accessories in Germany, for \$1.0 million, comprised of \$0.9 million in cash and 2,092 shares of the Company's common stock.

In February 2000, the Company acquired over 96% of the common stock of LCR Telecom Group, Plc ("LCR Telecom"), and subsequently the Company acquired the remaining shares for a total of 100%, in exchange for 2,216,632 shares of the Company's common stock valued at \$93.2 million. Acquisition expenses increased the total purchase price to \$96.1 million. The purchase price is subject to adjustment and may be increased to a total of 2,278,632 shares.

In January 2000, the Company acquired 100% of Sensitel Communications Inc. ("Sensitel"), a Canadian reseller of local services to small- and medium-sized business customers, for \$0.1 million in cash.

In January 2000, the Company acquired 100% of Infinity Online Systems ("Infinity Online"), an ISP based in Ontario, Canada, for \$2.3 million, comprised of \$1.2 million in cash and 29,919 shares of the Company's common stock.

In November 1999, the Company purchased substantially all of the assets of Digital Select, LLC ("Digital Select"), a provider of DSL, high-speed Internet access and Web content services. The purchase price of \$7.8 million was paid with \$5.6 million in cash, the issuance of a \$0.7 million short-term promissory note and 69,023 shares of the Company's common stock.

In November 1999, the Company purchased substantially all of the assets of 1492 Technologies, LLC ("1492 Technologies"), an Internet Web site development and service firm. The purchase price of \$0.6 million was paid for with \$0.3 million in cash and 15,500 shares of the Company's common stock.

In November 1999, the Company invested \$12.1 million in cash in exchange for 51% of Matrix Internet Systems, S.A. ("Matrix"), Brazil's largest independent and fifth largest overall ISP.

In September 1999, the Company acquired 100% of TouchNet GmbH ("TouchNet"), a German ISP with a POP in Munich, Germany, for a cash purchase price of \$2.2 million.

In September 1999, the Company purchased 51% of Cards & Parts Telecom GmbH ("Cards & Parts"), a German wireless reseller, for a cash purchase price of \$4.3 million.

In June 1999, the Company acquired the global retail customer business of Telegroup, Inc. including the acquisition of selected Telegroup, Inc. foreign subsidiaries ("Telegroup"). The Company paid the \$73.2 million purchase price for Telegroup, plus \$23.3 million for certain current assets including accounts receivable, by issuing \$45.5 million in aggregate principal of 11<sup>1</sup>/<sub>4</sub>% senior notes due 2009 ("Telegroup Notes"), by issuing a \$4.6 million short-term promissory note ("Telegroup Promissory Note") and paying \$46.4 million in cash.

In June 1999, the Company acquired Telephone Savings Network Limited ("TelSN"), a Canadian reseller of local services to small- and medium-sized business customers, for a purchase price of \$5.3 million comprised of \$2.6 million in cash and 152,235 shares of the Company's common stock. In October 1999, February 2000 and August 2000, pursuant to earn-out provisions of the purchase agreement, the Company issued an additional 74,641 shares of the Company's common stock.

In May 1999, the Company purchased the residential long distance customer base, customer support assets and residential Internet customer base and network of AT&T Canada and ACC

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Teletenterprises ("AT&T Canada") for a purchase price of \$37.5 million comprised of \$27.9 million in cash and a \$9.6 million, 8.5% promissory note due November 30, 2000 ("AT&T Promissory Note").

In May 1999, the Company acquired all of the outstanding shares of Tele-Communications Products/Internet Provider (TCP/IP) GmbH ("TCP/IP"), an independent German ISP with over 20 POPs in Germany, for a purchase price of approximately \$0.4 million in cash.

In March 1998, the Company acquired a 60% controlling interest in Hotkey Internet Services Pty., Ltd. ("Hotkey"), a Melbourne, Australia-based ISP for approximately \$1.4 million in cash. In February 1999, the Company purchased the remaining 40% for approximately \$1.2 million, comprised of \$0.4 million in cash and 57,025 shares of the Company's common stock.

On March 31, 1999, the Company purchased the common stock of London Telecom Network, Inc. and certain related entities that provide long distance telecommunications services in Canada (the "LTN Companies"), for approximately \$36.3 million in cash (including payments made in exchange for certain non-competition agreements). In addition, on March 31, 1999, the Company entered into an agreement to purchase for \$14.6 million in cash substantially all of the operating assets of Wintel CNC Communications, Inc. and Wintel CNT Communications, Inc. (the "Wintel Companies"), which are Canada-based long distance telecommunications providers affiliated with the LTN Companies.

In February 1999, the Company acquired GlobalServe Communications, Inc. ("GlobalServe"), a privately held ISP based in Toronto, Canada. The purchase price of approximately \$4.5 million was comprised of \$2.3 million in cash and 142,806 shares of the Company's common stock.

The Company has accounted for all of these acquisitions using the purchase method of accounting and accordingly, the net assets and results of operations of the acquired companies have been included in the Company's financial statements since the respective acquisition dates. The purchase price, including direct costs, of the Company's acquisitions was allocated to the net assets acquired, including intangible assets and liabilities assumed, based on their respective fair values at the acquisition dates. Certain of the valuations of the Company's acquired assets and liabilities for the 2000 acquisitions are preliminary, and as a result, the allocation of the acquisition costs among tangible and intangible assets may change.

The following reflects the December 31, 2000 gross balances of goodwill and customer lists for the acquisitions of the companies that were acquired in 2000 and 1999 (in thousands):

2000 Acquisitions	Goodwill	Customer List

LCR Telecom	\$	92,174	\$	20,044
Shore.Net		31,300		11,500
CTE		8,909		4,743
InterNeXt		14,159		—
Bekko		2,355		7,483
Infinity Online		2,113		320
A-Tel		2,375		—
Seker		1,079		376
Global Sales		1,117		—
Other acquisitions		2,744		1,404
<b>Total</b>	<b>\$</b>	<b>158,325</b>	<b>\$</b>	<b>45,870</b>

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<u>1999 Acquisitions</u>	<u>Goodwill</u>	<u>Customer List</u>
Telegroup	\$ 53,667	\$ 17,877
LTN and Wintel Companies	44,250	11,401
AT&T Canada	22,168	22,682
Digital Select	8,000	—
TelSN	6,813	993
Matrix	4,170	3,211
GlobalServe	4,301	1,333
Cards & Parts	3,755	—
TouchNet	2,600	—
Hotkey	1,466	—
Other acquisitions	1,550	—
<b>Total</b>	<b>\$ 152,740</b>	<b>\$ 57,497</b>

The following represents the unaudited pro forma results of operations of the Company for 2000 and 1999 as if the acquisitions were consummated on January 1, 2000 and January 1, 1999. The unaudited pro forma results of operations include certain pro forma adjustments, including the amortization of intangible assets relating to the acquisitions. The unaudited pro forma results of operations do not necessarily reflect the results that would have occurred had the acquisitions occurred at January 1, 2000 and January 1, 1999 or the results that may occur in the near future.

	<u>Year Ended December 31, 2000</u>	<u>Year Ended December 31, 1999</u>
	(in thousands, except per share amounts)	
Net revenue	\$ 1,225,264	\$ 1,093,255
Loss before extraordinary item	\$ (224,212)	\$ (169,551)
Net loss	\$ (183,260)	\$ (169,551)
Basic and diluted net loss per common share	\$ (4.58)	\$ (5.08)

#### 4. MARKETABLE SECURITIES

In connection with a strategic business arrangement with Pilot Network Services ("Pilot"), in January 2000, the Company made a \$15.0 million strategic investment in Pilot pursuant to which the Company purchased 919,540 shares, or 6.3% of Pilot's common stock at a price of \$16.3125 per share. The Company also received a warrant, exercisable upon issuance, to purchase an additional 200,000 shares at \$25.00 per share. At December 31, 2000, the unrealized loss on this investment was \$14.3 million.

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#### 5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following (in thousands):

	<u>December 31,</u>	
	<u>2000</u>	<u>1999</u>
Network equipment	\$ 483,140	\$ 292,324
Furniture and equipment	57,350	30,051
Leasehold improvements	14,592	5,962
Construction in progress	24,938	7,125
<b>Subtotal</b>	<b>580,020</b>	<b>335,462</b>
Less: Accumulated depreciation and amortization	(113,316)	(50,072)
<b>Total property and equipment, net</b>	<b>\$ 466,704</b>	<b>\$ 285,390</b>

Depreciation and amortization expense for property and equipment including equipment under capital leases for the years ended December 31, 2000, 1999 and 1998 were \$67.7 million, \$30.4 million and \$16.0 million, respectively.

At December 31, 2000 and 1999, all equipment under capital lease is network equipment, and totaled \$43.5 million and \$29.1 million with accumulated depreciation of \$12.3 million and \$8.3 million, respectively.

## 6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets consisted of the following (in thousands):

	December 31,	
	2000	1999
Goodwill	\$ 494,642	\$ 340,272
Customer lists	146,101	95,192
Other	4,661	1,914
Subtotal	645,404	437,378
Less: Accumulated amortization	(85,853)	(35,348)
Total goodwill and other intangible assets, net	\$ 559,551	\$ 402,030

Amortization expense for goodwill and other intangible assets for the years ended December 31, 2000, 1999 and 1998 were \$53.0 million, \$24.6 million and \$8.2 million, respectively.

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## 7. LONG-TERM OBLIGATIONS

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

	December 31,	
	2000	1999
Obligations under capital leases	\$ 29,378	\$ 21,072
Senior notes	1,109,049	868,807
Vendor financing	64,297	29,406
Other long-term obligations	53,729	10,659
Subtotal	1,256,453	929,944
Less: Current portion of long-term obligations	(14,404)	(16,438)
Total long-term obligations	\$ 1,242,049	\$ 913,506

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

### *Senior Notes and Convertible Debentures*

In February 2000, the Company completed the sale of \$250 million in aggregate principal amount of 5<sup>3</sup>/<sub>4</sub>% convertible subordinated debentures due 2007 ("2000 Convertible Debentures") with semi-annual interest payments due on February 15<sup>th</sup> and August 15<sup>th</sup>. 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 are convertible into approximately 6,025,170 shares of the Company's common stock based on a conversion price of \$49.7913 per share. In December 2000, the Company purchased \$3.4 million principal amount of these debentures, prior to maturity, for approximately \$0.6 million in cash, resulting in an after-tax extraordinary gain of \$2.8 million in the fourth quarter of 2000.

In October 1999, the Company completed the sale of \$250 million in aggregate principal amount of 12<sup>3</sup>/<sub>4</sub>% 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 15<sup>th</sup> and April 15<sup>th</sup>. In addition, prior to October 15, 2002, 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. In December 2000, the Company purchased \$10.7 million principal amount of these senior notes, prior to maturity, for approximately \$3.0 million in cash, resulting in an after-tax extraordinary gain of \$7.7 million in the fourth quarter of 2000.

In January 1999, the Company completed the sale of \$200 million aggregate principal amount of 11<sup>1</sup>/<sub>4</sub>% senior notes due 2009 ("January 1999 Senior Notes") with semi-annual interest payments due on January 15<sup>th</sup> and July 15<sup>th</sup>. 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. In addition, prior to January 15, 2002, 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. In June 1999, in connection with the Telegroup acquisition, the Company issued \$45.5 million in aggregate principal amount of the Company's 11<sup>1</sup>/<sub>4</sub>% senior notes due 2009 pursuant to the January 1999 Senior Notes indenture.

On May 19, 1998 the Company completed the sale of \$150 million 9<sup>7</sup>/<sub>8</sub>% senior notes due 2008 ("1998 Senior Notes") with semi-annual interest payments due on May 15<sup>th</sup> and November 15<sup>th</sup>.

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On August 4, 1997, the Company completed the sale of \$225 million 11<sup>3</sup>/<sub>4</sub>% 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 1<sup>st</sup> and August 1<sup>st</sup>. In December 2000, the Company purchased \$46.1 million principal amount of these senior notes, prior to maturity, for approximately \$15.7 million in cash, resulting in an after-tax extraordinary gain of \$30.4 million in the fourth quarter of 2000.

#### Capital Leases, Vendor Financing and Other Long-Term Obligations

During the year ended December 31, 2000, Cisco Systems Capital Corporation provided to the Company \$50.0 million in financing to fund the purchase of network equipment, secured by the equipment purchased. At December 31, 2000, \$4.4 million was utilized under this facility and is recorded as obligations under capital lease. Borrowings under this credit facility as of December 31, 2000 are payable over a four-year term and bear an interest rate of 13.28%.

During the years ended December 31, 2000 and December 31, 1999, NTFC Capital Corporation provided to the Company \$15.0 million and \$30.0 million, respectively, in financing to fund the purchase of network equipment, secured by the equipment purchased. At December 31, 2000 and 1999, approximately \$43.6 million and \$24.4 million, respectively, was utilized by the Company. Borrowings under this credit facility 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% and are payable over a five-year term.

During the year ended December 31, 1999, Ericsson Financing Plc provided to the Company \$31.7 million (21.3 million British Pounds) in financing to fund the purchase of network equipment, secured by the equipment purchased. At December 31, 1999, the Company did not utilize any of this facility. At December 31, 2000, \$12.6 million (8.5 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% and are payable over a five-year term.

During the year ended December 31, 2000, General Electric Capital Corporation provided to the Company \$20.0 million in financing to fund the purchase of network equipment, secured by the equipment purchased. At December 31, 2000, \$5.3 million was utilized under this facility. Borrowings under this credit 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 rate on funds borrowed as of December 31, 2000 is approximately 10.15%.

In March 2000, the Company entered into a strategic business alliance agreement with Hewlett-Packard Company pursuant to which Hewlett-Packard will provide products and services to enable the Company to develop data centers in Europe, Australia, Japan and Brazil. Hewlett-Packard also agreed to purchase up to \$50 million in convertible debt. As of December 31, 2000, Hewlett-Packard funded the entire \$50 million under the agreement, which is included in other long-term obligations, and is due in March 2005. Such debt will bear interest at a rate of 9.25% per annum. The outstanding principal and unpaid accrued interest are convertible into the Company's common stock at a price of \$60 per share. As of December 31, 2000, the debt is convertible into 860,420 shares of the Company's common stock. The Company has the right under certain circumstances to require Hewlett-Packard to convert the debt to equity. Until converted, the debt will be secured by equipment purchased from Hewlett-Packard with the proceeds of the investment.

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## 8. INCOME TAXES

*Effective and Statutory Rate Reconciliation*—The differences between the tax provision calculated at the statutory federal income tax rate and the actual tax provision for each period is shown in the table below (in thousands):

	For the Year Ended December 31,		
	2000	1999	1998
Tax benefit at federal statutory rate	\$ (61,132)	\$ (39,458)	\$ (22,277)
State income tax, net of federal benefit	(3,700)	(3,996)	(1,387)
Effect of rate differences outside the United States	251	—	—
Increase in valuation allowance	61,293	36,767	21,506
Goodwill amortization	2,703	—	—
Other	585	6,687	2,158
<b>Income taxes</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

*Deferred Income Taxes*—The significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	2000	1999
<b>Deferred tax assets (non-current):</b>		
Cash to accrual basis adjustments (United States)	\$ —	\$ 275
Accrued expenses	325	11,774
Net operating loss carryforwards	196,452	115,753
Bad debt reserve	5,467	5,809
Basis difference in intangibles	4,218	6,696
Other	3,157	—
Valuation allowance	(182,463)	(128,622)
	<b>27,156</b>	<b>11,685</b>
<b>Deferred tax liabilities (current):</b>		
Other	11	—
Depreciation	27,145	11,685
	<b>27,156</b>	<b>11,685</b>
<b>Net deferred taxes</b>	<b>\$ —</b>	<b>\$ —</b>

During the year ended December 31, 2000, the valuation allowance increased by approximately \$53.8 million primarily due to additional federal and foreign net operating loss carryforwards. At December 31, 2000, the Company's net deferred tax assets are fully offset by a valuation allowance.

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At December 31, 2000, the Company had United States operating loss carryforwards available to reduce future United States taxable income which expire as follows (in millions):

Year	Primus	TresCom
2009	\$ 0.3	\$ 5.6
2010	1.7	5.5
2011	5.9	1.9
2012	28.0	11.6
2018	62.6	31.7
2019	108.4	—
2020	100.0	—
	\$ 306.9	\$ 56.3

Approximately \$56.3 million of operating loss carryforwards relate to the acquisition of TresCom. Utilization of these operating losses may be limited in the future.

As of December 31, 2000, the Company had foreign net operating loss carryforwards of approximately \$154.9 million that expire at various times and some of which carryforward without expiration.

No provision was made in 2000 for United States income taxes on the undistributed earnings of the foreign subsidiaries as it is the Company's intention to utilize those earnings in the foreign operations for an indefinite period of time or to repatriate such earnings only when tax effective to do so. It is not practicable to determine the amount of income or withholding tax that would be payable upon the remittance of those earnings.

## 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, restricted investments, accounts receivable and accounts payable approximate fair value. The estimated fair value of the Company's 2000 Convertible Debentures, 1999, 1998 and 1997 Senior Notes (carrying value of \$1,109 million), based on quoted market prices, at December 31, 2000 was \$285 million. The estimated fair value of the Company's 1999, 1998 and 1997 Senior Notes (carrying value of \$869 million), based on quoted market prices, at December 31, 1999 was \$852 million.

## 10. ADVERTISING

The Company expenses advertising costs as incurred except for direct-response advertising costs, which are capitalized and amortized over the expected period of future benefits. Direct response advertising consists primarily of direct-mail advertisements, newspaper and television advertising. These costs are amortized over the lesser of the life of the customers obtained from these efforts or twelve months following the provisioning of the customer. At December 31, 2000 and 1999, \$16.5 million and \$16.8 million were included in prepaid expenses and other current assets. Advertising expense for the years ended December 31, 2000, 1999 and 1998 were \$43.0 million, \$24.8 million and \$11.7 million, respectively.

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## 11. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments under capital lease and vendor financing obligations ("Equipment Financing") and non-cancelable operating leases as of December 31, 2000 are as follows (in thousands):

Year Ending December 31,	Equipment Financing	Operating Leases
2001	\$ 19,138	\$ 17,002
2002	24,815	12,042
2003	26,183	9,811
2004	25,900	7,242
2005	9,547	4,331
Thereafter	—	10,355
	\$ 105,583	\$ 60,783
Less: Amount representing interest	(22,539)	
	\$ 83,044	

Rent expense under operating leases was \$16.8 million, \$9.2 million and \$4.8 million for the years ended December 31, 2000, 1999 and 1998, respectively.

In December 1999, the Company agreed to purchase approximately \$23.2 million of fiber capacity from Qwest Communications which will provide the Company with an ATM+IP based international broadband backbone 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. The Company has purchased \$15.7 million under the agreements as of December 31, 2000.

In December 2000, the Company entered into a financing arrangement for the purchase of fiber optic capacity under an IRU Agreement in Australia for 67.6 million Australian Dollars from Optus Networks Pty. Limited. The lease term begins in fiscal year 2001 and is payable over a four-year term with an interest rate of 14.29%.

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

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## 12. STOCKHOLDERS' EQUITY

At the Company's Annual Meeting of Stockholders held on June 14, 2000, the stockholders of the Company approved an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of the Company's Common Stock to 150,000,000 shares.

During the years ended December 31, 2000, 1999 and 1998, the Company issued 2,946,238, 456,514 and 7,863,824 shares, respectively, of the Company's common stock as consideration of the purchase price for the various acquisitions.

In October 1999, the Company sold 8.0 million shares of the Company's common stock at a price of \$22.50 per share. The net proceeds from the sale were approximately \$169.3 million.

## 13. STOCK-BASED COMPENSATION

In December 1998, the Company established the 1998 Restricted Stock Plan (the "Restricted Plan") to facilitate the grant of restricted stock to selected individuals who contribute to the development and success of the Company. The total number of shares of common stock that may be granted under the Restricted Plan is 750,000. During the year ended December 31, 2000, the Company issued 3,000 shares of restricted stock under the Restricted Plan at fair value to certain eligible agents. These restricted shares vest ratably on the issue date, first anniversary and second anniversary of the issue date based on a continued relationship. Compensation expense related to the award was \$24,000 for the year ended December 31, 2000. During the year ended December 31, 1999, the Company issued 130,000 shares of restricted stock under the Restricted Plan at fair value. These restricted shares vest ratably after one, two and three years of continued employment.

The Company sponsors an Employee Stock Option Plan (the "Employee Plan"). The total number of shares of common stock authorized for issuance under the Employee Plan is 7,800,000. Under the Employee Plan, awards may be granted to key employees of the Company and its subsidiaries in the form of Incentive Stock Options or Nonqualified Stock Options. The Employee Plan allows the granting of options at an exercise price of not less than 100% of the stock's fair value at the date of grant. The options vest over a period of up to three years, and no option will be exercisable more than ten years from the date it is granted.

The Company sponsors a Director Stock Option Plan (the "Director Plan") for non-employee directors. Under the Director Plan, an option is granted to each qualifying non-employee director to purchase 45,000 shares of common stock, which vests over a two-year period. The option price per share is the fair market value of a share of common stock on the date the option is granted. No option will be exercisable more than ten years from the date of grant. An aggregate of 600,000 shares of common stock was reserved for issuance under the Director Plan.

A summary of stock option activity during the three years ended December 31, 2000 is as follows:

	2000		1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding—Beginning of year	3,883,359	\$ 12.07	3,128,566	\$ 9.87	2,555,360	\$ 6.95
Granted	2,465,845	21.25	1,651,200	16.39	1,298,937	16.07
Exercised	(488,822)	5.29	(354,327)	9.22	(488,835)	7.42
Forfeitures	(857,977)	19.90	(542,080)	14.25	(236,896)	17.52
Outstanding—end of year	5,002,405	\$ 15.90	3,883,359	\$ 12.07	3,128,566	\$ 9.87
Eligible for exercise—end of year	2,063,123	\$ 11.20	1,789,865	\$ 7.69	1,427,041	\$ 6.93

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The following table summarizes information about stock options outstanding at December 31, 2000:

Range of Option Prices	Options Outstanding			Options Exercisable	
	Total Outstanding	Weighted Average Remaining Life in years	Weighted Average Exercise Price	Total Exercisable	Weighted Average Exercise Price
\$ 0.01 to \$1.94	194,170	9.98	\$ 1.94	—	\$ —
\$ 1.95 to \$3.55	595,996	0.19	\$ 3.32	595,996	\$ 3.32

\$	3.56 to \$12.31	1,179,586	7.99	\$	11.62	274,965	\$	9.53
\$	12.32 to \$14.00	1,223,678	4.83	\$	13.58	820,215	\$	13.75
\$	14.01 to \$30.00	856,609	7.15	\$	18.96	364,448	\$	19.10
\$	30.01 to \$40.00	952,366	9.10	\$	32.12	7,499	\$	34.09
		5,002,405				2,063,123		

The weighted average fair value at date of grant for options granted during 2000, 1999 and 1998 was \$9.54, \$7.99 and \$7.38 per option, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2000	1999	1998
Expected dividend yield	0%	0%	0%
Expected stock price volatility	109%	85%	97%
Risk-free interest rate	5.0%	6.3%	4.6%
Expected option term	4 years	4 years	4 years

If compensation cost for the Company's grants for stock-based compensation had been recorded consistent with the fair value-based method of accounting per SFAS 123, the Company's pro forma net loss, and pro forma basic and diluted net loss per share for the years ending December 31, would be as follows:

	2000	1999	1998
<b>Net loss (amounts in thousands):</b>			
As reported	\$ (174,664)	\$ (112,736)	\$ (63,648)
Pro forma	\$ (187,346)	\$ (119,241)	\$ (67,621)
<b>Basic and diluted net loss per share:</b>			
As reported	\$ (4.40)	\$ (3.72)	\$ (2.61)
Pro forma	\$ (4.72)	\$ (3.93)	\$ (2.77)

#### 14. EMPLOYEE BENEFIT PLANS

The Company sponsors a 401(k) employee benefit plan (the "401(k) Plan") that covers substantially all United States based employees. Employees may contribute amounts to the 401(k) Plan not to exceed statutory limitations. The 401(k) plan provides an employer matching contribution of 50% of the first 6% of employee annual salary contributions. The employees receive the employer match in common stock of the Company which is subject to three-year cliff vesting. In 2000, the Company contributed the Company's common stock and cash valued at approximately \$587,000; in 1999 and 1998, the Company contributed \$328,000 and \$119,000 in the Company's common stock.

Effective January 1, 1998, the Company adopted an Employee Stock Purchase Plan ("ESPP"). The ESPP allows employees to contribute up to 15% of their compensation to be used toward purchasing the Company's common stock at 85% of the fair market value. An aggregate of 2,000,000 shares of common stock were reserved for issuance under the ESPP.

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#### 15. RELATED PARTIES

In June 1999, the Company contracted with a company to provide one satellite earth station in Australia and to provide, operate and maintain a satellite link between the Company's router in Los Angeles, California and the earth station. A Director of the Company is the Chairman and a stockholder of the company providing such services. An approximately \$100,000 one-time charge was paid by the Company in 2000 in addition to a monthly charge of \$144,000.

At December 31, 2000, the Company held three notes receivable with balances totaling \$1.0 million from three officers of the Company. These notes arose during the year ended December 31, 2000 bearing interest at the rate of 6% per annum and are payable in full five years from the date of agreement. Management believes the transactions are at arm's length. These notes receivable are secured by shares of the Company's common stock and are full recourse notes. The portion of the notes related to the issuance of stock is reflected as a reduction of stockholder's equity.

#### 16. 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. The Company offers voice, data, Internet, e-commerce, Web hosting, enhanced application, VOIP, virtual private network and other value-added services in all three segments. The Company also offers DSL in North America. 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):

	Year Ended December 31,		
	2000	1999	1998
<b>Net Revenue</b>			
North America			
<i>United States</i>	\$ 343,027	\$ 279,025	\$ 175,956
<i>Canada</i>	179,372	125,708	11,642
<i>Other</i>	10,628	1,350	410

Total North America	533,027	406,083	188,008
<b>Europe</b>			
<i>United Kingdom</i>	159,683	96,321	57,857
<i>Other</i>	199,303	99,156	3,006
Total Europe	358,986	195,477	60,863
<b>Asia-Pacific</b>			
<i>Australia</i>	283,311	221,269	167,481
<i>Other</i>	24,098	9,910	5,276
Total Asia-Pacific	307,409	231,179	172,757
Total	\$ 1,199,422	\$ 832,739	\$ 421,628

#### Operating Income/(Loss)

North America	\$ (59,064)	\$ (32,656)	\$ (29,028)
Europe	(40,313)	(6,778)	(741)
Asia-Pacific	(13,488)	(6,964)	(5,336)
Total	\$ (112,865)	\$ (46,398)	\$ (35,105)

#### Capital Expenditures

North America	\$ 85,952	\$ 34,171	\$ 33,431
Europe	53,244	58,539	17,963
Asia-Pacific	54,576	17,872	24,589
Total	\$ 193,772	\$ 110,582	\$ 75,983

December 31,

2000                      1999                      1998

#### Assets

<b>North America</b>			
<i>United States</i>	\$ 1,015,555	\$ 767,089	\$ 498,801
<i>Canada</i>	102,845	284,349	8,428
<i>Other</i>	12,896	17,651	127
Total North America	1,131,296	1,069,089	507,356
<b>Europe</b>			
<i>United Kingdom</i>	214,912	100,299	46,136
<i>Other</i>	182,561	98,610	11,181
Total Europe	397,473	198,909	57,317
<b>Asia-Pacific</b>			
<i>Australia</i>	178,381	171,068	104,128
<i>Other</i>	40,976	11,680	5,162
Total Asia-Pacific	219,357	182,748	109,290
Total	\$ 1,748,126	\$ 1,450,746	\$ 673,963

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The above capital expenditures exclude assets acquired in business combinations and under terms of capital lease and equipment financing agreements.

#### 17. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 2000 and 1999:

	For the quarter ended			
	March 31, 2000	June 30, 2000	September 30, 2000	December 31, 2000
Net Revenue	\$ 287,953	\$ 300,136	\$ 301,130	\$ 310,203
Gross Margin	\$ 80,518	\$ 84,886	\$ 85,198	\$ 87,639
Loss before Extraordinary Item	\$ (43,252)	\$ (50,794)	\$ (56,376)	\$ (65,194)
Net Loss	\$ (43,252)	\$ (50,794)	\$ (56,376)	\$ (24,242)
Basic and Diluted Net Loss per Share:				
Loss before Extraordinary Item	\$ (1.14)	\$ (1.27)	\$ (1.40)	\$ (1.61)
Net Loss	\$ (1.14)	\$ (1.27)	\$ (1.40)	\$ (0.60)

	March 31, 1999	June 30, 1999	September 30, 1999	December 31, 1999
	(in thousands)			
Net Revenue	\$ 131,228	\$ 185,626	\$ 250,320	\$ 265,565
Gross Margin	\$ 26,632	\$ 42,766	\$ 65,558	\$ 73,184
Net Loss	\$ (25,155)	\$ (26,068)	\$ (28,274)	\$ (33,239)
Basic and Diluted Net Loss per Share	\$ (0.89)	\$ (0.92)	\$ (0.98)	\$ (0.93)

## 18. GAIN ON EARLY EXTINGUISHMENT OF DEBT

In December 2000, the Company purchased \$60.1 million principal amount of the Company's high yield debt and convertible debentures, prior to maturity, for \$19.2 million in cash. This resulted in an after-tax extraordinary gain of \$41.0 million, or \$1.03 per basic and diluted share. Reflecting this extraordinary gain, the net loss for the year ended December 31, 2000 was \$174.7 million, or \$4.40 per basic and diluted share. The following table reflects the principal reduction and after-tax gain of the early extinguishment of the 1997 Senior Notes, the October 1999 Senior Notes and the 2000 Convertible Debentures for the year ended December 31, 2000, and the respective balances as of December 31, 2000:

	Principal Reduction	Balance at End of Period	After-Tax Gain
	(in thousands)		
1997 11.75% Senior Notes due 2004	\$ 46,080	\$ 177,622	\$ 30,422
October 1999 12.75% Senior Notes due 2009	10,650	239,350	7,699
2000 5.75% Convertible Debentures due 2007	3,390	296,610	2,831
Total	\$ 60,120	\$ 713,582	\$ 40,952

## 19. SUBSEQUENT EVENTS

On January 10, 2001, the Company received from Inktomi Corporation an investment, which is a part of a strategic alliance created between the two companies in June 2000, of \$10 million in exchange for 2,862,254 restricted shares of the Company's common stock.

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In January 2001, the Company exchanged \$129.6 million in principal amount of the 2000 Convertible Debentures for 8,308,258 shares of the Company's common stock and purchased \$38.2 million of principal amount of its high yield debt and convertible debentures. In particular, the Company purchased \$33.0 million principal amount of the February 2000 Debentures for \$10.0 million in cash, \$3.2 million principal amount of the October 1999 Senior Notes for \$1.0 million in cash, and \$2.0 million principal amount of the 1997 Senior Notes for \$0.6 million in cash. The after-tax extraordinary gain of approximately \$106.0 million on early extinguishment of the debt is expected to be reflected in the first quarter 2001 results.

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## SCHEDULE II PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED VALUATION AND QUALIFYING ACCOUNTS

Activity in the Company's allowance accounts for the years ended December 31, 2000, 1999 and 1998 was as follows (in thousands):

Doubtful Accounts					
Period	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Other(1)	Balance at End of Period
1998	\$ 5,044	\$ 9,431	\$ (12,772)	\$ 13,273	\$ 14,976
1999	\$ 14,976	\$ 27,908	\$ (19,843)	\$ 13,412	\$ 36,453
2000	\$ 36,453	\$ 17,756	\$ (23,713)	\$ 3,968	\$ 34,464
Deferred Tax Asset Valuation					
Period	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Other	Balance at End of Period
1998	\$ 16,762	\$ 21,506	\$ —	\$ —	\$ 38,268
1999	\$ 38,268	\$ 90,354	\$ —	\$ —	\$ 128,622
2000	\$ 128,622	\$ 53,841	\$ —	\$ —	\$ 182,463

(1)

Other additions represent the allowances for doubtful accounts, which were recorded in connection with business acquisitions.

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## SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on behalf by the undersigned, thereunto duly authorized.



[PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS \(in thousands\)](#)  
[PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS](#)  
[1. ORGANIZATION AND BUSINESS](#)  
[2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES](#)  
[3. ACQUISITIONS](#)  
[4. MARKETABLE SECURITIES](#)  
[5. PROPERTY AND EQUIPMENT](#)  
[6. GOODWILL AND OTHER INTANGIBLE ASSETS](#)  
[7. LONG-TERM OBLIGATIONS](#)  
[8. INCOME TAXES](#)  
[9. FAIR VALUE OF FINANCIAL INSTRUMENTS](#)  
[10. ADVERTISING](#)  
[11. COMMITMENTS AND CONTINGENCIES](#)  
[12. STOCKHOLDERS' EQUITY](#)  
[13. STOCK-BASED COMPENSATION](#)  
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[17. QUARTERLY RESULTS OF OPERATIONS \(UNAUDITED\)](#)  
[18. GAIN ON EARLY EXTINGUISHMENT OF DEBT](#)  
[19. SUBSEQUENT EVENTS](#)  
[SCHEDULE II PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED VALUATION AND QUALIFYING ACCOUNTS](#)  
[SIGNATURES](#)

LOAN AND SECURITY AGREEMENT

DATED AS OF \_\_\_\_\_, 2000

BETWEEN

PRIMUS TELECOMMUNICATIONS, INC.,

AS BORROWER

AND

GENERAL ELECTRIC CAPITAL CORPORATION,

AS LENDER

LOAN AND SECURITY AGREEMENT

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EXHIBITS TO LOAN AND SECURITY AGREEMENT

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Exhibit B	Form of Borrowing Certificate
Exhibit C	Form of Borrower's Counsel Opinion
Exhibit D	Form of Borrower's Regulatory Counsel Opinion
Exhibit E	Form of Borrower's Foreign Counsel Opinion
Exhibit F	Form of Landlord's Consent
Exhibit G	Form of Collateral Assignment of Purchase Agreement
Exhibit H-1	Form of Subsidiary Guaranty -- Australia
Exhibit I-1	Form of Deed of Charge -- Australia

LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT ("Agreement"), is dated as of \_\_\_\_\_, 2000, by and between PRIMUS TELECOMMUNICATIONS, INC., a Delaware corporation with its principal office at 1700 Old Meadow Rd., McLean, VA 22102 ("Borrower"), and GENERAL ELECTRIC CAPITAL CORPORATION, a New York corporation with offices at 10 Riverview Drive, Danbury, Connecticut 06810 and its affiliates, successors or assigns ("Lender").

WHEREAS, the Borrower has requested the Lender to make Loans to the Borrower, and the Lender has agreed to do so, subject to and on the terms and conditions of this Agreement;

Accordingly, in consideration of the mutual promises contained herein, the Borrower and the Lender agree as follows:

1. CERTAIN DEFINITIONS: In addition to other words and terms defined in the preamble hereof or elsewhere in this Agreement, or on the schedules hereto, the following words and terms shall have the following meanings unless the context otherwise clearly requires:

"ASSIGNEE": an assignee described in SECTION 19 hereof.

"BENEFIT PLAN": a defined benefit plan as defined in Section 3(35) of ERISA (other than a Multiemployer Plan) in respect of which the Borrower or any ERISA Affiliate is, or within the immediately preceding six (6) years was, an "employer" as defined in Section 3(5) of ERISA.

"BORROWING CERTIFICATE": a certificate substantially in the form of Exhibit B hereto, executed by Borrower.

"BORROWING DATE": any Business Day on which a Loan is made to Borrower hereunder.

"BORROWER": Primus Telecommunications, Inc., and its successors and permitted assigns.

"BUSINESS DAY": a day other than a Saturday, Sunday or other day on which commercial banks in New York, New York, are authorized or required by law to close.

"CHANGE IN CONTROL": any change in the direct or indirect control of, or the ability or right to control, a majority of the voting shares of any class of securities or ownership rights in Borrower or Parent or in the right and/or the power to control the election of the board of directors of Borrower or Parent.

"CLOSING DATE": September 29, 2000.

"COLLATERAL": as defined and described in SECTIONS 8 AND 9 hereof.

"COLLATERAL SCHEDULE": as defined and described in Section 9 hereof.

"COMMITMENT": Lender's commitment to lend as set forth in SECTION 2 hereof.

"COMMITMENT AMOUNT": \$ \_\_\_\_\_.

"CONSENT": a consent to a collateral assignment of a Vendor Purchase Agreement, a Landlord Consent, and/or a Mortgagee's Consent.

"CONTAMINANT": any pollutant, hazardous substance, toxic substance, hazardous waste, special waste, petroleum or petroleum derived substance or waste, or any constituent of any such substance or waste.

"DEED OF CHARGE": a Deed of Charge substantially in the form of Exhibit I-1 attached hereto, to be executed by any Australian Subsidiary acquiring rights to Equipment and a Deed of Charge or other security agreement in form reasonably acceptable to Lender for a Subsidiary located in a different jurisdiction acquiring rights to Equipment other than pursuant to a Qualifying Lease.

"DEFAULT": any of the conditions or occurrences specified in SECTION 14, whether or not any requirement for the giving of notice, the lapse of time, or both, or any other condition has been satisfied.

"DEFAULT RATE": a rate of interest equal to the lesser of (i) three percentage points (3%) in excess of the Interest Rate or (ii) the maximum permissible rate under applicable law in effect at any time.

"ENVIRONMENTAL LAWS": all federal, state and local laws, rules, regulations, ordinances, programs, permits, guidance, orders and consent decrees or other binding determination of any Public Authority relating to health, safety, hazardous substances, and environmental matters applicable to the Borrower and/or its business and facilities (whether or not owned by it). Such laws and regulations include but are not limited to the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 ET SEQ., as amended; the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 ET SEQ., as amended; the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq., as amended; the Clean Water Act, 42 U.S.C. Section 466 ET SEQ., as amended; the Clean Air Act, 46 U.S.C. Section 7401 ET SEQ., as amended; state and federal lien and environmental cleanup programs; the Occupational Safety and Health Act, 29 U.S.C. Section 651 ET SEQ.; and U.S. Department of Transportation regulations, each as from time to time hereafter in effect.

"EQUIPMENT": the equipment defined in SECTION 9 hereof.

"ERISA": the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA AFFILIATE": (i) any corporation which is a member of the same controlled group of corporations (within the meaning of Section 414(b) of the IRC) as the Borrower, (ii) any partnership or other trade or business (whether or not incorporated) under common control

(within the meaning of Section 414(c) of the IRC) with the Borrower and (iii) any member of the same affiliated service group (within the meaning of Section 414(m) of the IRC) as the Borrower, any corporation described in clause (i) above or any partnership or trade or business described in clause (ii) above.

"EVENT OF DEFAULT": any of the events specified in SECTION 14 hereof, provided that any requirement for the giving of notice, the lapse of time, or both, or any other condition, under 14 or otherwise, has been satisfied.

"EVENT OF LOSS": as defined in SECTION 13 hereof.

"FCC": the Federal Communications Commission or any successor commission or agency of the United States of America having jurisdiction over the Borrower or any System or Equipment.

"FINANCING TERMINATION DATE": September 27, 2001, the date on which Lender's agreement to make any further Loans to Borrower terminates.

"FIRST FUNDING DATE": the date the first Loan is funded by Lender hereunder.

"GAAP": generally accepted accounting principles in the United States of America (as such principles may change from time to time) applied on a consistent basis in accordance with the Borrower's or the applicable Person's past practices (except for changes in application in which Borrower's independent certified public accountants concur), applied both to classification of items and amounts.

"GOVERNMENTAL AUTHORITY": the federal government, any state or political subdivision thereof, any city or municipal entity, any foreign government having jurisdiction over Borrower, any of its Subsidiaries or their respective properties, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government over or with respect to Borrower or any of its Subsidiaries or their respective businesses or any Collateral.

"GUARANTY": a Guaranty or Guaranty Agreement substantially in the form of EXHIBIT H-1 attached hereto, to be executed by any Australian Subsidiary acquiring rights to Equipment and a Guaranty in form reasonably acceptable to Lender for each Subsidiary located in a different jurisdiction acquiring rights to Equipment.

"INDEBTEDNESS": as to any Person, at a particular time, (a) indebtedness for borrowed money or for the deferred purchase price of property or services in respect of which such Person is liable, contingently or otherwise, as obligor, guarantor or otherwise, or in respect of which such Person otherwise assures a creditor against loss; (b) obligations under leases which shall have been or should be, in accordance with GAAP, recorded as capital leases in respect of which obligations such Person is liable, contingently or otherwise, as obligor, guarantor or otherwise, or in respect of which obligations such Person assures a creditor against loss; (c) obligations of such Person to purchase or repurchase accounts receivable, chattel paper or other payment rights sold or assigned by such Person; and (d) indebtedness or obligations of such Person under or with respect to letters of credit, notes, bonds or other debt instruments.

"INSTALLATION SITE(S)": any of the sites where Equipment is or is to be located, as those set forth on SCHEDULE 8.01 hereto or on any Borrowing Certificate with respect to Equipment financed after the initial Borrowing Date.

"INTEREST RATE": as set forth in SECTION 3(e) hereof.

"IRC": the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder, and any successor statutes or rules and regulations.

"LANDLORD CONSENT": a consent substantially in the form of EXHIBIT F hereto or in other form acceptable to Lender, to be executed by the owner/landlord, sublessor and/or licensor (including carriers) of any real property where any Collateral with a cost equal to or in excess of \$100,000 is to be located.

"LEASE": a Lease of the Equipment by Borrower as lessor and a Subsidiary of Borrower as lessee.

"LENDER": General Electric Capital Corporation, and its successors and assigns.

"LENDER'S EXPENSES": as described in SECTION 17 hereof.

"LIEN": any mortgage, pledge, hypothecation, lien (statutory or other), judgment lien, security interest, security agreement, charge or other encumbrance, or other security arrangement of any nature whatsoever, including, without limitation, any installment contract, conditional sale or other title retention arrangement, any sale of accounts receivable or chattel paper, and any assignment, deposit arrangement or lease intended as, or having the effect of, security and the filing of any financing statement under the UCC or comparable law of any jurisdiction.

"LOAN": any loan made to the Borrower pursuant to the provisions of SECTION 2 below.

"LOAN DOCUMENTS": a collective reference to this Agreement, the Note, any Guaranty, Deed of Charge or assignment of Lease, and all other documents, instruments, agreements and certificates evidencing or securing any advance hereunder or any obligation for the payment or performance thereof and/or executed and delivered in connection with any of the foregoing.

"LUCENT": Lucent Technologies Inc., a Delaware corporation.

"MATERIAL ADVERSE EFFECT": with respect to any Person, a material adverse effect upon the financial condition, operations or properties of such Person, or upon the ability of such Person to perform under the Loan Documents.

"MATURITY DATE": with respect to any Loan, 364 days after the Borrowing Date for such Loan; provided, however, that upon obtaining requisite Regulatory Authorizations,

the Maturity Date shall be extended to the fifth annual anniversary of the Borrowing Date of such Loan.

"MORTGAGEE'S CONSENT": a consent to be executed by any Person holding a lien on real property leased or otherwise provided to Borrower or any of its Subsidiaries on which any of the Equipment is located.

"MULTIEMPLOYER PLAN": a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA which is, or within the immediately preceding six (6) years was, contributed to by the Borrower or an ERISA Affiliate.

"NOTE": the promissory note issued by Borrower to Lender pursuant to this Agreement, and all extensions, renewals, modifications, replacements, amendments, restatements and refinancings thereof, substantially in the form of Exhibit A hereto.

"OBLIGATIONS": all indebtedness, liabilities and obligations of Borrower to Lender of any class or nature, whether arising under or in connection with this Agreement, the Note and/or the other Loan Documents or otherwise, whether now existing or hereafter incurred, direct or indirect, absolute or contingent, secured or unsecured, matured or unmatured, joint or several, whether for principal, interest, fees, Lender's Expenses, lease obligations, indemnities or otherwise, including, without limitation, future advances of any sort, all future advances made by Lender for taxes, levies, insurance and/or repairs to or maintenance of the Collateral, the unpaid principal amount of, and accrued interest on, the Note, and any Lender's Expenses. Obligations shall include all interest which accrues after the commencement of any case or proceeding in bankruptcy after the insolvency of, or for the reorganization of the Borrower, whether or not allowed in such proceeding.

"PARENT": Primus Telecommunications Group, Incorporated, a Delaware corporation.

"PAYMENT DATE": with respect to each Loan, the last day of the calendar month in which the Borrowing Date for such Loan occurs and the last day of each calendar month thereafter until the Maturity Date of such Loan.

"PBGC": the Pension Benefit Guaranty Corporation referred to and defined in ERISA.

"PERSON": any natural person, corporation, division of a corporation, business trust, joint venture, association, company, partnership, unincorporated organization or other legal entity, or a government or any agency or political subdivision thereof.

"PERMITTED ENCUMBRANCES": the Liens permitted under SECTION 11(k) hereof.

"PLAN": any employee benefit plan as defined in Section 3(3) of ERISA (other than a Multiemployer Plan) in respect of which the Borrower or any ERISA Affiliate is, or within the immediately preceding six (6) years was, an "employer" as defined in Section 3(5) of ERISA.

"PREPAYMENT PREMIUM": as defined in SECTION 6 hereof.

"PUC": any state or foreign Governmental Authority having utility or telecommunications regulatory authority over the Borrower, any System or any Equipment.

"QUALIFYING LEASE": a Lease to a Subsidiary of Borrower in a form reasonably acceptable to Lender and in any case stating therein that such Lease has been collaterally assigned to the Lender to secure the payment and performance of the Obligations and if such Lease is to cover Equipment to be located outside the United States, Lender has determined that Lender can readily perfect and enforce its security interest in the Equipment in such jurisdiction at a reasonable cost and that there are no adverse tax or regulatory consequences to, or burdensome requirements imposed upon Lender if the Equipment is located in such jurisdiction.

"REGULATORY AUTHORIZATIONS": all approvals, authorizations, licenses, filings, notices, registrations, consents, permits, exemptions, registrations, qualifications, designations, declarations, or other actions or undertakings now or hereafter made by, to or in respect of any Governmental Authority, including, without limitation, any certificates of public convenience and all grants, approvals, licenses, filings and registrations from or to the Federal Communications Commission or any state Public Utilities Commission or any foreign Governmental Authority having jurisdiction over Borrower or any of its Subsidiaries that is necessary in order to enable Borrower or any of its Subsidiaries to own, construct, maintain and operate the Equipment or any System, and any authorizations specified on SCHEDULE 11.01 hereto.

"RELEASE": any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration into the environment or into or out of any property, including the movement of Contaminants through or in the air, soil, surface water, groundwater or property.

"REMEDIAL ACTION": actions required to (1) clean up, remove, treat or in any other way address Contaminants in the environment; (2) prevent the Release or threat of Release or prevent or minimize the further Release of Contaminants so they do not migrate or endanger or threaten to endanger public health or welfare or the environment; or (3) perform preresidential studies and investigations and postremedial monitoring and care.

"REPORTABLE EVENT": any reportable event as defined in Section 4043 of ERISA unless the reporting requirement with respect to such reportable event has been waived by the PBGC or other appropriate Governmental Authority.

"REQUIRED CONSENTS": the Regulatory Authorizations, Landlord Consents, Mortgage Consents or consents of other Persons required with respect to Borrower's execution, delivery and performance of this Agreement and the other Loan Documents, as described in SECTIONS 25 and 26 hereto.

"SOFTWARE" and "SOFTWARE LICENSES": any software now or hereafter owned by, or licensed to, Borrower or any of its Subsidiaries or with respect to which Borrower or any of its Subsidiaries has or may have license or use rights and all licenses with respect to such rights, in each case relating to Equipment.

"SOLVENT": at any time of determination, with respect to any Person, such Person is then able and expects to be able to pay its debts (including, without limitation, contingent debts and other commitments) as they mature.

For purposes of determining whether a Person is Solvent, the amount of any contingent liability shall be computed as the amount that, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or mature liability.

"SUBSIDIARY": as to any Person, a corporation, partnership, limited liability company, or other entity in which equity interests having ordinary voting power to elect a majority of the board of directors, managers or similar persons of the entity are at the time directly or indirectly owned or controlled by such Person (regardless of any contingency which does or may suspend or dilute the voting rights of such class). Unless otherwise qualified, all references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer to a Subsidiary or Subsidiaries of Borrower and also to entities that are under common control with Borrower by being Subsidiaries of Parent. Specifically, all references to an Australian Subsidiary include any corporation in the position of a Subsidiary of Primus Telecommunications Group, Inc., of which Borrower is also a Subsidiary.

"SUPPLIER": Lucent and any other Vendor approved in writing by Lender.

"SYSTEM": Borrower's or any of its Subsidiaries' telecommunications network or system constructed and/or operated by Borrower or any of its Subsidiaries permitted hereunder (including any future development and expansions thereof), of which any Equipment forms a part

"TAXES": as defined in SECTION 3(h) hereof.

"TERMINATION EVENT": (i) a Reportable Event with respect to a Benefit Plan; (ii) the withdrawal of the Borrower or any ERISA Affiliate from a Benefit Plan during a plan year in which the Borrower or such ERISA Affiliate was a "substantial employer" as defined in Section 4001(a)(2) of ERISA; (iii) the imposition of an obligation on the Borrower or any ERISA Affiliate under Section 4041 of ERISA to provide affected parties written notice of intent to terminate a Benefit Plan in a distress termination described in Section 4041(c) of ERISA; (iv) the institution by the PBGC of proceedings to terminate a Benefit Plan; (v) any event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Benefit Plan; or (vi) the partial or complete withdrawal of the Borrower or any ERISA Affiliate from a Multiemployer Plan.

"UCC": the Uniform Commercial Code as the same may from time to time be in effect in the State of New York, or the Uniform Commercial Code of another jurisdiction, to the extent it may be required to apply to any item or items of Collateral.

"VENDOR" means any manufacturer or supplier of Equipment or licensor or supplier of Software approved in writing by Lender, in each case other than Lucent.

"VENDOR PURCHASE AGREEMENT": any purchase agreement, together with any amendments or supplements thereto, between a Vendor or Lucent and Borrower or an assignor of Borrower and all purchase orders and invoices issued pursuant thereto for the sale of Equipment.

2. COMMITMENT TO LEND: Subject to the terms and conditions provided in this Loan and Security Agreement ("Agreement") and so long as no Event of Default (as defined in Section 14 hereof) or event or condition which with notice or passage of time or both would constitute an Event of Default has occurred and is continuing hereunder, Lender agrees to make Loans to Borrower, until the Financing Termination Date, in an amount in the aggregate not to exceed the Commitment Amount, which Loans shall be used solely for (i) the purchase by Borrower of telecommunications equipment and associated software sublicenses from the Supplier or another approved Vendor pursuant to one or more Vendor Purchase Agreements made by and between the Supplier (or another approved Vendor) and Borrower for installation in the United States, Canada, Australia, Japan, Germany, the United Kingdom or France and other jurisdictions approved by Lender in writing, and (ii) the payment of transaction costs in connection with the execution and delivery of the Loan Documents and the payment of costs associated with services provided by Supplier or another approved Vendor, including but not limited to freight, installation, maintenance and servicing of the equipment and software, PROVIDED, that no more than 20% of the total amount of Loans outstanding at any time shall be used for the costs described in this clause (ii).

3. THE NOTE, PAYMENT TERMS AND FEES:

(a) All Loans to Borrower hereunder shall be evidenced by the Note, executed by Borrower, which shall evidence the obligation of Borrower to pay the outstanding principal balance of the Loans, plus any accrued interest thereon.

(b) The Note shall be dated the Closing Date and shall mature on the Maturity Date of the last Loan made hereunder. Except as otherwise provided herein, each Loan shall bear interest from the Borrowing Date thereof on the outstanding unpaid principal amount thereof at the Interest Rate stated below (compounded monthly and computed on the basis of a year of 365 days for the actual days elapsed). In computing interest on each Loan, the Borrowing Date shall be included and the Payment Date excluded. Borrower and Lender understand that the amortization schedule described in Section 3(d) below is intended to amortize fully the principal amount of each Loan and any other principal and interest amounts outstanding will be added to the final payment on the Maturity Date of such Loan. In any event, the entire outstanding principal amount of each Loan and all accrued but unpaid interest and all other outstanding amounts due thereunder shall be paid on the Maturity Date of such Loan. If a Payment Date is not a Business Day, the Payment Date shall be on the first Business Day following the day which is not a Business Day, and interest thereon shall be payable at the rate in effect during such extension. Each payment shall be credited first to accrued and unpaid interest and the balance to the principal amount (provided that in any event the entire principal amount of a Loan then outstanding together with any accrued and unpaid interest shall be paid on the Maturity Date for such Loan). The Lender is authorized to endorse the date and amount of each Loan, the interest rate applicable thereto and each payment of the principal amount and interest with respect to each Loan on the schedule annexed to and constituting a part of the Note, which

endorsement shall be conclusive evidence against Borrower of the amount owing to the Lender with respect to the Loans in the absence of manifest error; PROVIDED, HOWEVER, that the failure of the Lender to register any such information on such schedule shall not in any manner affect the obligation of Borrower to repay the Loans in accordance with the terms of this Agreement.

(c) All payments shall be made in lawful money of the United States of America in immediately available funds and without set off or counterclaim to the Lender or any subsequent assignee of the Note or all or a portion of the Loans.

(d) Interest with respect to each Loan shall be payable in arrears on each Payment Date, on the Maturity Date for such Loan and after the Maturity Date for such Loan or the occurrence of an Event of Default, on demand. In the event that the Borrower does not obtain the requisite Regulatory Authorizations to extend the Maturity Date of any Loan to the fifth anniversary of the Borrowing Date thereof, the outstanding principal balance of such Loan shall become due and payable 364 days after the Borrowing Date thereof; otherwise, the outstanding principal balance of such Loan shall be payable on each Payment Date beginning with the thirteenth Payment Date following the Borrowing Date of such Loan, on the Maturity Date, and after the Maturity Date or the occurrence of an Event of Default, on demand. The principal payments made on the thirteen through and including the twenty-fourth Payment Date following the Borrowing Date of a Loan shall each be in an amount equal to 1.75% of the outstanding principal balance of such Loan, the principal payments made on the twenty-fifth through and including the forty-eighth Payment Date following the Borrowing Date of such Loan shall each be in an amount equal to 2.00% of the outstanding principal balance of such Loan, and the principal payments made on the forty-ninth through and including the fifty-ninth Payment Dates following the Borrowing Date of such Loan shall each be in an amount equal to 2.5833% of the outstanding principal balance of such Loan. The principal payment made on the sixtieth Payment Date shall be in an amount equal to the outstanding principal balance of such Loan.

(e) The "INTEREST RATE" on each Loan shall be equal to a rate determined by adding 500 basis points to the published yield on Five (5) Year Constant Maturity United States Treasury Notes as reported in Federal Reserve Statistical Release H.15(519), as published by the Board of Governors of the Federal Reserve System, or any successor publication by the Board of Governors of the Federal Reserve System, three days prior to the Borrowing Date with respect to that Loan.

(f) Whenever any principal or interest payment, fee or other Obligation hereunder is not paid within ten (10) days after the date when due, Borrower agrees to pay on demand (as a fee to offset Lender's Expenses), one and one-half percent (1-1/2%) per month of all overdue amounts from the due date until paid, but not exceeding the lawful maximum, if any.

(g) Notwithstanding any provision of this Agreement, it is the intent of Lender and Borrower that Lender, or any subsequent holder of the Note or assignee of any portion of the Loans, shall never be entitled to receive, collect, reserve or apply, as interest, any amount in excess of the maximum non-usurious lawful rate of interest permitted to be charged by applicable law, as amended or enacted from time to time. In the event Lender, or any subsequent holder of the Note, ever receives, collects, reserves or applies as interest, interest in excess of the

then maximum lawful rate of interest, such amount which would be excessive interest shall be deemed a partial prepayment of the principal amount thereof and treated hereunder as such (except that no prepayment premium otherwise applicable shall be payable thereon), or, if the principal amount thereof and all other amounts due are paid in full, any remaining excess funds shall immediately be paid to Borrower. In determining whether or not the interest paid or payable, under any specific contingency, exceeds the maximum lawful rate of interest, Borrower and Lender shall, to the maximum extent permitted under applicable law, (a) exclude voluntary prepayments and the effects thereof as it may relate to any fees charged by the Lender, and (b) amortize, prorate, allocate and spread, in equal parts, the total amount of interest throughout the entire term of the Loans; provided that if the Loans are paid in full prior to the end of the full contemplated term hereof, and if the interest received over the actual period of existence hereof exceeds the maximum lawful rate of interest, Lender or any subsequent holder of the Note or any assignee of any portion of the Loans shall refund to Borrower the amount of such excess, and in such event shall not be subject to any penalties provided by any laws for contracting for, charging, reserving, collecting or receiving interest in excess of the maximum lawful rate of interest.

(h) The Borrower agrees to pay the Lender on each Borrowing Date a loan fee equal in amount to one percent (1.00%) of the amount of the Loan made on such date.

(i) Borrower agrees to pay all amounts owing by it under this Agreement, the Note or the other Loan Documents free and clear of and without deduction for any present or future taxes (excepting any taxes assessed on Lender's income by the United States of America) (collectively, the "TAXES") and represents that it has paid, and agrees that it shall pay, when due all applicable deductions or withholdings for or on account of any Taxes, levies, duties, fees, deductions or withholdings, restrictions or conditions of any nature imposed by or on behalf of any jurisdiction (other than the United States of America) or any taxing authority (other than the United States of America) whatsoever on the payments by Borrower to Lender under this Agreement, the Note or the other Loan Documents and

(i) that if it is prevented by operation of law from paying any Taxes, then the interest rate or fees required to be paid under this Agreement, the Note or the other Loan Documents shall be increased by the amount necessary to yield to Lender interest or fees at the rates specified in this Agreement, the Note or the other Loan Documents after provision for the payment of all such Taxes and without taking into account any tax benefits accruing to Lender from such payment;

(ii) that it shall at the request of Lender execute and deliver to Lender such further instruments as may be necessary or desirable to effect the increase in the interest or fees as provided for in clause (i) immediately above, including a new Note to be issued in exchange for the Note theretofore issued;

(iii) that it shall hold Lender harmless from and against any liabilities with respect to any Taxes (whether or not properly or legally asserted); and

(iv) that it shall provide Lender with the original or a certified copy of evidence of the payment of any Taxes by it, as Lender may reasonably request, or, if no Taxes have been paid, to provide to Lender, at Lender's request, with a certificate from the appropriate taxing authority or an opinion of counsel acceptable to Lender stating that no Taxes are payable.

(j) If Lender shall receive a refund of any Taxes paid by Borrower pursuant to this Section by reason of the fact that such Taxes were not correctly or legally asserted, Lender shall within sixty (60) days after receipt of such refund pay to Borrower the amount of such refund, as determined solely by Lender; PROVIDED, HOWEVER, that in no event shall the amount paid by Lender to Borrower pursuant to this sentence exceed the amount of Taxes originally paid by Borrower; and FURTHER PROVIDED that Lender shall not have any obligation under this Agreement to claim or otherwise seek to obtain any such refund.

(k) If, due to either (i) the introduction after the date hereof of, or any change after the date hereof in or in the interpretation of, any applicable law, rule or regulation by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof or (ii) compliance by the Lender or any assignee thereof after the date hereof with any final request or final directive issued after the date hereof (whether or not having the force of law) by any such Governmental Authority, central bank or comparable agency, and, as a result of any of the events set forth in the above clauses (i) and (ii), (x) there shall be any increase in the cost to the Lender or any assignee thereof in maintaining its Commitment under this Agreement or funding or maintaining its Loans under this Agreement, or (y) Lender or any assignee thereof is subjected to any charge or withholding on its obligations hereunder, or changes in the basis of taxation of payments to the Lender or any assignee thereof in connection with any of the foregoing (except for changes in the rate of tax on overall net income of the Lender or any assignee thereof) (collectively, "INCREASED COSTS"), then the Borrower shall, from time to time, pay, to the Lender or such assignee within 15 days after the Lender or such assignee shall have provided notice to the Borrower of such Increased Cost, an amount sufficient to compensate the Lender or such assignee for such Increased Cost, as provided herein. A certificate setting forth in reasonable detail the computation of the amount of such Increased Cost (which increase in cost shall be determined by the Lender's or such assignee's reasonable allocation of the aggregate of such cost increases resulting from such event), submitted to the Borrower by the Lender or such assignee, shall be conclusive and binding for all purposes, absent manifest error.

(l) If the Lender or any assignee thereof that is subject to minimum capital requirements (it being understood that as of the Closing Date General Electric Capital Corporation is not subject to minimum capital requirements) determines that compliance by the Lender or such assignee, with any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law) affects or would affect the amount of capital required or expected to be maintained by the Lender or such assignee, or any corporation controlling the Lender or such assignee, and the Lender or such assignee reasonably determines that the amount of such capital is increased by or based upon any commitment to lend hereunder or making or maintaining Loans, or other commitments of this type, then, upon demand by such Person, the Borrower agrees to, within five (5) days of such demand, pay to such Person, from time to time as specified by such Person, additional amounts sufficient to

compensate such Person in the light of such circumstances, to the extent that such Person reasonably determines such increase in capital to be allocable to such Person's commitment or maintenance of Loans hereunder. A certificate as to the amount of such increased cost, submitted to the Borrower by the applicable Person shall, absent manifest error, be conclusive and binding on the Borrower for all purposes.

4. PROCEDURES FOR BORROWING: Borrower shall execute and deliver to Lender, at least five (5) Business Days prior to the date of the requested Loan (unless Lender shortens such period), a Borrowing Certificate in the form of EXHIBIT B to request Loans to finance the acquisition by Borrower of Equipment. Each Borrowing Certificate shall specify the Business Day on which the requested Loan is to be made and the amount of the requested Loan and have attached thereto the applicable purchase order issued by Borrower and related invoice from the Supplier which is to be paid by Lender with the proceeds of the Loan, a delivery and acceptance certificate, evidencing the Borrower's acceptance of the Equipment to be financed with the requested Loan, if the Borrower is requesting reimbursement of amounts previously paid to the Supplier for Equipment, copies of the invoices from the Supplier which were paid and the cancelled checks of the Borrower that evidence such payment. On the Borrowing Date specified in the Borrowing Certificate, providing that all conditions precedent have been satisfied, Lender shall transmit the borrowed funds to an account maintained by and in the name of Supplier or to the Borrower, as requested in the Borrowing Certificate. The aggregate principal amount of each Loan shall be not less than \$25,000. Lender shall not be required to make Loans more than twice per calendar month.

5. PLACE OF PAYMENT: The outstanding principal balance of the Loans, interest, fees and all other Obligations, shall be payable at 10 Riverview Drive, Danbury, Connecticut 06810, or such other place as may be designated, from time to time in writing, by Lender or any subsequent assignee.

6. PREPAYMENT: Borrower may, at its option but subject to the satisfaction of the requirements of the next sentence, at any time and from time to time, prepay the Loans, in whole or in part, upon at least (30) Business Days prior written notice to Lender specifying the date and amount of prepayment in a minimum amount of \$50,000. Any such prepayment shall be subject to a prepayment premium ("Prepayment Premium") equal to a percentage of the amount being prepaid with respect to each Loan as follows: three percent (3%) if the prepayment is made during the period commencing on the Borrowing Date for such Loan through and including the first anniversary thereof; two percent (2%) if the prepayment is made at any time thereafter through and including the second anniversary of the Borrowing Date for such Loan; and one percent (1%) if the prepayment is made at any time thereafter.

7. MANDATORY PREPAYMENT: Upon Lender's demand, if Borrower leases or sells or disposes of any Equipment other than pursuant to a Qualifying Lease or sale of Equipment to a foreign Subsidiary which grants a security interest in the Equipment to the Lender pursuant to documentation satisfactory to Lender or upon the written consent of Lender, or if any Lease ceases to be a Qualifying Lease, Borrower shall prepay all Loans to the extent proceeds thereof were used to purchase the Equipment and related Software so leased or sold, pro rata to the Lender according to their respective percentages of the aggregate Loans made

hereunder. All such prepayments shall include all principal, accrued interest, Prepayment Premium and all other Obligations.

8. SECURITY INTEREST; GUARANTIES; OBLIGATIONS SECURED:

(a) Borrower (as debtor) hereby assigns as collateral and grants to Lender (as secured party), as security for the payment and performance of all of the Obligations, a continuing security interest and/or charge in and to, and right of setoff against, all of Borrower's right, title and interest in and to the property and the property rights described in SECTION 9 hereof, whether now owned or hereafter acquired or arising, wherever located, together with all substitutions therefor and all accessions, replacements, products, proceeds and renewals thereof, to the extent financed or refinanced with proceeds of a Loan hereunder.

(b) Borrower shall cause each Subsidiary that acquires rights in any Collateral to execute and deliver to Lender a Guaranty (substantially in the form of EXHIBIT H-1 attached hereto with respect to Equipment located in Australia and such other form as Lender shall reasonably require with respect to any other jurisdiction) guaranteeing so much of the Obligations hereunder as is represented by the purchase price and installation costs and other associated costs of such Collateral, plus the financing costs attributable thereto. Borrower also shall cause each such Subsidiary to grant to Lender a security interest and/or charge in the Collateral in which it acquires rights either directly or as security for the Subsidiary's Guaranty, at the discretion of Lender reasonably exercised on the advice of counsel.

9. DESCRIPTION OF COLLATERAL: To secure the payment and performance of the Obligations, Borrower (as debtor) hereby assigns to Lender as collateral, and grants to Lender (as secured party) a continuing security interest (or in foreign jurisdictions, the equivalent) in and to, and a right of setoff against, all of Borrower's right, title and interest in and to the following kinds and types of property, whether now owned or hereafter acquired or arising, wherever located, together with all substitutions therefor and all accessions, products, replacements, proceeds and renewals thereof, to the extent financed or refinanced with proceeds of a Loan hereunder, and in all proceeds and products thereof, including without limitation the collateral specifically described on SCHEDULE 8.01 hereto located in the locations described on SCHEDULE 8.01, including the rights and interests of any Subsidiary acquiring rights in such collateral not separately secured to the Lender by a Guaranty and Deed of Charge (collectively, the "COLLATERAL"):

(a) All equipment and fixtures financed or refinanced with proceeds of a Loan and in each case any and all additions, substitutions, and replacements to or of any of the foregoing, together with all attachments, components, parts, improvements, upgrades, and accessions installed thereon or affixed thereto, but excluding such additions, attachments, components, parts, improvements, upgrades, and accessions not financed pursuant hereto provided that the removal thereof would not harm the equipment or fixtures to which it is attached. The equipment and fixtures shall include installation services provided by Lucent or any other Vendor in connection therewith and any Software integral to the operation of the equipment and fixtures (the items described in this clause (a) being collectively referred to as "EQUIPMENT");

(b) All of Borrower's right, title and interest in and to any Vendor Purchase Agreement entered into after the Closing Date with Lucent or any other Supplier whose Equipment is financed pursuant hereto, to be delivered with consents to the Lender from Lucent or such Supplier for those assignments within ten (10) Business Days after the effective date of each such purchase agreement using substantially the same form as EXHIBIT G to this Agreement;

(c) All general intangibles and intangible property (including all contracts and contract rights) constituting part of, or provided by or through Lucent or any Vendor in connection with the Equipment or associated with any System which are necessary for the proper operation of the Equipment, including without limitation insurance proceeds and amounts due under insurance policies, licenses, license rights, rights in intellectual property, Software, Software Licenses, computer programming (including source codes, object codes and all other embodiments of computer programming or information), refunds, warranties and indemnification rights, and all amounts owed at any time to Borrower by Lender or Lucent or by a Supplier in connection with a Vendor Purchase Agreement relating to Equipment (collectively, "GENERAL INTANGIBLES");

(d) All of Borrower's right, title and interest in and to all Leases and Qualifying Leases of Equipment by Borrower as lessor, and any other leases of the Equipment by Borrower as lessor; and

(e) All Equipment and all Software financed pursuant hereto listed on a collateral schedule attached to a Borrowing Certificate ("Collateral Schedule"), each Collateral Schedule hereby being incorporated in and made a part of this Agreement.

#### 10. MAINTENANCE, USE AND OPERATION:

(a) At all times while this Agreement remains in effect, Borrower or any Subsidiary that leases or acquires an interest in any Equipment, at its sole cost and expense, shall maintain the applicable Equipment and System in good repair, condition and working order in accordance with established maintenance procedures such that the System performs in accordance with published specifications in all material respects, and Borrower or such Subsidiary shall maintain the Equipment at all times in accordance with the Supplier's recommendations. Borrower shall, and shall cause any Subsidiary which leases or acquires an interest in any Equipment, to use the Equipment and all parts thereof for its designated purpose and in compliance with all applicable laws and shall at all time keep the Equipment in its possession and control and not permit such Equipment to be moved from the Installation Sites, as set forth in SCHEDULE 8.01, without Lender's prior written consent, such consent not to be unreasonably withheld.

(b) The Equipment is, and shall at all times be deemed to be, personal property even if the Equipment is affixed or attached to real property or any improvements thereon. At Lender's request, Borrower or any Subsidiary that leases or acquires an interest in any Equipment shall at no charge within a reasonable period of time cause to be affixed to the Equipment any tags, decals, or plates furnished by Lender indicating Lender's interest in the Equipment, and Borrower or such Subsidiary shall not permit their removal or concealment. Borrower or such Subsidiary shall at all times keep the Equipment free and clear of all liens and

encumbrances, except those arising through actions of Lender or permitted in writing by Lender. Borrower or such Subsidiary shall take such actions as may be reasonably requested by the Lender to maintain the status of the Equipment and all parts thereof as personal property.

(c) Borrower will, at Borrower's expense, furnish a Landlord's Consent or Mortgagee's Consent, as appropriate, from any party having an interest in any real estate or building in which any Equipment is located or furnish an acknowledgment satisfactory to Lender from any affiliate, landlord, mortgagee, easement grantor, or other person who is in a position to claim rights in property where the Equipment is located, promising to give Lender notice of any claimed default by Borrower or any Subsidiaries with respect to such property interest and an opportunity to remove the Equipment and other elements of the System upon commercially reasonable terms. Lender may inspect the System at any time during normal business hours of a Borrower or Subsidiary subject to its normal operational procedures.

11. REPRESENTATIONS, WARRANTIES AND COVENANTS OF BORROWER: Borrower makes the representations and warranties set forth below on the Closing Date and on each Borrowing Date. In addition, Borrower makes the covenants to Lender set forth below so long as this Agreement is in effect and any Obligations to Lender remain outstanding.

(a) Each of Borrower and any Subsidiary which leases or acquires an interest in Equipment is a corporation duly organized, validly existing, and in good standing under the laws of the state or nation of its incorporation and is authorized to do business and/or is in good standing as a foreign corporation in each jurisdiction in which any System it operates is located, and each of Borrower and any Subsidiary which leases or acquires an interest in Equipment is authorized and licensed under applicable law to operate as a facilities based carrier therein, and each of Borrower and any Subsidiary which leases or acquires an interest in Equipment has the corporate power and capacity to enter into this Agreement, any Loan authorized pursuant to this Agreement, or any Lease of Equipment, as the case may be, and to perform all of its obligations hereunder and thereunder.

(b) This Agreement, the Schedules, the Exhibits, and all other Loan Documents and the performance by Borrower and each Subsidiary which leases or acquires an interest in Equipment hereunder of their respective obligations have been duly and validly authorized and approved under all laws and regulations and procedures applicable to Borrower or any Subsidiary which leases or acquires an interest in Equipment hereunder, and under the terms and provisions of the resolutions of such entity's governing body, a copy of which, with respect to the Borrower, has been provided to Lender herewith or with respect to any such Subsidiary, will be provided prior to the date of any Loan, the proceeds of which finance Equipment which any Subsidiary leases or acquires an interest in; the consent of all necessary persons or bodies has been obtained; and all of such documents executed by Borrower or any Subsidiary which leases or acquires an interest in Equipment hereunder have been duly and validly executed and delivered by authorized representatives of such entity and constitute valid, legal and binding obligations of such, enforceable against such entity in accordance with their respective terms.

(c) No other approval, Consent, Regulatory Authorization, or withholding of objection is required from any Governmental Authority with respect to the entering into or performance by Borrower of this Agreement, or the performance by Borrower or any Subsidiary which leases or acquires an interest in Equipment hereunder of the transactions contemplated hereby other than Regulatory Authorizations required to extend the Maturity Date of any Loan beyond 364 days after the Borrowing Date thereof.

(d) The entering into and performance of this Agreement and any Loan entered into pursuant hereto will not violate any judgment, order, law or regulation applicable to Borrower or result in any breach of, or constitute a default under, or result in the creation of any lien, charge, security interest or other encumbrance upon any assets of Borrower or any Subsidiary or on any Equipment pursuant to any instrument to which Borrower or any Subsidiary is a party or by which it or its assets may be bound, except pursuant to the transactions and documents contemplated in this Agreement.

(e) Borrower and each of its Subsidiaries has conducted and continues to conduct its business in all material respects in accordance with applicable laws, and has paid or will cause to be paid all taxes, assessments and other governmental charges as and when due except those challenged in good faith by appropriate proceedings. Except as set forth in SCHEDULE 11.01, Borrower and each of its Subsidiaries has all of the Regulatory Authorizations necessary to conduct their respective businesses in the jurisdictions where such businesses are conducted, and Borrower covenants to obtain all Regulatory Authorizations required for any future operations by Borrower and each of its Subsidiaries in any jurisdiction. None of the operations of the Borrower or any of its Subsidiaries with respect to any Installation Site is, to the knowledge of the Borrower, the subject of federal or state investigation evaluating whether any Remedial Action is needed to respond to a Release. Neither the Borrower nor any of its Subsidiaries with respect to any Installation Site has filed any notice under any federal or state law indicating past or present treatment, storage or disposal of a hazardous waste or reporting a Release or has contingent liability of which the Borrower or any of its Subsidiaries has knowledge in connection with any Release. If the Borrower or any of its Subsidiaries shall (a) receive notice that any violation of any federal, state or local environmental law or regulation may have been committed or is about to be committed by such Person with respect to any Installation Site, (b) receive notice that any administrative or judicial complaint or order has been filed or is about to be filed against such Person alleging violations of any federal, state or local environmental law or regulation or requiring such Person to take any action in connection with any Release of any Contaminant into the environment, in each case in connection with any Installation Site, or (c) receive any notice from a Governmental Authority or private party alleging that such Person may be liable or responsible for costs associated with a response to or cleanup of a Release or any damages caused thereby in connection with any Installation Site, the Borrower shall provide the Lender with a copy of such notice within twenty (20) Business Days of the Borrower's or its Subsidiary's receipt thereof.

(f) Except as set forth in SCHEDULE 11.01 there are no actions, suits or proceedings pending or, to the knowledge of Borrower's senior executive officers, threatened against or affecting Borrower or any of its Subsidiaries in any court or before any Governmental Authority, board or commission which, if adversely determined, could reasonably be expected to

have a Material Adverse Effect on the ability of Borrower and its Subsidiaries taken as a whole to perform its obligations hereunder or under any Loan authorized pursuant hereto.

(g) Lender has a valid first perfected security interest (or in foreign jurisdictions, the equivalent), subject only to Permitted Encumbrances, in all Collateral pursuant hereto, or under any Loan authorized pursuant hereto, at each Installation Site where it may be located, which secures all Obligations of Borrower hereunder.

(h) Borrower has reviewed its operations and those of its Subsidiaries with a view to assessing whether its business (together with the businesses of its Subsidiaries on a consolidated basis), will be vulnerable to a Year 2000 Problem and has a reasonable basis to believe that no Year 2000 Problem could reasonably be expected to cause a Material Adverse Effect to Borrower and its Subsidiaries on a consolidated basis. For purposes of this Agreement, "Year 2000 Problem" means any significant risk that computer hardware, software or equipment containing embedded microchips essential to the business or operations of Borrower will not, in the case of dates or time periods occurring after December 31, 1999, function at least as effectively and reliably as in the case of times or time periods occurring before January 1, 2000, including the making of leap year calculations. The foregoing representation with respect to Equipment financed pursuant hereto is limited to the representations and warranties of the Supplier with respect to such Equipment.

(i) Borrower shall take all commercially reasonable actions necessary and commit commercially reasonable resources to assure that computer-based and other systems of Borrower and its Subsidiaries are able to process dates effectively, including dates before, on and after January 1, 2000, without experiencing any Year 2000 Problem that could reasonably be expected to cause a Material Adverse Effect to Borrower and its Subsidiaries taken as a whole.

(j) Borrower shall provide to Lender, within five days after Parent's filing of its annual report on Form 10-K, copies of Parent's consolidated annual financial statements for such fiscal year prepared in accordance with GAAP, audited by a firm of auditors nationally recognized or approved by Lender in writing; and, within five days after filing of Parent's quarterly report on Form 10-Q, unaudited quarterly consolidated balance sheets, income statements and cash flow statements for the Borrower and its Subsidiaries prepared in accordance with GAAP, throughout the term of this Agreement.

(k) Neither Borrower nor any Subsidiary of Borrower shall create or suffer to exist any Lien on the Collateral, or any part thereof, whether superior or subordinate to the Lien of the Loan Documents, or assign, convey, sell or otherwise dispose of or encumber its interest in the Collateral, or any part thereof (including, without limitation, execution of any lease), nor permit any such action to be taken, except for the following permitted dispositions and encumbrances ("PERMITTED ENCUMBRANCES"): (i) the Lien created hereby or pursuant to the other Loan Documents; (ii) Liens for taxes not yet due, or which are being contested in good faith and by appropriate proceedings; (iii) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are overdue for a period not longer than thirty (30) days or which are being contested in good faith and by appropriate proceedings; (iv) pledges or liens in connection with workers' compensation, unemployment insurance and other social security legislation; (v) deposits to secure the

performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business; (vi) easements, rights-of-way, restrictions and other similar encumbrances that are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the business of Borrower; (vii) judgment liens not prior to any of the Liens granted pursuant to the Loan Documents with respect to which execution has been stayed within ten (10) days of entry of judgment by appropriate judicial proceedings and the posting of adequate security which may not be any of the Collateral and in any event not relating to any judgment which constitutes an Event of Default or a Default pursuant to SECTION 14; (viii) Qualifying Leases and Deeds of Charge; (viii) a Change in Control not constituting a default pursuant to SECTION 14(i) hereof; and (ix) specific liens, if any, identified on SCHEDULE 11.02 hereto. Any of the foregoing Liens shall remain "Permitted Encumbrances" as long as they are being contested by Borrower in good faith.

(l) Borrower shall comply in all material respects with the covenants applicable to Borrower set forth in SCHEDULE 11.03 attached hereto, which are derived from the covenants contained in the Trust Indenture between Parent and First Union National Bank dated October 15, 1999 pertaining to Parent's 12.75% Senior Notes due 2009.

(m) Borrower shall not permit or acquiesce in any change, waiver or other alteration with respect to any Lease that could reasonably be expected to have a Material Adverse Effect upon it.

(n) Borrower shall, and shall cause each Subsidiary which leases or acquires an interest in any Equipment to, maintain its existence, good standing and rights in full force and effect in its jurisdiction of organization. Borrower shall, and shall cause each Subsidiary which leases or acquires an interest in any Equipment to, qualify to do business and remain qualified and in good standing and shall obtain all necessary authorizations to do business in each jurisdiction in which failure to receive or retain such could reasonably be expected to have a Material Adverse Effect upon Borrower and its Subsidiaries taken as a whole or upon Lender's ability to exercise its rights and remedies with respect to the Collateral.

(o) Borrower shall, and shall cause any Subsidiary which leases or acquires an interest in any Equipment to continue to, engage solely in the business described on SCHEDULE 2.01 hereto; and acquire and maintain in full force and effect all rights, privileges, franchises and licenses necessary for the operation and maintenance of such business (including, without limitation any license or authorization required by the FCC or any PUC or any other Governmental Authority).

(p) Promptly upon their becoming available to Borrower, it shall deliver to Lender copies of (i) all annual or special reports or effective registration statements which Parent or any of its Subsidiaries shall file with any Governmental Authority, including the FCC or any PUC (or any successor thereto) or any securities exchange, (ii) financial statements, material reports, and other information distributed by Parent or any of its Subsidiaries to its creditors, and (iii) all press releases issued by or concerning Parent or its Subsidiaries.

(q) Immediately upon any officer of the Borrower obtaining knowledge of any condition or event (i) which either constitutes a Default or an Event of Default, or (ii) which renders any representation, covenant or warranty contained herein materially false or misleading, the Borrower shall deliver to the Lender a certificate signed by an authorized officer of the Borrower specifying in reasonable detail the nature and period of existence thereof and what corrective action the Borrower or Parent, as applicable, has taken or proposes to take with respect thereto.

(r) The Borrower shall give the Lender prompt written notice upon obtaining knowledge of the following: (1) all events of default or defaults and all events of default or any event that would become an event of default upon notice or lapse of time or both under any of the terms or provisions of any Indebtedness of the Borrower or any Subsidiary which is a party to a Qualifying Lease or otherwise obtains an interest in any Equipment, in excess of \$1,000,000 or of any Indebtedness of the Parent in excess of \$50,000,000; (2) any levy, attachment, execution or other process against any of the property or assets, real or personal, of the Borrower or any Subsidiary which is a party to a Qualifying Lease or otherwise obtains an interest in any Equipment in an amount in excess of \$1,000,000; or (3) the filing or commencement of any action, suit or proceeding by or before any court or any Governmental Authority which, if adversely determined against the Borrower or any Subsidiary which is a party to a Qualifying Lease or otherwise obtains an interest in any Equipment, would result in a Material Adverse Effect on such Person.

(s) None of the Borrower or any ERISA Affiliate of the Borrower maintains or contributes to any Plan other than a Plan listed on SCHEDULE 11.01 hereto. Each Plan which is intended to be qualified under Section 401(a) of the IRC has been determined by the IRS to be so qualified, and each trust related to any such Plan has been determined to be exempt from federal income tax under Section 501(a) of the IRC. Except as disclosed on SCHEDULE 11.01, none of the Borrower or any ERISA Affiliate maintains or contributes to any employee welfare benefit plan within the meaning of Section 3(1) of ERISA which provides benefits to employees after termination of employment other than as required by Section 601 of ERISA. None of the Borrower or any ERISA Affiliate has breached any of the responsibilities, obligations or duties imposed on it by ERISA or regulations promulgated thereunder with respect to any Plan. No Plan has incurred any accumulated funding deficiency (as defined in Section 302(a)(2) of ERISA and Section 412(a) of the IRC), whether waived or not waived. None of the Borrower or any ERISA Affiliate, nor any fiduciary of any Plan which is not a Multiemployer Plan and whose conduct may give rise to liability by Borrower under ERISA (i) has engaged in a nonexempt "prohibited transaction" described in Section 406 of ERISA or Section 4975 of the IRC or (ii) has taken or failed to take any action which would constitute or result in a Termination Event. None of the Borrower or any ERISA Affiliate has incurred any liability to the PBGC which remains outstanding other than the payment of premiums, and there are no premium payments which have become due which are unpaid. Schedule B to the most recent annual report filed with the IRS with respect to each Plan with respect to which a Schedule B is required to be filed is complete and accurate. Since the date of each such Schedule B, there has been no adverse change in the funding status or financial condition of the Plan relating to such Schedule B. None of the Borrower or any ERISA Affiliate has (i) failed to make a required contribution or payment to a Multiemployer Plan or (ii) made a complete or partial withdrawal under Sections 4203 or 4205 of ERISA from a Multiemployer Plan. None of the Borrower or any ERISA Affiliate has

failed to make a required installment or any other required payment to a Benefit Plan under Section 412 of the IRC on or before the due date for such installment or other payment. None of the Borrower or any ERISA Affiliate is required to provide security to a Benefit Plan under Section 401(a)(29) of the IRC due to a Plan amendment that results in an increase in current liability for the plan year. The Borrower shall comply in all material respects with the applicable provisions of ERISA and furnish to the Lender, (i) as soon as possible, and in any event within thirty (30) days after the Borrower or any officer of the Borrower knows or has reason to know that any Reportable Event with respect to any Plan has occurred or any Termination Event has occurred, a statement of an officer of the Borrower setting forth details as to such Reportable Event or Termination Event and the corrective action, if any, that the Borrower proposes to take with respect thereto, together with a copy of the notice of any such Reportable Event given to the PBGC, and (ii) promptly after receipt thereof, a copy of any notice the Borrower may receive from the PBGC relating to the intention of the PBGC to terminate any Plan or to appoint a trustee to administer any such Plan. The Borrower shall not (i) engage or permit any Subsidiary of the Borrower to engage, in any prohibited transaction described in Section 406 of ERISA or 4975 of the IRC for which a statutory or class exemption is not available or a private exemption has not been previously obtained from the United States Department of Labor and which would reasonably be expected to result in a liability to the Borrower or such Subsidiary in excess of \$250,000, (ii) permit any Benefit Plan to incur any accumulated funding deficiency (as defined in Section 302 of ERISA and Section 412 of the IRC), (iii) fail, or permit any ERISA Affiliate to fail, to pay timely required contributions or annual installments due with respect to any waived funding deficiency to any Benefit Plan, (iv) terminate, or permit any ERISA Affiliate to terminate, any Benefit Plan which would result in any material liability of the Borrower under Title IV of ERISA, (v) fail to make any contribution or payment to any Multiemployer Plan which the Borrower or any ERISA Affiliate may be required to make under any agreement relating to such Multiemployer Plan, or any law pertaining thereto and which would reasonably be expected to result in a liability in excess of \$250,000, (vi) amend, or permit any ERISA Affiliate to amend, a Plan resulting in an increase in current liability for the plan year such that the Borrower is required to provide security to such Plan under Section 401(a)(29) of the IRC, or (vii) fail, or permit any ERISA Affiliate to fail, to pay to a Benefit Plan any required installment under Section 412 of the IRC on or before the due date for such installment or other payment which would reasonably be expected to result in a Lien under Section 412(n) of the IRC.

(t) The chief executive office and principal place of business of the Borrower and any Subsidiary which is a party to a Qualifying Lease or otherwise has an interest in the Equipment are as set forth on SCHEDULE 11.04. If any change in any such location occurs, the Borrower shall notify the Lender thereof not later than ten Business Days after the occurrence thereof. The books and records of the Borrower and each Subsidiary of the Borrower which is a party to a Qualifying Lease or otherwise has an interest in the Equipment relating to the Equipment are located at the principal place of business or chief executive office of such Person and if any change in such location occurs, the Borrower shall notify the Lender thereof not later than ten days after the occurrence thereof. Except as set forth on SCHEDULE 11.04, each of the Borrower and each of its Subsidiaries which is a party to a Qualifying Lease or otherwise has an interest in the Equipment has not used and does not now use and will not use any corporate or fictitious name.

(u) After giving effect to any Loans made to the Borrower hereunder, the disbursement of the proceeds of the Loans to the Supplier and the execution, delivery and performance of each of the Loan Documents and transactions contemplated thereby, the Borrower is Solvent and is not contemplating either the filing of a petition by it under any state or federal bankruptcy or insolvency laws or the liquidation of all or a substantial portion of its property, and has no knowledge of any Person contemplating the filing of any such petition against the Borrower.

(v) Subject to the provisions of Section 29 below, the Borrower shall, and shall cause each of its Subsidiaries which is a party to a Qualifying Lease or otherwise has an interest in the Equipment to, permit representatives of the Lender to have access to such Person's books and records relating to the Collateral and the Equipment, Systems and Installation Sites at reasonable times upon reasonable notice and to make such excerpts from such records as such representatives deem necessary and to inspect the Collateral.

(w) The Borrower shall not grant any Person any rights in any of the Equipment except to any Subsidiary pursuant to Qualifying Leases or sale of Equipment to foreign Subsidiaries which grant a security interest in the Equipment to the Lender pursuant to documentation satisfactory to the Lender, and the Borrower shall provide the Lender with advance written notice of the location of the Equipment in which rights are proposed to be granted to a Subsidiary of the Borrower and shall promptly execute, and cause such Subsidiary to execute, such additional security documentation as may be reasonably requested by the Lender to maintain its security interest in the Equipment.

12. INSURANCE: Borrower or any Subsidiary which leases or acquires rights in any Equipment shall, at its expense, upon delivery of each item of Equipment to its Installation Site and at all times thereafter, cause each item of Equipment to remain insured against all risks or loss or damage for an amount at least equal to the portion of the Loans attributable to that item of Equipment and shall maintain comprehensive general liability insurance and excess or umbrella liability insurance with respect to all items of Equipment with such coverages and limits as are customary in Borrower's industry. All insurance policies shall name Lender as an additional insured and if such insurance policy is not a liability policy, as loss payee, and shall be with an insurer, having a "Best Policy Holders" rating of "A1" or better (or the equivalent), and in such form, amount and deductibles as are reasonably satisfactory to Lender. The proceeds of any such policies shall be payable to Lender or Borrower or any Subsidiary which leases or acquires rights in any Equipment, as their interests may appear. Each such policy must state by endorsement that the insurer shall give Lender not less than thirty (30) days prior written notice of any amendment, renewal or cancellation. Borrower or any lessee of Equipment shall upon request, furnish to Lender satisfactory evidence that such insurance coverage is in effect.

13. CASUALTY: If any Equipment, in whole or in part, shall be lost or stolen or destroyed, or damaged from any cause whatsoever, or is taken in any condemnation or similar proceedings by a Governmental Authority (any such event is hereafter called an "EVENT OF LOSS"), Borrower shall promptly and fully notify Lender thereof. Borrower shall, at its option, do the following: (i) if the Equipment is damaged, immediately place the affected Equipment and Software in good condition and working order, or (ii) replace the affected item with like

equipment or software in good repair, condition and working order, or (iii) to the extent not fully covered by insurance as set forth in SECTION 12 above, pay to Lender, within thirty (30) days of the later of the Event of Loss or a determination of less than full insurance coverage, an amount equal to the applicable Loan, plus any other amounts then due and unpaid with respect to such Equipment and Software, less applicable insurance proceeds. Upon the making of all required payments by Borrower pursuant to clause (iii) above, Borrower shall be entitled to retain possession of the applicable Equipment or the sublicense to the applicable Software, (with no warranties) subject to the rights, if any, of the insurer. If Lender shall receive any other insurance proceeds or net awards, Lender shall apply all or part of such proceeds and awards to any Obligations of Borrower to Lender.

14. DEFAULT: Borrower shall be in default under each Loan upon the occurrence of any of the following events (each, an "Event of Default"):

(a) The failure of the Borrower or any Subsidiary of Borrower to pay when due any amount of principal, interest, fees or other Obligations payable under this Agreement, the Note or any Guaranty within five (5) days of the date when due;

(b) A breach or failure in the observance or performance by the Borrower or any of its Subsidiaries of any other material provision of this Agreement or any other Loan Document which is not remedied within thirty (30) days after receipt by Borrower or any of its Subsidiaries of notice of such breach or failure;

(c) Any material representation, warranty or covenant made herein, in any Loan Document or in any certificate, document, financial or other statement delivered in connection with this Agreement, or hereafter made by Borrower or any Subsidiary of Borrower proves to have been incorrect in any material adverse respect when made or given;

(d) Borrower, or any surety or guarantor of all or any portion of the Obligations (i) files or has filed against it a proceeding under any bankruptcy, reorganization, arrangement of debts, insolvency or receivership law, or the Borrower or any such surety or guarantor takes any action to authorize any of the foregoing matters and with respect to any such proceeding filed against such Person and which is not acquiesced in by such Person, either such proceeding shall remain undismissed or unstayed for a period of sixty days or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee or other similar official for such Person or a substantial portion of such Person's property) shall be granted or shall occur; (ii) generally fails to pay its debts as such debts become due; (iii) shall admit in writing its inability to pay its debts as they become due; (iv) applies for or consents to the appointment of a custodian, trustee, receiver, sequestrator or similar official, for it or its assets; (v) benefits from, or is subject to, the entry of an order for relief by any court of insolvency; (vi) makes a general assignment for the benefit of creditors; (vii) becomes insolvent (however otherwise evidenced); (viii) liquidates, winds-up, dissolves or suspends business; or (ix) has commenced against it any case, proceeding or other action seeking the issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof;

(e) (i) An "Event of Default" (as defined in that certain Loan and Security Agreement dated as of November 12, 1999 between NTFC Capital Corporation and Borrower, as such agreement may be amended, restated or otherwise modified from time to time and as defined in that certain Loan and Security Agreement dated December 13, 2000 between NTFC Capital Corporation and Borrower, as such agreement may be amended, restated or otherwise modified from time to time) shall occur, (ii) an event of default shall occur under any other financing agreement (other than the Loan Documents) between Borrower and Lender or any affiliate of Lender, (iii) Borrower shall commit a default in any payment of any other instrument or agreement (other than with Lender or any affiliate of Lender) that could reasonably be expected to cause a Material Adverse Effect to Borrower and its Subsidiaries on a consolidated basis, or (iv) Borrower shall default in the observance of any other provision of such other instrument or agreement as to cause, or permit the holder of such instrument or agreement to cause, the obligations thereunder to become due prior to their stated maturity;

(f) One or more judgments or decrees shall be entered against Borrower or any of its Subsidiaries involving in the aggregate a liability that could reasonably be expected to cause a Material Adverse Effect to Borrower and its Subsidiaries on a consolidated basis, and the same shall not have been vacated or discharged within sixty days after the entry thereof or no insurer shall have admitted its liability in writing with respect to the full amount of such judgments or decrees, or such judgments or decrees, if for the payment of less than an amount equal to fifty percent (50%) of the Borrower's net worth based on the then most recent financial statements submitted to the Lender pursuant to Section 11(j), shall not have been stayed pending appeal within thirty (30) days after entry thereof or shall not have been discharged within ten (10) days after the expiration of any such stay;

(g) Any guaranty or any subordination agreement required or delivered in connection with this Agreement is breached or becomes ineffective, or any guarantor, or subordinating creditor disavows its obligations under the guaranty or subordination agreement, as the case may be;

(h) Borrower or any of its Subsidiaries fails to perform any of its obligations under any other agreement or lease with Lender (subject to any cure rights or notice periods contained in such other agreement or lease);

(i) Any Change in Control of Borrower shall occur without Lender's prior written consent if such Change in Control results or would result upon consummation in an entity obligated hereunder that is less creditworthy than Borrower, based upon financial information with respect to the transaction which must be supplied by Borrower sufficiently in advance of the consummation thereof so as to enable Lender reasonably to determine such creditworthiness;

(j) The occurrence of a Material Adverse Effect, or material adverse change occurs in the Lender's ability to enforce the rights and remedies granted under this Agreement or the other Loan Documents, in all cases whether attributable to a single circumstance or event or an aggregation of circumstances or events;

(k) Borrower or any Subsidiary of the Borrower shall grant, or suffer to exist for more than twenty (20) days, or fail to contest immediately after discovering the same, any lien on any Collateral hereunder in favor of any person other than Lender (except for a purchase money security interest in favor of Lucent or other approved Supplier);

(l) Any of the Regulatory Authorizations necessary for the continuing operation of the Borrower, any Subsidiary of the Borrower that is a party to a Qualifying Lease or otherwise has an Interest in Equipment, or any System shall cease to be in full force and effect;

(m) Any Indebtedness of the Parent in a principal amount in excess of \$50,000,000 shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled required prepayment) prior to the stated maturity thereof;

(n) A Termination Event occurs which the Lender in good faith believes would subject the Borrower or any ERISA Affiliate to a liability in excess of \$250,000; or

(o) The plan administrator of any Plan applies under Section 412(d) of the IRC for a waiver of the minimum funding standards of Section 412(a) of the IRC and the Lender in good faith believes that a substantial business hardship exists which would subject the Borrower or any ERISA Affiliate to a liability in excess of \$250,000.

#### 15. RIGHTS AND REMEDIES ON DEFAULT:

(a) Upon the occurrence and at any time during the continuance of any Event of Default, the Lender may (1) by notice to the Borrower, terminate Lender's Commitment to make Loans hereunder; or (2) by notice to the Borrower, declare the Obligations to be immediately due and payable without presentment, demand, protest or further notice of any kind (all of which are hereby expressly waived by the Borrower); PROVIDED, HOWEVER, if an Event of Default described in SECTION 14(d)(i) shall exist or occur, all of the Obligations shall automatically, without declaration, presentment, demand, protest or notice of any kind (all of which are hereby expressly waived by the Borrower), be immediately due and payable, and the Commitment shall be automatically terminated. Lender may exercise, from time to time, any rights and remedies available to it under this Agreement, the Note, any other Loan Document, the Uniform Commercial Code and other applicable law. Borrower agrees that upon the occurrence and during the continuance of an Event of Default, to the extent permitted by applicable law (i) any amounts payable under this Agreement or under the Note shall thereafter bear interest at a rate per annum equal to the Interest Rate plus three percent (3%) (in lieu of the 1-1/2% per month referenced in SECTION 3(f) hereof), or the maximum rate per annum allowed by law, whichever is less, compounded monthly and payable on demand (both before and after judgment), until the Obligations are paid in full or the Event of Default is cured, (ii) it will, at Lender's request, assemble the Collateral and make it available to Lender at places which Lender shall reasonably select, and (iii) Lender, by itself or its agent, may, without notice to any Person and without judicial process of any kind, enter into any premises or upon any land owned, leased or otherwise under the real or apparent control of Borrower or any Subsidiary of Borrower, or any agent of Borrower, where the Collateral may be, or where Lender believes the Collateral may be, and disassemble, render unusable, and/or repossess all or any item of the Collateral,

disconnecting and separating the Collateral from any other property. Borrower expressly waives all further rights to possession of the Collateral after the occurrence and during the continuance of an Event of Default and all claims for injuries suffered through, or loss caused by, such entering and/or repossession. To the extent permitted by applicable law, Borrower also waives the benefit of all valuation, appraisal and exemption laws and the posting of any bond required of the Lender in connection with any judicial process to realize on the Collateral, to enforce any judgment or other court order or injunction entered in favor of the Lender with respect to this Agreement or any other Loan Documents. The Borrower waives the right, if any, to the benefit of, or to direct the application of, any Collateral. The Borrower hereby acknowledges that the Lender has no obligation to resort to any Collateral or make claim against any other Person before seeking payment or performance from the Borrower. The Lender shall be under no obligation to marshal any assets in favor of the Borrower or any other party or against or in payment of any or all of the Obligations. To the extent that the Borrower makes a payment or payments to the Lender, the Lender enforces its security interests or exercises its rights of setoff, and such payment or payments or the proceeds of such enforcement or setoff or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

(b) Lender shall have the right to sell, lease or otherwise dispose of the Collateral (or contract to do so), whether in its then condition or after further preparation or processing, either at public or private sale, in lots or in bulk, for cash or for credit, with or without warranties or representations, and upon such terms and conditions as Lender, in its sole discretion, may deem advisable. Lender shall have the right to purchase at any such sale. Lender will give Borrower reasonable notice of the time and place of any public sale of the Collateral or of the time after which any private sale or other intended disposition of the Collateral is to be made. Unless otherwise provided by law, the requirement of reasonable notice shall be met if such notice is delivered to the address of Borrower set forth above at least ten (10) days before the time of the sale or disposition. Any proceeds of any disposition by Lender of any of the Collateral may be first applied by Lender to the payment of Lender's Expenses, incurred in connection with the repossession, care, safekeeping, sale or otherwise of any or all of the Collateral, or in any way relating to the rights of Lender hereunder. Any balance of such proceeds may be applied by Lender toward the payment of the Obligations in such order as Lender, in its sole discretion, shall determine. Borrower shall be liable for, and shall pay to Lender on demand, any deficiency which may remain after such sale, lease or other disposition, and Lender agrees to remit to Borrower any surplus resulting therefrom.

(c) If, for the purposes of obtaining judgment in respect of any claim under this Agreement or any other Loan Document in any court, it is necessary to convert a sum due hereunder or thereunder to the Lender in any currency (the "Original Currency") into another currency (the "Other Currency"), the parties hereto agree, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures Lender could purchase the Original Currency with the Other Currency on the Business Day preceding that on which final judgment is paid or satisfied.

(d) The obligations of Borrower in respect of any sum due in the Original Currency to the Lender under this Agreement or any other Loan Document shall, notwithstanding any judgment in any Other Currency, be discharged only to the extent that on the Business Day following receipt by Lender of any sum adjudged to be so due in such Other Currency, Lender may in accordance with normal banking procedures purchase the Original Currency with such Other Currency. If the amount of the Original Currency so purchased is less than the sum originally due to the Lender in the Original Currency, Borrower shall, as a separate obligation and notwithstanding any such judgment, jointly and severally, indemnify Lender against such loss, and if the amount of the Original Currency so purchased exceeds the sum originally due to Lender in the Original Currency, Lender shall remit such excess to Borrower.

(e) NOTWITHSTANDING THE FOREGOING, LENDER SHALL NOT EXERCISE ANY REMEDY IN VIOLATION OF APPLICABLE LAW IN THE JURISDICTION WHERE SUCH REMEDY IS EXERCISABLE, AND THE EXERCISE OF ANY RIGHTS OR REMEDIES HEREUNDER BY THE LENDER THAT MAY REQUIRE FCC, ANY PUC OR ANY OTHER GOVERNMENTAL AUTHORITY APPROVAL SHALL BE SUBJECT TO OBTAINING SUCH APPROVAL. PENDING THE RECEIPT OF ANY FCC, ANY PUC OR ANY OTHER GOVERNMENTAL AUTHORITY APPROVAL, THE BORROWER SHALL NOT DO ANYTHING TO DELAY, HINDER, INTERFERE OR OBSTRUCT THE EXERCISE OF THE LENDER'S RIGHTS OR REMEDIES HEREUNDER IN OBTAINING SUCH APPROVALS, AND IF REQUESTED BY THE LENDER TO DO SO, THE BORROWER SHALL JOIN AND REASONABLY COOPERATE WITH THE SUCCESSFUL BIDDER(S) AT ANY FORECLOSURE SALE IN A FILING OF AN APPLICATION (AND FURNISHING ANY ADDITIONAL INFORMATION THAT MAY BE REQUIRED IN CONNECTION WITH SUCH APPLICATION OR WHICH THE LENDER MAY BELIEVE RELEVANT TO SUCH APPLICATION) WITH THE FCC, ANY PUC AND ALL OTHER APPLICABLE GOVERNMENTAL AUTHORITIES, REQUESTING THEIR PRIOR APPROVAL OF THE OPERATION OR ABANDONMENT OF ALL OR THE PORTION OF ANY SYSTEM OR EQUIPMENT.

(f) In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon the occurrence and during the continuance of any Event of Default, the Lender is hereby authorized at any time or from time to time, without notice to the Borrower or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and to apply any and all balances held by it at any of its offices for the account of the Borrower (regardless of whether such balances are then due to the Borrower) and any other properties or assets any time held or owing by the Lender to or for the credit or for the account of the Borrower against and on account of any of the Obligations which are not paid when due. The Borrower hereby agrees that the foregoing provisions are intended to be construed so as to satisfy the requirements of Section 553 of the Federal Bankruptcy Code or amendments thereto (including any requirement of mutuality of obligations therein).

16. GENERAL AUTHORITY: Upon the occurrence and during the continuance of an Event of Default hereunder, Lender shall have the full power to exercise at any time and from time to time all or any of the following powers with respect to all or any of the Collateral:

(a) To demand, sue for collection, receive and give acquittance for any and all monies due or to become due upon or by virtue thereof;

(b) To receive, take, endorse, assign and deliver any and all checks, notes, drafts, documents and other property taken or received by Lender in connection therewith;

(c) To settle, compromise, compound, prosecute or defend any action or proceeding with respect thereof;

(d) To sell, transfer, assign or otherwise deal in or with the same or the proceeds thereof, as fully and effectually as if Lender were the absolute owner thereof; and

(e) In general, to do all things necessary to perform the terms of this Agreement, including, without limitation, to take any action or proceedings which Lender deems necessary or appropriate to protect and preserve the security interest of Lender in the Collateral. In the case of failure of Borrower to comply with any provision of this Agreement, Lender shall have the right, but shall not be obligated, to so comply in whole or in part, and all moneys spent, and expenses and obligations incurred or assumed by Lender in connection with such performance or compliance, shall be payable on demand together with interest on such amounts equal to the Interest Rate plus three percent (3%) from the date and amount is expended or advanced by the Lender until paid. Such sums plus interest shall constitute a part of the Obligations secured hereby. Lender's effecting such compliance shall not be a waiver of Borrower's default. Lender shall be under no obligation or duty to exercise any of the powers hereby conferred upon it.

17. EXPENSES: Borrower agrees (a) to pay or reimburse Lender for all its reasonable costs, fees, charges and expenses incurred or arising in connection with the negotiation, review, preparation and execution of this Agreement, the Loan Documents, any commitment or proposal letter, or any amendment, supplement, waiver, modification to, or restructuring of this Agreement, the Obligations, or the other Loan Documents, including, without limitation, reasonable outside counsel legal fees and disbursements, expenses, document charges and other charges of Lender, (b) to pay or reimburse Lender for all its reasonable costs, fees, charges and expenses incurred in connection with the administration of this Agreement and the other Loan Documents or the enforcement, protection or preservation of any rights under or in connection with this Agreement or any other Loan Documents, including, without limitation, reasonable outside counsel legal fees and disbursements, audit fees and charges, and all reasonable out-of-pocket expenses, (c) to pay, indemnify, and to hold Lender harmless from, any and all recording and filing fees and taxes and any and all liabilities with respect to, or resulting from any delay in paying, stamp, excise and other taxes (excluding income and franchise taxes and taxes of similar nature), if any, which may be payable or determined to be payable in connection with the execution and delivery or recordation or filing of, or consummation of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement and the other Loan Documents. All of the amounts described in this Section are referred to collectively as the "LENDER'S EXPENSES," shall be payable upon Lender's demand, and shall accrue interest at the Interest Rate in effect when such demand is made from five (5) days after the date of demand until paid in full. All Lender's Expenses, and interest thereon, shall be part of the Obligations and shall be secured by the Collateral. The agreements in this Section shall survive repayment of the Obligations. All Lender's Expenses that are outstanding on any Borrowing Date shall be paid before or with such Loan. If Borrower has not paid to Lender the amount of all Lender's Expenses billed to Borrower before such Borrowing Date, Lender shall be authorized to retain from any Loan on such Borrowing Date the amount of such Lender's Expenses that remain unpaid. Borrower's obligation to pay Lender's Expenses shall not be limited by any limitation on the amount of the

Commitment that may be designated as available for such purposes, and any amounts so designated shall be used to pay Lender's Expenses accrued at the time of any Loan before any of the legal fees or similar expenses of Borrower.

18. INDEMNITY: Borrower shall indemnify and hold harmless the Lender and each of its officers, directors and employees (collectively called the "INDEMNITEES") from and against any and all losses, claims, encumbrances, actions, suits, damages, obligations and liens (and all Lender's Expenses) arising out of or in any way relating to any Loan made hereunder, including, without limitation, the selection, purchase, delivery, ownership, licensing, possession, maintenance, condition, use, operation, rejection or return of the Equipment, the recovery of claims under insurance policies thereon, the Borrower's failure to commence operation of a System, any misuse, breach or violation of the Software sublicense, including, without limitation, unauthorized duplication or modification to the Software, or arising by operation of law (collectively, the "INDEMNIFIED MATTERS"); PROVIDED that the Borrower shall not have any obligation to any Indemnitee hereunder with respect to Indemnified Matters caused by or resulting from the willful misconduct or gross negligence of such Indemnitee. Borrower agrees that upon written notice by Lender of the assertion of any claims, liens, encumbrances, actions, damages, obligations or liabilities, Borrower shall assume full responsibility for, or at Borrower's option, reimburse Lender for the defense thereof. The provisions of this Section shall continue in full force and effect notwithstanding full payment of the Obligations and survive the termination of this Agreement or any Loan for any reason, provided, however, the provisions hereof shall not survive longer than the applicable statute of limitations.

19. ASSIGNMENT AND PARTICIPATION: Lender may, in whole or in part, with notice to, but without the consent of Borrower, sell or assign all or any portion of the Loans hereunder and any amounts due or to become due hereunder to one or more third party assignees ("Assignee"), which interests may be reassigned in whole or in part, and Lender may grant participations in all or any portions of the Loans to other Persons. No such sale or assignment shall be effective against Borrower unless and until Borrower shall have received a copy or written notice thereof identifying the name and address of the Assignee. Upon receiving written notice from Lender, Borrower shall if so directed, make all payments and other amounts due directly to Assignee without abatement, deduction or setoff and free from any deduction for any other person or entity. Any Assignee shall be entitled to rely on Borrower's agreements as stated in his Agreement, the Note or other Loan Documents, as applicable, and shall be considered a third-party beneficiary thereof. Borrower shall also promptly execute and deliver or cause to be executed and delivered to Lender or any Assignee any additional documentation as Lender or the Assignee may reasonably request to acknowledge the assignment. Lender shall be relieved of its future obligations under the Loan as a result of such assignment if the Assignee assumes Lender's future obligations hereunder. In the ordinary course of its business Lender may at any time sell to one or more financial institutions or other Persons ("Participants") participating interests in any Loan, the Note, the Commitment or any other interest of the Lender under the Loan Documents. In the event of any such sale, the rights and obligations of the parties hereto shall remain unchanged except that for purposes of Sections 3(k) and (l), the Participants shall be entitled to the same rights as if they were the Lender, PROVIDED that no Participant shall be entitled to receive any greater amount pursuant to Section 3(k) or 3(l) than the Lender would have been entitled to receive in respect of the amount of the participation transferred to such Participant had no such transfer occurred.

WITHOUT LENDER'S PRIOR WRITTEN CONSENT, BORROWER SHALL NOT ASSIGN, LEASE, TRANSFER, PLEDGE, MORTGAGE OR OTHERWISE ENCUMBER (COLLECTIVELY, A "TRANSFER") ANY LOAN OR COLLATERAL HEREUNDER OR PERMIT ANY LEVY, LIEN OR ENCUMBRANCE THEREON EXCEPT FOR QUALIFYING LEASES AND DEEDS OF CHARGE, OR A CHANGE IN CONTROL NOT CONSTITUTING A DEFAULT PURSUANT TO SECTION 14(i) HEREOF OR AS OTHERWISE PERMITTED HEREIN. LENDER AGREES NOT TO UNREASONABLY WITHHOLD CONSENT TO AN ASSIGNMENT BY BORROWER TO A WHOLLY OWNED SUBSIDIARY OF BORROWER OF ITS RIGHTS HEREIN. ANY ATTEMPTED NON-CONSENSUAL TRANSFER BY BORROWER SHALL BE VOID AB INITIO. NO TRANSFER SHALL RELIEVE BORROWER OF ANY OF ITS OBLIGATIONS UNDER THE LOAN DOCUMENTS UNLESS LENDER RELEASES BORROWER FROM SUCH OBLIGATIONS IN WRITING.

20. MISCELLANEOUS: (a) Any failure of Lender to require strict performance by Borrower, or any waiver by Lender of any provision of this Agreement or any other Loan Document shall not be construed as a consent to or waiver of any other breach of the same or of any other provision; (b) No obligation of the Lender hereunder shall survive the expiration or other termination of this Agreement; (c) All of the Borrower's indemnities, waiver, assumptions of liability and duties contained in this Agreement and all Lender's disclaimers shall continue in full force and effect and survive the expiration or other termination of this Agreement; (d) Borrower agrees that a carbon, photographic or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement, and Borrower further agrees to execute and deliver or cause to be executed and delivered, upon demand, any and all other documents necessary to evidence the intent of any Loan authorized hereunder, or to protect Lender's interest in any Collateral, including any UCC financing statements or other security documents or any waivers of interest or liens, and to this end, Borrower appoints Lender as its attorney-in-fact to execute and deliver all such financing statements or other documents and to collect insurance proceeds. Borrower agrees to pay the costs of filing and recording such documentation; (e) Borrower shall deliver to Lender such additional financial information available to the public or other creditors as Lender may reasonably request; (f) THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO ANY CONFLICTS OF LAWS PRINCIPLES (EXCEPT TO THE EXTENT THE INTERNAL LAWS OF THE STATE OR NATION WHERE THE COLLATERAL IS LOCATED GOVERN THE PERFECTION OF SECURITY INTERESTS IN SUCH PROPERTY OR THE EXERCISE OF REMEDIES THEREIN), AND THE BORROWER AND THE LENDER CONSENT TO THE JURISDICTION OF ANY LOCAL, STATE OR FEDERAL COURT LOCATED IN THE STATE OF NEW YORK AND WAIVE ANY OBJECTION RELATING TO IMPROPER VENUE OR FORUM NON CONVENIENCE TO THE CONDUCT OF ANY PROCEEDING BY SUCH COURT; (g) If any provision shall be held to be invalid or unenforceable, the validity and enforceability of the remaining provisions shall not in any way be affected or impaired; (i) In the event Borrower fails to pay or perform any obligations under this Agreement, Lender may, at its option, pay or perform said obligation, and any payment made or expense incurred by Lender in connection therewith shall be due and payable by Borrower upon demand by Lender with interest thereon accruing at the maximum rate permitted by law until paid and shall constitute part of the Obligations secured by the Collateral; (h) No loan charge, late charge fee or interest, if

applicable, is intended to exceed the maximum amount permitted to be charged or collected by applicable law. If one or more of such charges exceed such maximum, then such charges will be reduced to the legally permitted maximum charge and any excess charge will be used to reduce the applicable Loan Amount or refunded;

(i) Time is of the essence in this Agreement and in each of its provisions.

21. NOTICES: Notices, demands and other communications to be effective shall be transmitted in writing by telex, telecopy, or other facsimile transmission, by hand delivery, or if given in the United States, by first class, Registered or Certified Mail, return receipt requested, or by an overnight courier service, addressed to Lender or to Borrower at the applicable address in the preamble, or at such other address as the parties may hereinafter substitute by written notice. Notice shall be effective in the United States four (4) days after the date it was mailed (if mailed in the United States), or upon receipt, which may be evidenced in electronic form, whichever is earlier.

22. COUNTERPARTS: The Loan, including the Exhibits and any Schedules and other Loan Documents, may be executed by one or more of the parties on any number of separate counterparts (which may be originals or copies sent by facsimile transmission) each of which counterparts shall be an original, but all of which taken together shall be deemed to constitute on and the same instrument.

23. ENTIRE AGREEMENT: This Agreement and its Schedules and Exhibits and other Loan Documents executed and delivered in connection herewith constitute the entire agreement between Lender and Borrower with respect to the subject matter hereof and supersede all previous negotiations, proposals, commitments, writings, and understandings of any nature whatsoever. No agent, employee, or representative of Lender has any authority to bind Lender to any representation or warranty concerning the Equipment or Software and, unless such representation or warranty is specifically included in this Agreement or other Loan Documents executed by Lender, it shall not be enforceable by Borrower against Lender.

24. BINDING NATURE: This Agreement and each Loan shall be binding upon and inure to the benefit of Lender and Borrower and their respective successors and permitted assigns and/or Subsidiaries. It is acknowledged for the purpose of this Agreement that no Australian Subsidiary is a party to this Agreement and that obligations expressed on behalf of Subsidiaries hereunder, so far as they could apply to an Australian Subsidiary, are obligations of Borrower to cause that obligation to be performed. A Guaranty and Deed of Charge in favor of Lender by an Australian Subsidiary contain the obligations of the Australian Subsidiary to Lender.

25. CONDITIONS OF CLOSING: On or before the Closing Date, the following conditions must have been satisfied:

(a) CLOSING CERTIFICATES. A certificate of Borrower signed by a duly authorized officer, certifying as to (i) true copies of Organizational Documents of Borrower in effect on such date; (ii) true copies of all corporate action taken by Borrower relative to this Agreement, the Note, and the other Loan Documents; (iii) the names, true signatures and incumbency of certain officers of Borrower authorized to execute and deliver this Agreement, the Note, and the

other Loan Documents; (iv) a Certificate of Good Standing (or equivalent certificate) for Borrower duly issued by the Secretary of State of each state in which Borrower intends to do business; and (v) such other matters as Lender shall reasonably request.

(b) OPINIONS OF COUNSEL. Lender shall have received the following opinions, all dated as of the Closing Date and in form and substance satisfactory to Lender:

(i) A written opinion of counsel to Borrower, substantially in the form of EXHIBIT C hereto;

(ii) A written opinion of regulatory counsel for Borrower, substantially in the form of EXHIBIT D hereto; and

(c) CLOSING DOCUMENTS. Lender shall have received the following documents, all in form and substance satisfactory to Lender:

(i) AGREEMENT. This Agreement, duly executed by Borrower;

(ii) NOTE. The Note, duly executed by Borrower;

(iii) FINANCING STATEMENTS. All UCC-1 financing statements or other filings or recordations necessary to perfect the Liens granted hereby, each duly executed by Borrower, and duly recorded in all the appropriate recording offices corresponding to the locations identified on SCHEDULE 8.01 hereto;

(iv) INSURANCE. Policies and certificates of insurance and loss payable endorsements required by SECTION 12, accompanied by evidence of the payment of the premiums therefor;

(v) FINANCIAL STATEMENTS. The financial statements described in SECTION 11(J) hereof;

(vi) BALANCE SHEET. A balance sheet of Borrower, dated as of the end of the fiscal quarter preceding the Closing Date, certified by the Borrower's chief financial officer as fairly presenting the financial condition of Borrower.

(vii) SCHEDULES. An updated SCHEDULE 11.04, which contains an accurate list of all executed and proposed Leases or other conveyances of Collateral, and their status.

(viii) PRE-CLOSING LIEN SEARCHES. Lien searches from all jurisdictions reasonably determined by Lender to be appropriate, effective as of a date reasonably close to the Closing Date, reflecting no other Liens (other than Permitted Encumbrances) on any of the Collateral.

26. CONDITIONS OF LENDING:

(a) CONDITIONS FOR FIRST LOAN. On or before the First Funding Date, with respect to each Loan, the following conditions shall have been met to Lender's satisfaction:

(i) POST-CLOSING LIEN SEARCHES. Lender shall have received satisfactory results of Lien searches in all jurisdictions reasonably determined by Lender to be appropriate, reflecting the filing of financing statements in favor of Lender pursuant hereto and no other Liens other than Permitted Encumbrances.

(ii) LANDLORD CONSENTS. Borrower shall use its best efforts to obtain the Landlord Consents.

(iii) REQUIRED CONSENTS. Other than those Landlord Consents which, after using its best efforts, Borrower is unable to obtain, Lender shall have received satisfactory evidence of Borrower's obtaining the Required Consents.

(b) CONDITIONS FOR ALL LOANS. The obligation of Lender to make any Loan hereunder is subject to Borrower's performance of its obligations hereunder on or before the date of such Loan, and to the satisfaction of the following further conditions on or before the Borrowing Date for any Loan, including the first Loan:

(i) FILINGS, REGISTRATIONS AND RECORDINGS. Any financing statements or other recordings required hereunder shall have been properly filed, registered or recorded in each office in each jurisdiction required in order to create in favor of Lender a perfected first-priority Lien on the Collateral, subject to no other Lien; Lender shall have received acknowledgment copies of all such filings, registrations and recordations stamped by the appropriate filing officer; and Lender shall have received results of searches of such filing offices, and satisfactory evidence that any other Liens (other than Permitted Encumbrances) on the Collateral have been duly released, that all necessary filing fees, recording fees, taxes and other expenses related to such filings, registrations and recordings have been paid in full.

(ii) BORROWING CERTIFICATE. Lender shall have received a duly executed Borrowing Certificate in the form of Exhibit B, including a detailed Collateral Schedule listing all goods and services to be paid with the proceeds of the Loan and the locations thereof and accompanied by other supporting documentation satisfactory to Lender, including without limitation, if the requested Loan is to reimburse Borrower for Equipment paid for by the Borrower, cancelled checks of the Borrower that evidence such payment.

(iii) REPORTING REQUIREMENTS. Borrower shall have provided Lender with all relevant reports and information required under Section 11 hereof.

(iv) NO REGULATORY EVENT. No action by any Governmental Authority (in either Borrower's or Lender's reasonable determination) that could reasonably be expected to cause a Material Adverse Effect to Borrower and its Subsidiaries

on a consolidated basis shall have occurred and be continuing, or would exist upon the consummation of transactions to occur on such Borrowing Date.

(v) NO DEFAULT OR EVENT OF DEFAULT. No Default or Event of Default shall have occurred and be continuing or would exist upon the consummation of transactions to occur on such Borrowing Date.

(vi) NO MATERIAL ADVERSE CHANGE. No material adverse change in the financial condition of Borrower and its Subsidiaries on a consolidated basis shall have occurred, or would occur after giving effect to such Loan, since the date of the last financial statements delivered to Lender pursuant hereto.

(vii) REPRESENTATIONS AND WARRANTIES. The representations and warranties contained in Section 11 hereof shall be true on and as of the date of each such Loan hereunder.

(viii) LENDER'S EXPENSES. All closing costs, and other Lender's Expenses shall have been paid in full.

(ix) OPINIONS. Lender shall have received from Borrower such opinions of counsel for Borrower or a Subsidiary of Borrower as may be reasonably acceptable to Lender in form and substance with respect to the perfection and priority of the Liens created by the security documents in each such jurisdictional location.

(x) DETAILS, PROCEEDINGS AND DOCUMENTS. All legal details and proceedings in connection with the transactions contemplated by this Agreement shall be reasonably satisfactory to Lender and Lender shall have received all such counterpart originals or certified or other copies of such documents and proceedings in connection with such transactions, in form and substance reasonably satisfactory to Lender, as Lender may from time to time request.

(xi) CONSENTS. Lender shall have received Required Consents duly executed by all parties and in form satisfactory to Lender.

(xii) FEES. Lender shall have received the fee(s) described in Sections 3 and 17 hereof.

(xiii) PURCHASE AGREEMENTS. Lender shall have received a copy of each executed Vendor Purchase Agreement with respect to which proceeds of Loan shall be used to acquire Lucent Equipment or other Equipment, and Lender shall have reviewed and approved the Equipment to be acquired with proceeds of a Loan, together with a collateral assignment thereof in the form of Exhibit G attached hereto, and a written consent to such collateral assignment by Lucent or the Vendor, as applicable.

(xiv) LEASE SCHEDULE. Lender shall have received an updated SCHEDULE 11.04, which contains an accurate list of all executed and proposed Leases and their status.

(xv) POST-CLOSING ITEMS. The post-closing items described on SCHEDULE 26.01 hereto, if any, shall have been completed in the time permitted, and Borrower shall have provided Lender with satisfactory evidence thereof.

(xvi) DELIVERY AND ACCEPTANCE CERTIFICATE. With respect to the Equipment to be financed with the proceeds of a Loan, Lender shall have received from the Borrower in form and substance satisfactory to the Lender a delivery and acceptance certificate indicating that such Equipment has been delivered to its appropriate Installation Site and that it has been accepted by the Borrower.

(xvii) FOREIGN SUBSIDIARY CLOSING CERTIFICATES AND DOCUMENTATION. If the proceeds of the requested Loan shall be used to acquire any Equipment in which a foreign Subsidiary of the Borrower shall obtain an interest, then the Lender shall have received closing certificates from such Subsidiary corresponding to the closing certificates described in SECTION 25(a), a bill of sale or other document of conveyance satisfactory to the Lender, a duly executed Guaranty and a Deed of Charge and a written opinion of foreign counsel to Borrower, substantially in the form of EXHIBIT E hereto.

(xviii) SUBSIDIARY CLOSING CERTIFICATES AND DOCUMENTATION. If the proceeds of the requested Loan shall be used to acquire any Equipment in which a Subsidiary of the Borrower, which is not a foreign Subsidiary, shall obtain an interest, then the Lender shall have received closing certificates from such Subsidiary corresponding to the closing certificates described in SECTION 25(a), copies of all executed Leases, each of which must be a Qualifying Lease, together with a duly executed collateral assignment of lease with respect to each Lease in form and substance satisfactory to the Lender.

(xix) UPDATED INSURANCE DOCUMENTATION. Lender shall have received updated copies of the insurance policies, certificates and loss payable endorsements referred to in Section 25(c)(v), which updated policies, certificates and endorsements shall cover the Equipment to be financed with the proceeds of the requested Loan.

(c) AFFIRMATION OF REPRESENTATIONS AND WARRANTIES. Any Borrowing Certificate or other request for any Loan hereunder shall constitute a representation and warranty that (i) the representations and warranties contained in hereof are true and correct on and as of the date of such request with the same effect as though made on and as of the date of such request and (ii) on the date of such request no Default or Event of Default has occurred and is continuing or exists or will occur or exist after giving effect to such Loan (for this purpose such Loan being deemed to have been made on the date of such request). Failure of Lender to receive notice from a Borrower to the contrary before such Loan is made shall constitute a further representation and warranty by the Borrower that (x) the representations and warranties of the

Borrower contained in the first sentence of this SECTION 26(c) are true and correct on and as of the date of such Loan with the same effect as though made on and as of the date of such Loan and (y) on the date of the Loan no Default or Event of Default has occurred and is continuing or exists or will occur or exist after giving effect to such Loan.

(d) DEADLINE FOR FUNDING CONDITIONS. Lender shall have no obligation to make any Loans hereunder if all of the conditions set forth in SECTIONS 25 and 26 hereof have not been fully satisfied, and the first Loan made hereunder, within the period of 90 days following the Closing Date.

27. SERVICE OF PROCESS:

THE BORROWER WAIVES PERSONAL SERVICE OF ANY PROCESS UPON IT AND, CONSENTS THAT ALL SERVICE OF PROCESS SHALL BE MADE BY REGISTERED MAIL, RETURN RECEIPT REQUESTED, DIRECTED TO THE BORROWER AT THE ADDRESS INDICATED IN THE PREAMBLE HEREOF AND SERVICE SO MADE SHALL BE DEEMED TO BE COMPLETED FIVE (5) BUSINESS DAYS AFTER SAME SHALL HAVE BEEN POSTED AS AFORESAID.

28. WAIVER OF JURY TRIAL, ETC.:

EACH OF THE BORROWER AND THE LENDER WAIVES ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, BETWEEN THEM ARISING OUT OF, CONNECTED WITH, RELATED TO OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED BETWEEN THEM IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION THEREWITH OR THE TRANSACTIONS RELATED THERETO. EACH OF THE BORROWER AND THE LENDER HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT ANY OF THEM MAY FILE AS AN ORIGINAL COUNTERPART OR A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

29. CONFIDENTIALITY:

The Lender agrees to keep confidential any information disclosed to the Lender pursuant to the provisions of Section 11(v) except that the Lender may disclose such information (i) to its consultants, legal counsel and accountants who agree to keep such information confidential, (ii) which becomes available to the public other than as a result of disclosure by the Lender, its consultants, legal counsel or accountants or (iii) which is required to be disclosed under applicable law or judicial process.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the day and year first above written.

PRIMUS TELECOMMUNICATIONS, INC.

By:  
Its:

GENERAL ELECTRIC CAPITAL  
CORPORATION

By:  
Its:

SCHEDULE 2.01 TO  
LOAN AND SECURITY AGREEMENT

BORROWER'S BUSINESS

SCHEDULE 8.01 TO  
LOAN AND SECURITY AGREEMENT

COLLATERAL DESCRIPTIONS AND LOCATIONS OF COLLATERAL

SCHEDULE 11.01 TO  
LOAN AND SECURITY AGREEMENT

DISCLOSURE SCHEDULE

SCHEDULE 11.02 TO  
LOAN AND SECURITY AGREEMENT

PERMITTED ENCUMBRANCES

SCHEDULE 11.03 TO  
LOAN AND SECURITY AGREEMENT

SENIOR NOTE COVENANTS

SCHEDULE 11.04 TO  
LOAN AND SECURITY AGREEMENT

CHIEF EXECUTIVE OFFICE; PRINCIPAL PLACE OF BUSINESS; QUALIFYING LEASES AND  
CONVEYANCES

SCHEDULE 26.01 TO  
LOAN AND SECURITY AGREEMENT

POST-CLOSING CONDITIONS

## PROMISSORY NOTE

\_\_\_\_\_, 2000

FOR VALUE RECEIVED, the undersigned, PRIMUS TELECOMMUNICATIONS, INC., a Delaware corporation (the "BORROWER" ), hereby unconditionally promises to pay to the order of GENERAL ELECTRIC CAPITAL CORPORATION, a Delaware corporation (the "LENDER"), at its office at 10 Riverview Drive, Danbury, Connecticut 06810, or at such other place as the holder of this Promissory Note may from time to time designate in writing to Borrower, in lawful money of the United States of America and in immediately available funds, \_\_\_\_\_, or, if less, the aggregate unpaid principal amount of all "Loans" (as defined in the Loan and Security Agreement referred to below) made to Borrower pursuant to SECTION 2 of the Loan Agreement (as hereinafter defined), together with interest on the principal balance remaining from time to time unpaid at the rates referred to below from the date such principal is advanced until payment in full thereof.

This Promissory Note is referred to in and was executed and delivered pursuant to SECTION 3 of that certain Loan and Security Agreement dated as of \_\_\_\_\_ between the Borrower and the Lender (as amended, restated, supplemented or otherwise modified from time to time, the "LOAN AGREEMENT") to which reference is hereby made for a statement of the terms and conditions under which the Loans evidenced hereby are being made and are to be repaid. All terms which are capitalized and used herein (which are not otherwise specifically defined herein) and which are defined in the Loan Agreement shall be used in this Promissory Note as defined in the Loan Agreement.

The principal indebtedness evidenced hereby shall be payable as set forth in the Loan Agreement. The principal amount hereof may be prepaid only in accordance with the terms of the Loan Agreement.

The Borrower further promises to pay interest on the outstanding unpaid principal amount of each Loan which remains unpaid from the date such Loan was made until payment in full at the applicable rates described in the Loan Agreement.

If payment hereunder becomes due and payable on a Saturday, Sunday or legal holiday, under the laws of the State of New York, the due date thereof shall be extended to the next succeeding Business Day, and interest shall be payable thereon during such extension at the rate specified above. Checks, drafts or similar items of payment received by the Lender shall not constitute payment, but credit therefor shall, solely for the purpose of computing interest earned by the Lender, be given on the date the same is honored by the Lender's depository bank and final settlement thereof is reflected by irrevocable credit to the Lender's account in such bank. In no contingency or event whatsoever shall interest charged hereunder, however such interest may be characterized or computed, exceed the highest rate permissible under any law which a court of competent jurisdiction shall, in a final determination, deem applicable hereto. In the event that such a court determines that the Lender has received interest hereunder in excess of

the highest rate applicable hereto, the Lender shall promptly apply such excess in accordance with the provisions of the Loan Agreement.

The Loan Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments of the principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

Except as otherwise agreed in the Loan Agreement, payments received by the Lender from the Borrower on this Promissory Note shall be applied first to the payment of interest which is due and payable and only thereafter to the outstanding principal balance.

Presentment, protest and notice of nonpayment are hereby waived by the Borrower.

This Promissory Note shall be interpreted and the rights and liabilities of the parties hereto determined in accordance with the internal laws (as opposed to conflicts of law provisions) and decisions of the State of New York. Whenever possible each provision of this Promissory Note shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Promissory Note shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Promissory Note. Whenever in this Promissory Note reference is made to the Lender or Borrower, such reference is made to include, as applicable, a reference to their respective successors and assigns. The provisions of this Promissory Note shall be binding upon and inure to the benefit of said successors and assigns. The Borrower's successors and assigns shall include, without limitation, a receiver, trustee or debtor in possession of or for the Borrower.

PRIMUS TELECOMMUNICATIONS, INC.

By:

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Name:

Title:



[Cisco Systems Logo]

November 27, 2000

David Slotkin  
Primus Telecommunications Group, Inc  
1700 Old Meadow Road  
McLean, VA 22102

Dear David:

Cisco Systems Capital Corporation ("CSC"), a wholly owned subsidiary of Cisco Systems, Inc., specializes in providing innovative finance solutions for Cisco Systems products and services. We are pleased to present this proposal ("Proposal") for the transaction described below:

LESSOR: Cisco Systems Capital Corporation.

LESSEE: Primus Telecommunications Group, Inc. or controlled subsidiaries

EQUIPMENT: Cisco Systems Products as presented in a quotation from the Cisco Systems Sales Team or a Cisco Value Added Reseller, in form satisfactory to CSC

MAXIMUM EQUIPMENT COST: In the aggregate, up to \$50,000,000.00 including Soft Costs inclusive of the \$15,000,000.00 already approved.

\$15,000,000.00 will be available for equipment located in the US.  
\$20,000,000.00 will be available for equipment located in the following countries: Australia, Canada, France, Germany, Italy, Spain and the UK.

FINANCIAL COVENANTS: Primus Telecommunications Group, Inc must meet the following financial conditions for the credit line to be in affect:

Minimum Cash and equivalent must be at a minimum of \$100,000,000.00 US for the term of the lease. If minimum cash level

falls below the \$100,000,000 requirement the credit line ceases to be made available notwithstanding anything else in the Lease Proposal.

A Parent Guaranty is required for all equipment located outside the US. CSC shall be entitled to require that any equipment located outside the US is subject to such documentation acceptable to CSC as is required under the laws of the applicable country to protect CSC's interests in the equipment and to preserve its rights under the lease.

COVENANTS:

To include, but not limited to: provision of financial statements; notice of certain events; preservation of corporate existence; changes in the nature of business; mergers and other fundamental changes.

Notwithstanding the foregoing, in the event of any proposed merger or acquisition, Lessee may assign its rights and interests and to this Agreement and the Equipment, to the successor entity in such merger or acquisition, provided that (I) the successor entity has, as of such merger or consolidation, a tangible net worth equal to or greater than that of Lessee as of the date hereof, (II) Lessee gives Lessor at least twenty (20) days prior written notice of such merger or consolidation, (III) such merger or consolidation does not adversely affect the rights of the Lessor hereunder, (IV) the successor entity has executed and delivered to Lessor an agreement in form and substance reasonably satisfactory to Lessor containing its assumption of the due and punctual performance and observance of each covenant and condition of Lessor hereunder, (V) the successor entity executes any precautionary financing statement or amendment thereto reasonably requested by Lessor, and (VI) immediately after giving effect of such merger or consolidation, no Event of Default has occurred and is continuing

EVENTS OF DEFAULT:

To include, but not limited to: nonpayment; inaccurate representations and warranties; failure to perform covenants; dissolution; insolvency of Lessee or any subsidiary; cross acceleration to other material debt to be defined and to any other contracts and agreement with Lessor or any affiliate; change in ownership or control where the Lessor's consent will not be unreasonably withheld; judgements or attachments.

SHIP TO:

Locations within the U.S. as advised, and those locations outside the U.S. as may be approved by CSC. In connection with any equipment to be placed outside the U.S., Lessee shall assume responsibility for all applicable withholding taxes, value-added taxes, duties and compliance with all other U.S. and foreign laws relating to the sale, leasing, delivery, export, import or use of the equipment outside the U.S..

PARTIAL SHIPMENTS:

Please indicate at the bottom of this letter whether Lessee will accept scheduling of partial purchase order shipments. (If not, please note that

Cisco Systems will retain shipments till complete.)

INITIAL TERM: 48 months

RENTAL FACTOR: The rental amount, expressed as a percentage of total equipment cost (including Soft Costs, "Equipment Cost"), is .02433 payable on the 1st day of each calendar month. These numbers are premised on the assumptions described below at "Soft Costs" and "Adjustment of Rental Factor".

PERIODIC RENT: In accordance with the pricing and configuration referenced above, the rent payment for each Rental Period ("Rent") on the lease would be the total Equipment Cost multiplied by the Lease Rate Factor.

SOFT COSTS: "Soft Costs" such as shipping, taxes, maintenance, installation, cabling and software may be included in or financed by the lease, as approved by Lessor in its discretion. Assuming that Soft Costs make up less than 10% of the total Equipment Cost, Soft Costs will be included at the above Lease Rate Factor. If Soft Costs are greater than 10%, prior approval must be obtained in advance from CSC.

Maintenance Factor of .08908 for one year.

MAINTENANCE: Notwithstanding the foregoing, CSC is not responsible for maintenance, software or ancillary services relating to the equipment, nor for ensuring maintenance or software licenses with Cisco Systems or any other third party are in effect at any time.

ADVANCE PAYMENTS/  
INTERIM RENT: None, but deemed acceptance of the equipment will take place 30 days after shipment of the final piece of equipment per schedule. There is no interim rent, and commencement of rental payments will occur on the 1st of the month on or after acceptance or deemed acceptance.

NET LEASE: This is a net lease transaction under which all costs, including without limitation, insurance, maintenance and taxes, are paid by Lessee for the term of the lease. Manufacturer's guarantees or warranties will be passed on to Lessee.

ADJUSTMENT OF  
RENTAL FACTOR: The rental amount quoted in this Proposal for Equipment located in the US, will be adjusted prior to the date of preparation of any Equipment Lease Schedule to reflect changes equal or greater than one quarter of one percent(.25%) in the weekly average of the Two Year Treasury Note interest rate plus 500 basis points (5%), as specified in Federal

Reserve statistical release H.15 from the week preceding the date of this Proposal to the week preceding the date of the preparation of the Schedule. Changes to the benchmark rate of less than one quarter of one percent(.25%) will not affect the Lease Rate Factor quoted herein. The Two Year Treasury Note H.15 is updated weekly by the U.S. Federal Reserve for the preceding week's average yield. The statistic is publicly available on the Internet at <http://www.bog.frb.fed.us/releases/h15/>.

The rental amount quoted in this Proposal for Equipment located outside the US, will be adjusted prior to the date of preparation of any Equipment Lease Schedule, to reflect changes equal or greater than one quarter of one percent(.25%) in the weekly average of one year LIBOR rate plus 500 basis points (5%), as specified in the Wall Street Journal or Financial Times from the week preceding the date of this Proposal to the week preceding the date of the preparation of the Schedule. Changes to the benchmark rate of less than one quarter of one percent(.25%) will not affect the Lease Rate Factor quoted herein.

EQUIPMENT  
PROCUREMENT:

Purchase orders for equipment shall be placed by Lessee with Cisco Systems, Inc. or a Cisco Value Added Reseller, with all rights assigned to Lessor upon Lessor's election to fund. All such purchase orders shall be subject to the standard Terms and Conditions of Sale of Cisco Systems, Inc. or such Cisco Value Added Reseller, including the "net 30" payment terms commencing from the date of shipment. No funding shall occur prior to execution by the parties of CSC's standard Master Lease Agreement to lease Equipment("Master Lease Agreement") If, for any reason, Lessor does not fund any equipment or lease, or any contemplated lease is otherwise not consummated, Lessee shall be solely responsible for payment in full of the purchase price (together with ancillary costs and expenses) associated with any outstanding orders.

END OF LEASE OPTION:

FAIR MARKET VALUE PURCHASE OPTION: At the end of the Initial Term of the Lease, Lessee may select one of the following options: (1) purchase the Equipment for the then Fair Market Value not to exceed 11% of the original purchase price, or (2) subject to the consent of CSC, renew the lease of the Equipment on a month-to-month basis for the daily equivalent of the original Rent, payable monthly in advance, or (3) return the Equipment to the Lessor.

UTILIZATION PERIOD:

All purchase orders for equipment under this proposal shall be submitted no later than May 27, 2001.

The parties acknowledge that the financing contemplated by this Proposal is subject to the above-

referenced conditions and the execution and delivery of all appropriate documents (in form and substance satisfactory to CSC), including without limitation, to the extent applicable, the Master Agreement to Lease Equipment, any Schedule, the Lease Assignment of Purchase Order, financing statements, legal opinion or other documents or agreements reasonably required by CSC.

By signing this document, you hereby authorize CSC to order, when appropriate, for manufacture and delivery, the equipment configuration described herein (or in the attached or future purchase orders) and to file a financing statement in accordance with the Uniform Commercial Code signed only by CSC or signed by CSC as Lessee's attorney in fact with respect to any of the Equipment.

If, for any reason, you and CSC shall fail to consummate the financing contemplated by this Proposal, you shall be solely responsible for the payment in full of the purchase price (and all related costs and expenses incurred by CSC or Cisco Systems, Inc.) associated with any such outstanding orders. All such orders shall be subject to the standard Terms & Conditions of Sale of Cisco Systems, Inc., including but not limited to the "net 30" payment terms commencing from date of shipment. Please indicate your acceptance of all of the terms and conditions set forth herein by signing and dating this Proposal in the space provided below by no later than November 30, 2000.

Lessee agrees that it shall not, without CSC's prior written consent, disclose the existence or terms of any financing facility with CSC or use the name or logo of CSC or Cisco Systems in any press release, advertisement or other public pronouncement, nor represent to any person that the relationship between Lessee and CSC or Cisco Systems is other than that of seller and lessor of equipment and/or lender.

Thank you for the opportunity to present this Proposal. We look forward to doing business with you. If you have any questions, please do not hesitate to call me at (212) 714-4247.

Sincerely,

CISCO SYSTEMS CAPITAL CORPORATION

/s/ Chris Lynch  
Chris Lynch

ACKNOWLEDGED AND AGREED (LESSEE):

PRIMUS TELECOMMUNICATIONS GROUP, INC.  
-----

By: /s/ Neil L. Hazard  
-----

(Authorized Signature)

Name: Neil L. Hazard  
-----

Dated: 11/29/01  
-----

Lessee is/is not [circle one]  
willing to accept scheduling of  
partial purchase order shipments.

## PROMISSORY NOTE

\$ \_\_\_\_\_, 2000

FOR VALUE RECEIVED, the undersigned hereby promises to pay to the order of Primus Telecommunications Group, Incorporated, a Delaware corporation (the "Lender"), at the Lender's office located at 1700 Old Meadow Road, McLean, Virginia 22102, or at such other place as the Lender may designate, in lawful money of the United States, the principal sum of \_\_\_\_\_, or so much thereof as may remain outstanding, together with interest thereon at the rate set forth below.

The outstanding principal amount of this Note shall be due and payable in full, together with all accrued and unpaid interest thereon, on the earlier of (i) 5 years from the date hereof, (ii) 60 days following the date the undersigned voluntarily terminates employment with the Lender for any reason other than death or permanent disability (except as set forth in clause (vi) below), (iii) 90 days after the date on which the Lender terminates the undersigned's employment with the Lender for any reason other than cause (as determined by the Lender), (iv) 180 days after the undersigned's employment with the Lender terminates by reason of death or permanent disability, (v) 5 years from the date hereof if the undersigned's employment with the Lender or any of its successors-in-interest is terminated within 1 year following a change of control of the Lender, or (vi) immediately (A) if the undersigned's employment with the Lender is terminated for cause (as determined by the Lender), or (B) if the undersigned voluntarily terminates employment with the Lender or any reason other than death or permanent disability at any time during the 12 months following the date hereof (such date being the "Payment Date").

Interest will be charged on the unpaid principal balance of this Note from the date hereof until paid in full at a rate (computed on the basis of a 365-day year and applied to the actual number of days elapsed) equal to Six percent (6%) per annum, compounded quarterly. Accrued and unpaid interest shall be due and payable on the Payment Date.

This Note may be prepaid, in whole or in part, at the option of the undersigned at any time and from time to time without premium or penalty upon 30 days prior written notice to the Company.

As security for amounts payable under this Note, the undersigned has duly executed and delivered the Pledge Agreement, pledging certain Collateral (as defined therein). This Note, however, is with full recourse to the undersigned, and the Lender shall be entitled to look personally to the undersigned, in addition to the Collateral, for satisfaction of the obligations hereunder.

The occurrence of either of the following events shall constitute an "Event of Default" hereunder: (1) failure to pay when due the principal of or interest accrued on this Note or any other sum payable hereunder (whether upon demand, upon maturity, upon any installment payment date, upon acceleration or otherwise) and the continuance of such failure for more than ten (10) days; or (2) the occurrence of an Event of Default under and as defined in the Pledge Agreement.

Upon the occurrence of an Event of Default, the entire principal sum of this Note and all accrued and unpaid interest thereon shall immediately become due and payable at the option of the Lender, without demand or notice. In addition thereto, and not in substitution therefor, the Lender shall be entitled to exercise any one or more of the rights and remedies exercisable under the Pledge Agreement or provided by applicable law, or otherwise. No failure to exercise or delay in exercising said election or to pursue such other remedies shall constitute a waiver of such election or such other remedies or of the right to exercise the same in the event of any subsequent Event of Default hereunder. No single or partial exercise by the holder hereof of any right hereunder, under the Pledge Agreement or otherwise shall preclude any other or further exercise thereof or of any other rights. The undersigned hereby waives presentment, demand, notice of dishonor, and protest and all other demands and notices in connection with the execution, delivery and performance of this Note, including the benefits of any homestead or similar exemption.

This Note may be extended or renewed and the time of payments hereunder may be extended at any time at the option of the Lender without notice to or consent of any person bound hereon or who has assumed the obligations hereof and without affecting the liability of such person.

The undersigned promises to pay, on demand, all costs and expenses (including without limitation all reasonable attorneys' fees and disbursements) incurred in connection with the collection hereof or in the protection or realization of any collateral now or hereafter given as security for the repayment hereof.

Whenever used herein, the term "undersigned" shall be deemed to include the heirs, successors and assigns of the undersigned and this Note shall inure to the benefit of the Lender and its successors and assigns.

This Note is hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration or otherwise, shall the amount paid or agreed to be paid to the holder hereof for the use, forbearance or detention of money hereunder exceed the maximum amount permissible under applicable law. If from any circumstance whatsoever fulfillment of any provision hereof or thereof, at the time performance of such provision shall be due, shall involve transcending the limit of validity prescribed by law, then IPSO FACTO, the obligation to be fulfilled shall be reduced to the limit of such validity.

This Note shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia without regard to its conflicts of laws principles.

IN WITNESS WHEREOF, the undersigned has duly executed this Note as of the date first written above.

-----

STOCK PLEDGE AGREEMENT

THIS STOCK PLEDGE AGREEMENT (this "Pledge Agreement"), dated as of November 20, 2000, is entered into by John F. DePodesta, an individual ("Pledgor"), and Primus Telecommunications Group, Incorporated ("Lender").

WHEREAS, Pledgor (i) is pledging as collateral for this loan 101,430 shares of common stock, par value \$.01 per share, of Lender (the "Purchased Shares"), and (ii) is delivering to Lender a promissory note (the "Note") of Pledgor for some or all of the purchase price of the Purchased Shares; and

WHEREAS, Lender has agreed to accept the Note only on the condition that Pledgor pledge the Purchased Shares to Lender in accordance with the terms of this Pledge Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. DEFINITIONS.

(a) "OBLIGATIONS" shall mean all indebtedness, liabilities and obligations of Pledgor to Lender, whether now existing or hereafter incurred, direct or indirect, absolute or contingent, secured or unsecured, matured or unmatured, joint or several, whether for principal, interest, fees, expenses or otherwise, arising out of or in connection with the Note (including without limitation this Pledge Agreement), but shall not include any other indebtedness, liability or obligation of Pledgor of any kind or nature whatsoever.

(b) "PLEDGED STOCK" shall mean (i) the Purchased Shares, and the certificates representing such shares, and (ii) all certificates, options, rights, dividends or other distributions issued as an addition to, in substitution or in exchange for, or on account of, the Purchased Shares, and all proceeds of all of the foregoing, now or hereafter owned or acquired by Pledgor.

2. GRANT OF SECURITY INTEREST.

(a) As collateral security for the prompt and complete payment and performance when due of all the Obligations, Pledgor hereby

pledges and assigns to Lender the Pledged Stock and grants to Lender a first priority lien on, and security interest in, the Pledged Stock and the proceeds thereof.

(b) Simultaneously with the execution of this Pledge Agreement, Pledgor is delivering to Lender the certificate(s) representing the shares of Pledged Stock described in Section 1(b)(i) hereof, which certificate(s) shall be registered in the name of Pledgor, duly endorsed in blank or accompanied by stock powers duly executed in blank, together with any documentary tax stamps and any other document necessary to cause Lender to have a good, valid and perfected first pledge of, lien on and security interest in the Pledged Stock, free and clear of any mortgage, pledge, lien security interest, hypothecation, assignment, charge, right, encumbrance or restriction (individually, "Encumbrance" and collectively, "Encumbrances"). At any time following an Event of Default (as hereinafter defined), any or all shares of the Pledged Stock held by Lender hereunder may be registered, at the option of Lender exercised in accordance with Section 3(d) hereof, in the name of Lender or in the name of its nominee as pledgee.

(c) Pledgor agrees that the certificate(s) representing the Pledged Shares shall contain a legend substantially in the following form:

"The shares represented by this certificate have been pledged pursuant to a Stock Pledge Agreement dated as of November 20, 2000 by and between the holder hereof and Primus Telecommunications Group, Incorporated, and may not be sold or otherwise transferred except in accordance with the terms thereof. These shares also are subject to additional restrictions on transfer under federal and state securities laws, and may not be sold or otherwise transferred except in compliance with such laws."

3. VOTING RIGHTS, DIVIDENDS AND DISTRIBUTIONS. So long as no Event of Default shall have occurred and be continuing:

(a) Pledgor shall be entitled to exercise any and all voting and/or consensual rights and powers relating or pertaining to the Pledged Stock or any part thereof, subject to the terms hereof;

(b) Subject to Section 3(d) hereof, Pledgor shall be entitled to receive and retain cash dividends payable on the Pledged Stock; PROVIDED, HOWEVER, that Lender shall be entitled to apply any cash dividends payable on the Pledged Stock to any amounts then due under the Note; and PROVIDED FURTHER, that all other dividends (including, without limitation, stock and

liquidating dividends), distributions in property, returns of capital and other distributions made on or in respect of the Pledged Stock, whether resulting from a subdivision, combination or reclassification of the outstanding capital stock of Lender or received in exchange for the Pledged Stock or any part thereof or as a result of any merger, consolidation, acquisition or other exchange of assets to which the Lender may be a party or otherwise, and any and all cash and other property received in exchange for or redemption of any of the Pledged Stock, shall be retained by Lender, or, if delivered to Pledgor, shall be held in trust for the benefit of Lender and forthwith delivered to Lender and shall be considered as part of the Pledged Stock for all purposes of this Pledge Agreement;

(c) Lender shall execute and deliver (or cause to be executed and delivered) to Pledgor all such proxies, powers of attorney, dividend orders, and other instruments as Pledgor may reasonably request for the purpose of enabling Pledgor to exercise the voting and/or consensual rights and powers which Pledgor is entitled to exercise pursuant to Section 3(a) above and/or to receive the dividends which Pledgor is authorized to receive and retain pursuant to Section 3(b) above; and Pledgor shall execute and deliver to Lender such instruments as may be required or may be reasonably requested by Lender to enable Lender to receive and retain the dividends, distributions in property, returns of capital and other distributions it is authorized to receive and retain pursuant to Section 3(b) above; and

(d) Upon the occurrence and during the continuance of an Event of Default, all rights of Pledgor to exercise the voting and/or consensual rights and powers which Pledgor is entitled to exercise pursuant to Section 3(a) above and/or to receive the dividends which Pledgor is authorized to receive and retain pursuant to Section 3(b) above shall cease, at the option of Lender, and all such rights shall thereupon become vested in Lender, who shall have the sole and exclusive right and authority to exercise such voting and/or consensual rights and powers and/or to receive and retain such dividends. In such case Pledgor shall execute and deliver such documents as Lender may reasonably request to enable Lender to exercise such rights and receive such dividends. In addition, Lender is hereby appointed the attorney-in-fact of Pledgor, with full power of substitution, which appointment as attorney-in-fact is irrevocable and coupled with an interest, to take all such actions after the occurrence and during the continuance of an Event of Default, whether in the name of Lender or Pledgor, as Lender may consider necessary or desirable for the purpose of exercising such rights and receiving such dividends. Any and all money and other property paid over to or received by Lender pursuant to the provisions of this Section 3(d) shall be retained by Lender as part of the Pledged Stock and shall be applied in accordance with the provisions hereof.

4. EVENTS OF DEFAULT; REMEDIES UPON DEFAULT.

(a) Each of the following shall constitute an Event of Default under this Pledge Agreement:

(i) Failure of Pledgor to perform or observe any covenant set forth in this Pledge Agreement, if such failure shall not have been cured within thirty (30) days after written notice thereof has been given to Pledgor by Lender;

(ii) Any representation or warranty made by Pledgor in this Pledge Agreement shall be untrue as of the date made in any material respect;

(iii) Any sale, assignment, pledge or other encumbrance or transfer of the Pledged Stock following the date hereof; or

(iv) The occurrence of an Event of Default under and as defined in the Note.

(b) Upon the occurrence and during the continuance of an Event of Default, in addition to having the right to exercise any right or remedy of a secured party upon default under the Uniform Commercial Code as then in effect in the State of New York (the "Uniform Commercial Code"), Lender may, to the extent permitted by law, without demand of performance or other demand, advertisement, or notice of any kind (except the notice specified below of time and place of public or private sale) to or upon Pledgor or any other person (all of which are, to the extent permitted by law, hereby expressly waived), apply any cash held by it hereunder in the manner provided in Section 4(c) hereof and if there shall be no such cash or if the cash so applied shall be insufficient to pay in full the items specified in Section 4(c) below, forthwith sell, or agree to sell, or otherwise dispose of and deliver the Pledged Stock or any part thereof or interest therein, in one or more parcels at public or private sale or sales, at any exchange, broker's board or at any of Lender's offices or elsewhere, at such prices and upon such terms and conditions (including, without limitation, requirements that any purchaser of all or any part of the Pledged Stock be an "accredited investor" for purposes of Regulation D under the Securities Act of 1933, as amended (the "Securities Act")), and purchase the shares constituting the Pledged Stock. The Lender or any prospective purchaser shall have the right to purchase upon any such sale the whole or any part of the Pledged Stock free of any right or equity of redemption in Pledgor, which right or equity is hereby expressly waived and released.

(c) The proceeds of any such disposition or other action by Lender shall be applied as follows:

(i) First, to the payment of all costs and expenses incurred in connection therewith or incidental thereto or to the care or safekeeping of any of the Pledged Stock or in any way relating to the rights of Lender hereunder, including, without limitation, reasonable attorneys' fees and expenses;

(ii) Second, to the satisfaction of the Obligations;

(iii) Third, to the payment of any amounts required by applicable law (including, without limitation, Section 9-504(1)(c) of the Uniform Commercial Code); and

(iv) Fourth, to the payment to Pledgor of any surplus then remaining from such proceeds, unless otherwise required by law or directed by a court of competent jurisdiction.

(d) The Lender need not give more than fifteen (15) business days' notice of the time and place of any public sale or of the time after which a private sale may take place UNLESS such sale is to be made in the open market, in which case the above fifteen business day period shall be five (5) business days, which notice, in each case, Pledgor hereby deems reasonable.

5. REPRESENTATIONS AND WARRANTIES OF PLEDGOR. Pledgor represents and warrants that:

(a) Pledgor has, and has duly exercised, all requisite power and authority to enter into this Pledge Agreement, to pledge the Pledged Stock for the purposes described in the recitals to this Pledge Agreement, and to carry out the transactions contemplated by this Pledge Agreement. This Pledge Agreement has been duly executed and delivered by Pledgor and constitutes a legal, valid and binding obligation of Pledgor, enforceable in accordance with its terms.

(b) Upon delivery of the Pledged Stock, Pledgor will be the direct record owner and beneficial owner of the Pledged Stock, owning such shares free and clear of any Encumbrance except for that granted hereunder.

(c) The execution and delivery of this Pledge Agreement, and the performance of its terms, will not violate or constitute a default under the terms of any agreement, contract or other instrument, law, statute, ordinance, license, judgment, decree, order or other governmental rule or regulation applicable to Pledgor or any material portion of Pledgor's property.

(d) Upon delivery of the Pledged Stock to Lender, this Pledge Agreement shall create a valid first lien upon and perfected security interest in the Pledged Stock and the proceeds thereof, subject to no prior Encumbrance.

(e) No approval, consent or other action by Pledgor, any governmental authority or any other person is or will be necessary to permit the valid execution, delivery or performance of this Pledge Agreement by Pledgor.

6. COVENANTS OF PLEDGOR. The Pledgor hereby covenants that, until all of the Obligations have been satisfied in full, Pledgor will:

(a) At Pledgor's own expense, defend Lender's right, title and security interest in and to the Pledged Stock against the claims of any person, firm, corporation or other entity;

(b) At the request of Lender, execute, deliver and file any and all financing statements, continuation statements, stock powers, instruments and other documents necessary or desirable, in Lender's reasonable opinion, to create, perfect, preserve, validate or otherwise protect the pledge of the Pledged Stock to Lender and Lender's lien on and security interest in the Pledged Stock and the first priority thereof; and

(c) Maintain, or cause to be maintained, at all times, the pledge of the Pledged Stock to Lender and Lender's lien on and security interest in the Pledged Stock and the first priority thereof; PROVIDED, HOWEVER, that Pledgor shall have no liability under this subparagraph (c) for actions of Lender.

(d) Promptly deliver to Lender all written notices, and will promptly give Lender written notice of any other notices, received by him with respect to Pledged Stock.

(e) At any time, and from time to time, upon the written request of Lender, execute and deliver such further documents and do such further acts and things as Lender may reasonably request to effect the purposes of this Agreement.

7. INTENTIONALLY OMITTED

8. SALE OF THE PLEDGED STOCK. The Pledgor recognizes that Lender may be unable to effect a public sale of all or a part of the Pledged Stock and may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obligated, among other things, to be an

"accredited investor" for purposes of Regulation D under the Securities Act and to agree to acquire the Pledged Stock for their own account, for investment and not with a view to the distribution or resale thereof. The Pledgor acknowledges that any such sales may be at prices and on terms less favorable to Lender than those of public sales of all of the Pledged Stock and agrees that such sales shall be deemed to have been made in a commercially reasonable manner and that Lender has no obligation to delay sale of any Pledged stock until such time as it may make a public sale under the Securities Act.

9. TERMINATION. Upon the satisfaction in full of all obligations of Pledgor under this Pledge Agreement and the Note and the full payment of all additional costs and expenses of Lender as provided herein, this Agreement shall terminate and Lender shall deliver to Pledgor, at Pledgor's expense, such of the Pledged Stock as shall not have been sold or otherwise applied pursuant to this Agreement.

10. LIMITATION ON LENDER'S DUTY IN RESPECT OF COLLATERAL.

(a) Beyond the exercise of reasonable care to assure the safe custody of the Pledged Stock while held hereunder, Lender shall have no duty or liability to preserve rights pertaining thereto and shall be relieved of all responsibility for the Pledged Stock upon surrendering it or tendering surrender of it to Pledgor.

(b) No course of dealing between Pledgor and Lender, nor any failure to exercise, nor any delay in exercising any right, power or privilege of Lender hereunder or under the Note shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder or thereunder preclude any other or future exercise thereof or the exercise of any other right, power or privilege.

(c) The rights and remedies provided herein and in all other agreements, instruments and documents delivered pursuant to or in connection with the Note are cumulative and are in addition to and not exclusive of any rights or remedies provided by law, including without limitation, the rights and remedies of a secured party under the Uniform Commercial Code.

11. NOTICES. For purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when hand delivered, sent by overnight courier or mailed first-class, registered or certified mail, return receipt requested, postage prepaid, or transmitted by telegram, telecopy or telex, addressed as follows:

If to Lender:

Primus Telecommunications Group, Incorporated  
1700 Old Meadow Road  
McLean, Virginia 22102  
Attention: David P. Slotkin, General Counsel

If to Pledgor:

at the address set forth on the signature page hereof

or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

12. SUCCESSORS AND ASSIGNS. This Pledge Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the parties hereto.

13. GOVERNING LAW. This Agreement shall be construed in accordance with the laws of the Commonwealth of Virginia without regard to its conflicts of laws principles.

IN WITNESS WHEREOF, this Pledge Agreement has been duly executed and delivered by or on behalf of the parties hereto as of the date and year first above written.

Print Name: -----

Address: -----

PRIMUS TELECOMMUNICATIONS  
GROUP, INCORPORATED

By: -----

Name: -----

Title: -----

## SUBSIDIARIES OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

Primus Telecommunications, Inc.	[Delaware]
Primus Telecommunications de Mexico SA de CV	[Mexico]
Primus Telecommunications International, Inc.	[Delaware]
Primus Telecommunications Pty Ltd	[Australia]
Primus Telecommunications (Australia) Pty Ltd	[Australia]
Hotkey Internet Service Pty Ltd	[Australia]
Eclipse Communications Pty Ltd	[Australia]
Primus Telecommunications KK	[Japan]
Primus Japan KK	[Japan]
Telegroup Japan KK	[Japan]
Primus Telecommunications Europe BV	[Netherlands]
Primus Telecommunications SA	[France]
Primus Telecommunications Srl	[Italy]
Primus Telecommunications AG	[Switzerland]
Primus Telecommunications Netherlands BV	[Netherlands]
South East Telecom Ltd	[United Kingdom]
Primus Telecommunications SA	[Spain]
Primus Telecommunications GmbH	[Austria]
Primus Telecommunications Ltd	[Ireland]
Telegroup Deutschland GmbH	[Germany]
Corporate Network Ltd.	[United Kingdom]
Primus Telecom A/S	[Denmark]
Telegroup Network Services Denmark A/S	[Denmark]
Telecontinent SA	[France]
Telegroup Network Services SA	[Switzerland]
Telegroup (UK) Ltd.	[United Kingdom]
Telegroup Network Services Deutschland GmbH	[Germany]
Telegroup Italia Srl	[Italy]
Telegroup International BV	[Netherlands]
Telegroup Nederland BV	[Netherlands]
Phone Centre Communications [Service] Ltd.	[United Kingdom]
Primus Telecommunications GmbH	[Germany]
iPrimus Telecommunications GmbH	[Germany]
Primus Telecommunications Vertriebs GmbH	[Germany]
CS Communications Systems GmbH	[Germany]
CS Network GmbH	[Germany]
InterNeXt S.A.S.	[France]
Primus Telecommunications Ltd.	[United Kingdom]
TresCom International Inc.	[Florida]
TresCom U.S.A. Inc.	[Florida]
Global Telephone Holding Inc.	[US Virgin Islands]
InterIsland Telephone Corp.	[US Virgin Islands]

St. Thomas & San Juan Telephone Co., Inc.	[US Virgin Islands]
STSJ Overseas Telephone Company Inc.	[Puerto Rico]
Least Cost Routing, Inc.	[Florida]
Rate Reductions Center, Inc.	[Florida]
Rockwell Communications, Inc.	[Florida]
Intex Telecommunications, Inc.	[South Carolina]
TresCom Network Services Inc.	[Florida]
IPRIMUS.com, Inc.	[Delaware]
iPrimus USA, Inc.	[Delaware]
Primus Comunicacoes do Brasil Ltd.	[Brazil]
Matrix Internet, SA	[Brazil]
Primus Telecommunications Canada Group Inc.	[Canada]
Primus Network Services Inc.	[Canada]
Primus Telecommunications Canada Inc.	[Canada]
3694798 Canada Inc.	[Canada]
LCR Telecom Group Plc	[United Kingdom]
LCR Telecom Group Inc.	[British Virgin Islands]
LCR Telecom Offshore (Holdings) Limited	[United Kingdom]
Virtual Technology Holdings Inc.	[British Virgin Islands]
Commsol International Holdings Inc.	[British Virgin Islands]
LCR Telecom (Jersey) Limited	[Jersey]
Binoche Holdings Pte	[Madeira]
LCR Telecom Limited	[United Kingdom]
Virtual Technology Telecom (UK) Limited	[United Kingdom]
Phonetrack Limited	[United Kingdom]
Discount Calls Limited	[United Kingdom]
LCR France SA	[France]
LCR Telecom Espana SA	[Spain]
LCR Telecom Europe NV	[Belgium]
LCR Telecom Luxembourg	[Luxembourg]
LCR Telecom Belgium bvba	[Belgium]
LCR International Inc.	[California]
LCR Paraguay	[Paraguay]
Virtual Technology Inc.	[British Virgin Islands]
LCR Telecom (Kenya) Limited	[Kenya]

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the Registration Statements of Primus Telecommunications Group, Incorporated (the "Company") on Form S-8 (Nos. 333-35005, 333-56557, 333-73003 and 333-39526) and Form S-3 (Nos. 333-89539 and 333-39096) of our report dated February 8, 2001, appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

Deloitte & Touche LLP  
McLean, Virginia  
\_\_\_\_\_, 2001