

PRIMUS TELECOMMUNICATIONS GROUP INC
Form S-3
November 04, 2003

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As filed with the Securities and Exchange Commission on November 4, 2003

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

54-1708481

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

**1700 Old Meadow Road, Suite 300
McLean, Virginia 22102
(703) 902-2800**

(Address, including zip code, and telephone number, including area code of Registrant's principal executive offices)

**K. Paul Singh
Chairman, President and Chief Executive Officer
Primus Telecommunications Group, Incorporated
1700 Old Meadow Road, Suite 300
McLean, Virginia 22102
(703) 902-2800**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share (1)	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee
Common Stock, par value \$.01 per share, and associated Series B Junior Participating Preferred Stock Purchase Rights	22,616,990	\$8.98	\$203,100,570.00	\$16,431.00

(1)

Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(c) of the Securities Act. The price per share and aggregate offering price are based upon the average of the high and low sales price of Primus Telecommunications Group, Incorporated's common stock on October 28, 2003 as reported on the Nasdaq National Market. It is not known how many shares will be sold under this registration statement or at what price such shares will be sold.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

The information contained in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion. Dated November 4, 2003

PROSPECTUS

22,616,990 Shares

Primus Telecommunications Group, Incorporated

Common Stock

The selling security holders identified in this prospectus are selling up to an aggregate of 22,616,990 shares of Primus Telecommunications Group, Incorporated ("Primus") common stock. During the 270-day period commencing as of November 4, 2003, certain selling security holders' shares will be subject to the terms of a lock-up agreement with Primus, which will generally prohibit the resale of 13,540,008 of such shares. See "Plan of Distribution Lock-Up Agreements." Primus will not receive any of the proceeds from the sale of shares by the selling security holders.

Primus common stock is listed on the Nasdaq National Market under the symbol PRTL. The last reported sales price of the common stock, as reported on the Nasdaq National Market on November 3, 2003, was \$9.37 per share.

Investing in the common stock involves a high degree of risk. See Risk Factors, beginning on page 5.

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

The date of this prospectus is November , 2003

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SUMMARY

This summary highlights some of the information in this prospectus. Because this is only a summary, it does not contain all of the information that may be important to you. To understand this prospectus, the common stock and our business, you should read the entire prospectus, particularly "Risk Factors" and the consolidated financial statements and related notes incorporated by reference into this prospectus.

PRIMUS

Primus Telecommunications Group, Incorporated and our subsidiaries (which, except as expressly noted otherwise, we refer to as "we" "us" or "Primus" in this prospectus), are a global, facilities-based telecommunications services provider offering international and domestic voice, Internet and data services to business and residential retail customers and other carriers located primarily in the United States, Australia, Canada, the United Kingdom and western Europe. Our focus is to service the demand for high quality, competitively priced international communications services that is being driven by the globalization of the world's economies, the worldwide trend toward telecommunications deregulation and the growth of Internet and data traffic.

We target customers with significant telecommunications needs, including small- and medium-sized enterprises, multinational corporations, residential customers, particularly ethnic customers, and other telecommunications carriers and resellers. We provide services over our global network, which consists of (1) 19 carrier-grade domestic and international gateway switching systems throughout North America, Australia, Europe and Japan; (2) approximately 250 points of presence within our principal service regions and other markets; (3) both owned and leased transmission capacity on undersea and land-based fiber optic cable systems; and (4) a global broadband asynchronous transfer mode (ATM) + Internet Protocol (IP) network and data centers.

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

international and domestic long distance services;

voice over Internet protocol (VoIP) services;

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prepaid calling cards (including Virtual Mobile Network Services (VMNS)), toll-free services and reorigination services;

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

local services, primarily in Australia and Canada;

ATM+IP broadband services; and

managed and shared Web hosting services and applications.

We are a Delaware corporation with our principal executive offices located at 1700 Old Meadow Road, McLean, Virginia 22102. Our telephone number is (703) 902-2800 and our web site address is www.primustel.com. We make available free of charge through the "Investors" section of our web site our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. We include our web site address in this prospectus only as an inactive textual reference and do not intend it to be an active link to our web site.

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SECURITIES TO BE OFFERED

This prospectus relates to the offer and sale by the selling security holders referenced in this prospectus of up to an aggregate of 22,616,990 shares of our common stock. During the 270-day period commencing as of November 4, 2003, certain selling security holders' shares will be subject to the terms of a lock-up agreement with Primus, which will generally prohibit the resale of 13,540,008 of such shares.

The common stock was acquired by the selling security holders on November 4, 2003 through the conversion of all 559,950 outstanding shares of our Series C Convertible Preferred Stock ("Series C Preferred"). The selling security holders (also referred to as the "Former Series C Holders") acquired 438,853 shares and 121,097 shares of the Series C Preferred on December 31, 2002 and March 31, 2003, respectively, pursuant to the terms of a Stock Purchase Agreement dated as of December 31, 2002 (the Purchase Agreement).

You should carefully consider the information set forth under "Risk Factors" in this prospectus beginning on page 5 and all other information included or incorporated by reference in this prospectus before deciding to purchase any common stock.

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RISK FACTORS

Any purchase of the shares of our common stock involves a high degree of risk. You should consider carefully the following information about these risks, together with the information under the caption "Forward-Looking Information" and the other information contained in or incorporated by reference to this prospectus before you decide to buy common stock. If any of the following risks actually materializes, our business, financial condition, results of operations and future growth prospects would likely be materially adversely affected. In these circumstances, the market price of our common stock would likely decline, and you may lose all or part of the money you paid to buy the common stock.

Risks Related to Our Business

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

We currently have substantial indebtedness and we and our subsidiaries may incur additional indebtedness in the future. As of June 30, 2003, our total consolidated indebtedness (including obligations under capital leases and equipment financings) was \$542.0 million. The terms

of certain of our outstanding indebtedness limit, but do not prohibit, the incurrence of additional indebtedness.

The level of our indebtedness:

could make it difficult for us to make required payments of principal and interest on our outstanding debt, including the notes;

could limit our ability to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements or other purposes;

requires that a substantial portion of our cash flow, if any, be dedicated to the payment of principal and interest on our indebtedness and other obligations and, accordingly, such cash flow will not be available for use in our business;

could limit our flexibility in planning for, or reacting to, changes in our business;

results in us being more highly leveraged than many of our competitors, which may place us at a competitive disadvantage;

could discourage potential acquirors from making offers to acquire us; and

will make us more vulnerable in the event of a downturn in our business.

We have experienced historical, and may experience future, operating losses, negative free cash flow and net losses which may hinder our ability to meet our debt service or working capital requirements.

As of June 30, 2003, we had an accumulated deficit of \$(708.6) million. We incurred net losses of \$(63.6) million in 1998, \$(112.7) million in 1999, \$(174.7) million in 2000, \$(306.2) million in 2001 and \$(34.6) million in 2002.

Our recent net income and net revenue growth and recent positive free cash flow should not necessarily be considered to be indicative of future net income and net revenue growth or future free cash flow. We cannot assure you that our net income, net revenue or positive free cash flow will grow or be sustained in future periods. If we cannot sustain net income, operating profitability or positive free cash flow, we may not be able to meet our debt service or working capital requirements. These developments could have a material adverse impact on the trading prices of our common stock. See our discussion of free cash flow at note 1 to "Selected Financial Data."

Because a significant portion of our business is conducted outside the United States, fluctuations in foreign currency exchange rates could adversely affect our results of operations.

A significant portion of our net revenue is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the USD. The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive a significant portion of our net revenue and incur a significant portion of our operating costs outside the United States, and changes in exchange rates have had and may continue to have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused by fluctuations in the following exchange rates: USD/Australian dollar (AUD), USD/Canadian dollar (CAD), USD/British pound (GBP), and USD/Euro dollar (EUR). In the six months ended June 30, 2003, the USD weakened compared to the AUD, CAD, GBP and EUR. As a result, our revenue of the subsidiaries whose local currency is the AUD, CAD and EUR increased 7%, 7% and 24% in local currency compared to the six months ended June 30, 2002, but increased 23%, 16% and 53% in USD, respectively. Our revenue of the subsidiaries whose local currency is the GBP decreased 13% in local currency from the six months ended June 30, 2002, but decreased 3% in USD. Due to the large percentage of our operations conducted outside of the United States, strengthening of the USD relative to one or more of the foregoing currencies could have an adverse impact on our future results of operations. We historically have not engaged in hedging transactions and do not currently contemplate engaging in hedging transactions to mitigate foreign exchange risks.

In addition, the operations of affiliates and subsidiaries in foreign countries have been funded with investments and other advances denominated in foreign currencies. Historically, such investments and advances have been long-term in nature, and we accounted for any adjustments resulting from currency translation as a charge or credit to "accumulated other comprehensive income (loss)" within the stockholders' deficit section of our consolidated balance sheets. In 2002, agreements with certain subsidiaries were put in place for repayment of a portion of the investments and advances made to the subsidiaries. As we anticipate repayment in the foreseeable future of these amounts, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations, and depending upon changes in future currency rates, such gains or losses could have a significant, and potentially adverse, effect on our results of operations.

Given our limited experience with, and the intense competition in, the Internet connectivity and data business, we may not be able to successfully operate or expand this part of our business.

Since 1999, we have been targeting businesses and residential customers for Internet and data services through the Primus brand and other businesses. We have been expanding and intend to continue to expand our offering of Internet, data and VoIP services worldwide. We anticipate offering a broad range of Internet protocol-based data and voice communications over our global broadband ATM+IP network. Currently, we provide Internet access services to business and residential customers in the United States, Australia, Canada, Japan, India, Brazil, and Spain, and offer Internet transmission services in the Indian Ocean/Southeast Asia regions through our earth stations in India.

Our experience with these services and these markets is limited. Furthermore, the market for dial-up and broadband Internet connectivity and related services is extremely competitive. Our primary competitors include incumbent operators, cable companies and other Internet service providers (ISPs) that have a significant national or international presence. Many of these operators have substantially greater resources, capital and operational experience than we do. We also expect we will experience increased competition from traditional telecommunications carriers and cable companies that expand into the market for Internet services. Therefore, our future operations involving these services may not generate operating or net income or positive free cash flow on a predictable basis and we may not be

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able to successfully expand this part of our business. See our discussion of free cash flow at note 1 to "Selected Financial Data."

If we do not operate our network efficiently and generate additional traffic, we may not be able to achieve our operational growth goals.

Our long-term success depends on our ability to design, implement, operate, manage and maintain a reliable and cost-effective network. In addition, we rely on third parties to enable us to expand and manage our global network. If we fail to generate additional traffic on our network, if we experience technical or logistical impediments to our ability to migrate traffic onto our network, or if we experience difficulties with our third party providers, we may not achieve desired economies of scale or otherwise be successful in growing our business.

Our potential future growth may place a significant strain on our resources and, if not managed effectively, could result in operational inefficiencies and other difficulties.

Our continued growth and expansion may place a significant strain on our management, operational and financial resources, and increase demand on our systems and controls. We have expanded our retail operations through our recent acquisition of the small- and medium-sized enterprise (SME) voice customer base of Cable & Wireless (C&W) in the United States and the expansion of our VMNS product, particularly in Europe. To manage our growth effectively, we must continue to implement and improve our operational and financial systems and controls, purchase and utilize other transmission facilities, and expand, train and manage our employee base. If we inaccurately forecast the movement of traffic onto our network, we could have insufficient or excessive transmission facilities and disproportionate fixed expenses. As we proceed with our development, operational difficulties could arise from additional demand placed on our customer support, billing and management information systems, on our support, sales and marketing and administrative resources and on our network infrastructure. For instance, we may encounter delays or cost-overruns or suffer other adverse consequences in implementing new systems when required. In addition, our operating and financial control systems and infrastructure could be inadequate to ensure timely and accurate financial reporting.

The integration of our recent and future acquisitions ultimately may not provide the benefits originally anticipated by management and may distract the attention of our personnel from the operation of our business.

Acquisitions of businesses and customer lists, a key element of our historical growth strategy, involve operational risks, including the possibility that an acquisition does not ultimately provide the benefits originally anticipated by management. Moreover, there can be no assurance that we will be successful in:

identifying attractive acquisition candidates;

completing and financing additional acquisitions on favorable terms; or

integrating the acquired business or assets into our own.

There may be difficulty in integrating the service offerings, distribution channels and networks gained through acquisitions with our own. Successful integration of operations and technologies requires the dedication of management and other personnel, which may distract their attention from the day-to-day business, the development or acquisition of new technologies, and the pursuit of other business acquisition opportunities, and there can be no assurance that successful integration will occur in light of these factors.

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We experience intense domestic and international competition which may adversely affect our ability to attract and retain customers and which can cause significant pricing pressures that adversely affect our net revenues per minute, results of operations and financial condition.

The long distance telecommunications and data industry is intensely competitive and is significantly influenced by the marketing and pricing decisions of the larger long distance industry and Internet access business participants. In addition, alternative services to traditional fixed wireline services, such as wireless and VoIP services, are a substantial competitive threat. The industry has relatively limited barriers to entry in the more deregulated countries with numerous entities competing for the same customers. Customers frequently change long distance providers and ISPs in response to the offering of lower rates or promotional incentives by competitors. Generally, customers can switch carriers at any time. Competition in all of our markets is likely to remain intense, or even increase in intensity and, as deregulatory influences are experienced in markets outside the United States, competition in non-United States markets is likely to become similar to the intense competition in the United States.

Our competitors in our core markets include, among others: AT&T, MCI, Sprint, the regional Bell operating companies (RBOCs) and the major wireless carriers in the United States; Telstra, SingTel Optus and Telecom New Zealand in Australia; Telus, BCE, CallNet and Allstream (formerly AT&T Canada) in Canada; and British Telecommunications plc. (BT), Cable & Wireless UK, AT&T, MCI, Colt Telecom, Energis and the major wireless carriers in the United Kingdom. Many of our competitors are significantly larger than we are and have:

substantially greater financial, technical and marketing resources;

larger networks;

a broader portfolio of service offerings;

greater control over transmission lines;

stronger name recognition and customer loyalty;

long-standing relationships with our target customers; and

lower leverage ratios.

As a result, our ability to attract and retain customers may be adversely affected.

Many of our competitors enjoy economies of scale that result in low cost structures for transmission and related costs that could cause significant pricing pressures within the industry. Several long distance carriers in the United States, including most recently, AT&T, MCI, Sprint, the RBOCs and the major wireless carriers, have introduced pricing and product bundling strategies that provide for fixed, low rates for calls within the United States. This strategy could have a material adverse effect on our net revenue per minute, results of operations and financial condition if increases in telecommunications usage and potential cost declines do not result in, or are insufficient to offset the effects of, such price decreases. Many companies emerging out of bankruptcy might benefit from a lower cost structure and might apply pricing pressure within the industry to gain market share. We compete on the basis of price, particularly with respect to our sales to other carriers, and also on the basis of customer service and our ability to provide a variety of telecommunications products and services. If such price pressures materialize, we may not be able to compete successfully in the future.

Furthermore, recent and pending deregulation in various countries may encourage new entrants to compete, including ISPs, cable television companies and utilities. For example, the United States and many other countries have committed to open their telecommunications markets to competition pursuant to an agreement under the World Trade Organization which began on January 1, 1998. Further, in the United States, as certain conditions have been met under the Telecommunications Act of 1996, the RBOCs have been allowed to enter the long distance market, AT&T, MCI and other long

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distance carriers have been allowed to enter the local telephone services market, and any entity, including cable television companies and utilities, have been allowed to enter both the local service and long distance telecommunications markets.

A deterioration in our relationships with facilities-based carriers could have a material adverse effect upon our cost structure, service quality, network diversity, results of operations and financial condition.

We primarily connect our customers' telephone calls through transmission lines that we lease under a variety of arrangements with other facilities-based long distance carriers. Many of these carriers are, or may become, our competitors. Our ability to maintain and expand our business depends on our ability to maintain favorable relationships with the facilities-based carriers from which we lease transmission lines. If our relationship with one or more of these carriers were to deteriorate or terminate, it could have a material adverse effect upon our cost structure, service quality, network diversity, results of operations and financial condition. Moreover, we lease transmission lines from some vendors that currently are subject to tariff controls and other price constraints, which in the future may be changed.

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

We have significant international operations. In many international markets, the incumbent carrier is likely to:

control access to, and pricing of, the local networks;

enjoy better brand recognition and brand and customer loyalty; and

have significant operational economies of scale, including a larger backbone network and more correspondent agreements.

Moreover, the incumbent carrier may take many months to allow competitors, including us, to interconnect to its switches within its territory. There can be no assurance that we will be able to:

obtain the permits and operating licenses required for us to operate;

obtain access to local transmission facilities on economically acceptable terms; or

market services in international markets.

In addition, operating in international markets generally involves additional risks, including:

unexpected changes in regulatory requirements, tariffs, customs, duties and other trade barriers;

difficulties in staffing and managing foreign operations;

problems in collecting accounts receivable;

political risks;

fluctuations in currency exchange rates;

restrictions associated with the repatriation of funds;

technology export and import restrictions; and

seasonal reductions in business activity.

Our ability to operate and grow our international operations successfully could be adversely impacted by these risks and uncertainties.

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Rapid changes in the telecommunications industry could adversely affect our competitiveness and our financial results.

The telecommunications industry is changing rapidly due to:

deregulation;

privatization;

technological improvements;

availability of alternative services such as wireless and VoIP;

expansion of infrastructure; and

the globalization of the world's economies.

If we do not adjust our contemplated plan of development to meet changing market conditions, we may not be able to compete effectively. The telecommunications industry is marked by the introduction of new product and service offerings and technological improvements. Achieving successful financial results will depend on our ability to:

anticipate, assess and adapt to rapid technological changes; and

offer, on a timely and cost-effective basis, services that meet evolving industry standards.

If we do not anticipate, assess or adapt to such technological changes at a competitive price, maintain competitive services or obtain new technologies on a timely basis or on satisfactory terms our financial results may be materially and adversely affected.

Natural disasters could adversely affect our business by damaging our network facilities or curtailing voice or data traffic.

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

Terrorist attacks and other acts of violence or war may affect the market on which our securities trade, the markets in which we operate, our operations and our profitability.

Terrorist attacks, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, and other recent worldwide terrorist actions, may negatively affect our operations and your investment in Primus. We cannot assure you that there will not be further terrorist attacks that impact our employees, network facilities or support systems, either in the United States or in any of the other countries in which we operate. Certain losses resulting from these types of events are uninsurable and others are not likely to be covered by our insurance.

The United States has recently been engaged in an armed conflict with Iraq, and may enter into additional armed conflicts in the future. The consequences of any armed conflicts are unpredictable, and we may not be able to foresee events that could have an adverse effect on our business.

Terrorist attacks or armed conflicts may directly impact our business operations through damage or harm to our employees, network facilities or support systems, increased security costs or the general curtailment of voice or data traffic. Any of these events could result in increased volatility in or damage to Primus and the United States and worldwide financial markets and economies. They also could result in a continuation of the current economic uncertainty in the United States or abroad, which could have a material adverse effect on our operating results and financial condition.

The loss of our key personnel could materially and adversely affect our business and future prospects.

We depend upon the efforts of our management team and our key technical, marketing and sales personnel, particularly those of K. Paul Singh, our Chairman, President and Chief Executive Officer. If we lose the services of one or more of these key individuals, particularly Mr. Singh, our business and its future prospects could be materially and adversely affected. We have entered into an employment agreement with Mr. Singh, with an original term through May 30, 1999, but which has been renewed annually through May 30, 2004. We do not maintain any key person life insurance on the lives of any officer, director or key employee. Our future success will also depend on our ability to attract and retain additional key management and technical and sales personnel required in connection with the growth and development of our business. If we are not successful in attracting and retaining such executives and personnel, our business and future prospects could be materially and adversely affected.

We are subject to potential adverse effects of regulation which may have a material adverse impact on our competitive position, growth and financial performance.

Our operations are subject to constantly changing regulation. There can be no assurance that future regulatory changes will not have a material adverse effect on us, or that regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations, any of which could have a material adverse effect upon us.

As a multinational telecommunications company, we are subject to varying degrees of regulation in each of the jurisdictions in which we provide our services. Local laws and regulations, and the interpretation of such laws and regulations, differ significantly among the jurisdictions in which we operate. Future regulatory, judicial, legislative and government policy changes may have a material adverse effect on us and domestic or international regulators or third parties may raise material issues with regard to our compliance or noncompliance with applicable regulations, and therefore may have a material adverse impact on our competitive position, growth and financial performance.

In the United States, regulatory considerations that affect or limit our business include the following:

The need to comply with federal and state regulations. Through our operating subsidiaries, we are regulated at the federal level by the Federal Communications Commission (FCC) and at the state level by state public service commissions. We are required to maintain FCC authorizations for our international telecommunications services and state certifications and tariffs for our intrastate services. We are subject to various regulatory policies that affect the conditions under which we are permitted to operate, such as the common carrier requirements not to unreasonably discriminate among customers and to charge just and reasonable rates. We are also subject to certain foreign ownership limitations and the requirement to comply with various FCC and state reporting and fee obligations. Compliance with FCC and state regulations, challenges by third parties to our state tariffs, or complaints about our practices could cause us to incur substantial expenses. Further, the FCC and the state public service commissions have broad authority to sanction us or revoke our authorizations if we violate applicable law.

Difficulty in predicting change to government regulation, enforcement and interpretation of telecommunications laws. Our business may be harmed if we do not obtain or retain the necessary governmental approval for our services or if we fail to comply with applicable laws. Enforcement and interpretations of these laws and regulations can be unpredictable and are often subject to the informal views of government officials.

Changes in federal and state policies toward VoIP service. The future regulatory classification of VoIP telephony is difficult to predict. If federal and/or state regulators decide that VoIP is a

regulated telecommunications service, our VoIP services may be subject to burdensome regulatory requirements and fees and certain of our operating costs may increase.

Changes in access charges, universal service and regulatory fee payments. Changes in access charges, universal service and regulatory fee payments will affect our cost of providing long distance services and could materially adversely affect our business, financial condition, results of operations and prospects.

In Australia, regulatory considerations that affect or limit our business include the following:

The need to comply with federal regulations. We are regulated at the federal level by the Australian Communications Authority (ACA) for technical regulation and licensing and the Australian Competition and Consumer Commission (ACCC) for competition matters, including access and enforcement of competitive safeguards. The telecommunications industry is not regulated at the state level in Australia. We are required to maintain a carrier license if we own certain transmission facilities. We are subject to various regulatory policies that affect the conditions under which we are permitted to operate, such as customer service guarantee standards. We are potentially subject in our telecommunications license to conditions that apply to foreign ownership (although this does not currently apply) and the requirement to comply with various ACA and ACCC reporting and fee obligations. Compliance with regulations or complaints about our practices could cause us to incur substantial expenses. Further, the ACA and the ACCC have broad authority to sanction us or (in the case of the ACA) to cancel our license if we violate applicable law.

Difficulty in predicting change to government regulation, enforcement and interpretation of telecommunications laws. Our business may be harmed if we do not obtain or retain the necessary governmental approval for our services or if we fail to comply with applicable laws. Enforcement and interpretations of these laws and regulations can be unpredictable and are often subject to the informal views of government officials.

Changes in federal policies toward VoIP service. The future regulatory classification of VoIP telephony is difficult to predict. Currently we do not have peering arrangements with Tier 1 ISPs, such as Telstra, SingTel Optus, Telecom New Zealand and UUnet. We therefore pay fees for interconnection that are not paid by these Tier 1 ISPs. If federal regulators decide that VoIP should become a declared telecommunications service, our VoIP services may be subject to burdensome regulatory requirements and fees and certain of our operating costs may increase.

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Changes in access charges, universal service and regulatory fee payments. Changes in access charges, universal service and regulatory fee payments will affect our cost of providing long distance services and could materially and adversely affect our business, financial condition, results of operations and prospects. We pay termination charges for calls from our network to mobile (cellular) telephone services. Carriers must meet the universal service obligation (USO) and the digital data service obligation to assist in providing all Australians, particularly those living in remote areas, with reasonable access to standard telephone services and digital data services. Telstra is currently the sole universal service provider. One of our subsidiaries, Hotkey Internet Services, has been approved as a special digital service provider. Since 2000, the responsible Minister of the Australian government may make a determination of the amount of USO subsidies, with advice from the Australian Communications Authority. No methodology is provided in any legislation and the Minister could make a determination of a universal service levy (USL) that would be material to us.

In Canada, regulatory considerations that affect or limit our business include the following:

The need to comply with federal regulations. Although we operate as a reseller and our rates and terms of service are therefore not subject to direct regulation by the Canadian Radio Television

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and Telecommunications Commission (CRTC) pursuant to the Canadian Telecommunications Act, we are required to maintain a license for our international telecommunications services and registration as reseller of long distance services. We are subject to foreign ownership restrictions that affect the conditions under which we are permitted to operate (i.e., which prevent us from owning and operating transmission facilities or operating as a competitive local exchange carrier (CLEC)). We are also required to make contribution payments to support universal access. Compliance with CRTC regulations or complaints about our practices could cause us to incur substantial expenses. Further, the CRTC has authority to revoke our international license if we violate applicable law.

Difficulty in predicting change to government regulation, enforcement and interpretation of telecommunications laws. Our business may be harmed if we do not obtain or retain the necessary governmental approval for our services or if we fail to comply with applicable laws. Enforcement and interpretations of these laws and regulations can be unpredictable and are often subject to the informal views of government officials.

Changes in access charges and contribution payments. Changes in access charges and contribution payments will affect our cost of providing long distance and other services and could materially and adversely affect our business, financial condition, results of operations and prospects. For 2003, contribution payments were calculated at the rate of 1.3% of our revenues from Canadian telecommunications services.

In the United Kingdom, regulatory considerations that affect or limit our business include the following:

The need to comply with laws and regulations. We are subject to the general laws of the United Kingdom including those which relate specifically to telecommunications and to the rules and regulations promulgated thereunder. We are regulated by the Director General of Telecommunications (the "Director General") and the office over which he presides, the Office of Telecommunications ("OfTel"). However, the Director General and OfTel are due to be replaced at the end of 2003 or early in 2004 by a new regulatory authority called the Office of Communications (OFCOM). OFCOM will become the single regulatory authority for the telecommunications and broadcasting sectors. Under the Communications Act adopted July 17, 2003 (the "2003 Act"), all licenses granted previously under the Telecommunications Act 1984 (the "1984 Act") were abolished effective as of July 25, 2003, and we now provide services under and are subject to the terms of a general authorization, which applies to all operators. The Secretary of State has the power to require the suspension of any operator's entitlement to operate under the general authorization in the interests of national security or on public health and safety grounds. Any serious or repeated contravention of the provisions of the general authorization by us would entitle the Director General currently, or OFCOM in the future, to suspend our entitlement to operate under it. Breaches of the general authorization could also result in our incurring financial penalties. We are subject to the views and opinions of, and ultimately to decisions taken by, the Director General currently, and OFCOM in the future, concerning the interpretation of the general authorization and our obligations thereunder and our compliance with the terms of the general authorization.

Transition period resulting from recently enacted legislation. The terms of the general authorization have not been finalized in all respects and, in due course, additional provisions will be added. These additions will concern mainly, but not exclusively, operators who are deemed to possess significant market power. We can make no assurances that the general authorization, as finalized or as modified in the future, will not have an adverse impact on our business. Furthermore, although the duties and powers of the Director General currently, and OFCOM in the future, and the provisions which they can insert into the general authorization are prescribed under the

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2003 Act, there can be no guarantee that, on specific issues, OFCOM will adopt the same policy approach as was adopted previously by the Director General and Oftel.

Administrative Charges. Under the general authorization, we are subject to annual administrative charges based on a formula related to annual revenues. The administrative charges effectively replace the license fees under the prior regime, and we cannot make any assurances that they will not result in higher annual payments by us.

Changes in access charges and universal service payments. We must interconnect our United Kingdom network to the networks of other service providers in the United Kingdom, including BT, to allow end user customers to obtain access to our services and to compete effectively in the United Kingdom. Because it has been deemed to possess significant market power, BT is subject to detailed regulation over the pricing of and other terms on which it provides wholesale interconnection services. Without this regulation or with greater pricing flexibility, BT would be able to charge us higher prices for certain services, subject to any constraints imposed by general competition law. Any decision by the Director General currently, or OFCOM in the future, to require us to provide or to contribute to a fund for the provision of a universal service could materially and adversely affect our business.

Risks Relating to an Investment in our Common Stock

Future sales of our common stock in the public market could lower our stock price.

Future sales of our common stock in the public market could lower our stock price and impair our ability to raise funds in new stock offerings. As of September 30, 2003, we had 65,521,195 outstanding shares of our common stock that were subject to dilution by:

22,616,990 shares of common stock offered under this prospectus (13,540,008 of which shares are subject to the terms of a lock-up agreement as described under "Plan of Distribution Lock-Up Agreement") that were issued through conversion of all of our Series C Preferred on November 4, 2003;

14,157,925 shares of common stock, subject to potential adjustment issuable upon conversion of our 3³/₄% convertible senior notes due 2010 (the "2010 Convertible Notes");

7,694,645 shares of common stock issuable upon the exercise of outstanding stock options;

1,428,342 shares of common stock issuable upon the conversion of our 5³/₄% convertible subordinated debentures due 2007 (the "2007 Convertible Notes"); and

333,587 shares of common stock issuable upon the exercise of outstanding warrants issued in connection with the sale of our 11³/₄% senior notes due 2004 (the "Warrants").

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The holders of the 2010 Convertible Notes have a registration statement covering the notes and common stock (the "Note Registration Statement") that may be acquired upon conversion of the 2010 Convertible Notes on file with the Securities and Exchange Commission ("SEC"), but which has not been declared effective as of the date of this prospectus. Of the 22,616,990 shares offered under this prospectus, there are 17,725,750 and 4,891,240 shares of common stock, respectively, that also first become eligible for resale through Rule 144 under the Securities Act on December 31, 2003 and March 31, 2004, respectively, subject to the lock-up agreement and applicable volume limitations and other restrictions under Rule 144. We may also issue a significant number of additional shares of common stock as consideration for future acquisitions or other investments or for other purposes. We have filed with the SEC an additional registration statement concerning \$200 million of debt and equity securities that we may offer from time to time. Sales of a substantial amount of common stock in the public market, or the perception that these sales may occur, could adversely affect the market price of

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our common stock prevailing from time to time in the public market and could impair our ability to raise funds in additional stock offerings.

The market price of our common stock may decline and fluctuate significantly.

In recent years, the market prices for securities of companies in the telecommunications industry have declined substantially and have been highly volatile. For example, from January 1, 1998 through December 31, 1999, the market price of our common stock and the Standard & Poor's Telecommunications (Long Distance) Index (Long Distance Index) increased by 137% and 110%, respectively. Subsequently, from January 1, 2000 through September 30, 2003, the market price of our common stock and the Long Distance Index declined by 82% and 89%, respectively. Various factors and events may cause the market price of our common stock to decline or fluctuate significantly. Such factors and events include the liquidity of the market for our common stock, variations in our quarterly operating results and our growth strategies, regulatory, technological or other changes (both domestic and international) affecting the telecommunications industry generally, our competitors' business developments, changes in the cost of telecommunications service or other operating costs and changes in general market conditions. On May 14, 2002, our common stock was delisted from the Nasdaq National Market for failure to meet the required minimum bid price necessary to maintain listing on the Nasdaq National Market, and on such date our common stock began trading on the Nasdaq SmallCap Market, which is generally a less liquid market than the Nasdaq National Market. On March 21, 2003, the listing of our common stock on the Nasdaq National Market was reinstated, after once again satisfying the minimum bid price requirements. There can be no assurance that our common stock will not decline or that future declines in the market price of our common stock will not result in our common stock being delisted from the Nasdaq National Market again or that if such delisting does occur, that there would be a liquid market for our common stock.

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

As of September 30, 2003, funds affiliated with American International Group, Incorporated (AIG) beneficially owned 24.44% of our outstanding common stock through Series C Preferred holdings that were converted into common stock as of November 4, 2003. Such holders' shares of common stock are offered for sale under this prospectus. As a result of such share ownership, these holders can exercise influence over our affairs through the provisions of an agreement between such holders and us, described under "Description of Capital Stock Contractual Governance Provisions," that requires the consent of a majority of our non-management directors before we may undertake certain actions, and that provides for the right, subject to certain conditions, for the Former Series C Holders to nominate one member for election by stockholders to our board of directors and propose one Board observer, in each case, subject to the maintenance of certain minimum ownership levels.

In addition, these holders' significant ownership levels could have an influence on:

amendments to our certificate of incorporation;

other fundamental corporate transactions such as mergers and asset sales; and

the general direction of our business and affairs.

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

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Anti-takeover provisions could impede or discourage a third party acquisition.

We are a Delaware corporation and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of our company, even if a change in control would be beneficial to our existing stockholders. In addition, our board of directors has the power, without stockholder approval, to designate the terms of one or more series of preferred stock and issue shares of preferred stock, which could be used defensively if a takeover is threatened. We also have adopted a Rights Agreement, commonly known as a "poison pill," that entitles our stockholders to acquire additional shares of our common stock, or a potential acquirer of our company, at a substantial discount from their market value in the event of an attempted takeover, unless such stockholders' rights are earlier redeemed or exchanged by us in the discretion of our board of directors. Our by-laws provide for a classified board of directors serving staggered three-year terms and restrictions on who may call a special meeting of stockholders, and our certificate of incorporation prohibits stockholder action by written consent. The indentures governing our outstanding notes and public debt require that we offer to repurchase such debt or notes upon a change of control. Lastly, all options issued under our stock option plans automatically vest upon a change of control. Our incorporation under Delaware law, our board of directors' ability to create and issue a new series of preferred stock, the acceleration of the vesting of options, the existence of our Rights Agreement, the requirement to repurchase senior notes and the notes, and certain provisions of our certificate of incorporation or by-laws could impede a merger, takeover or other business combination involving our company or discourage a potential acquirer from making a tender offer for our common stock, which, under certain circumstances, could reduce the market value of our common stock. See "Description of Capital Stock Takeover Protections."

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USE OF PROCEEDS

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

DIVIDEND POLICY

We have not paid any cash dividends on our common stock to date. The payment of dividends, if any, in the future is within the discretion of our board of directors and will depend on our earnings, capital requirements and financial condition. Dividends are also restricted by certain of the indentures governing our outstanding senior notes and may be restricted by other credit arrangements entered into in the future. Our board of directors presently intends to retain all earnings, if any, for use in our business operations, and accordingly, our board of directors does not expect to declare or pay any dividends in the foreseeable future.

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SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with our consolidated and consolidated condensed financial statements, the notes thereto, and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in documents incorporated by reference into this prospectus. The statement of operations data for the years ended December 31, 1998, 1999, 2000, 2001 and 2002 and the balance sheet data as of December 31, 1998, 1999, 2000, 2001 and 2002 have been derived from our consolidated financial statements, which have been audited by Deloitte & Touche LLP, independent auditors. The statement of operations data for the six months ended June 30, 2002 and 2003, and the balance sheet data as of June 30, 2002 and 2003, have been derived from the unaudited consolidated condensed financial statements which, in management's opinion, include all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the information set forth therein. You should not rely on interim results as being indicative of results we may expect for the full year.

Year Ended December 31,

**Six Months Ended
June 30,**

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	Year Ended December 31,					Six Months Ended June 30,	
	1998	1999	2000	2001	2002	2002	2003
(in thousands, except per share amounts)							
Statement of Operations Data:							
Net revenue	\$ 421,628	\$ 832,739	\$ 1,199,422	\$ 1,082,475	\$ 1,024,056	\$ 495,911	\$ 620,683
Cost of revenue	353,016	624,599	861,181	767,841	668,643	327,462	386,386
Gross margin	68,612	208,140	338,241	314,634	355,413	168,449	234,297
Operating expenses							
Selling, general and administrative	79,532	199,581	330,411	303,026	254,152	123,514	166,866
Depreciation and amortization	24,185	54,957	120,695	157,596	82,239	39,971	41,553
Loss on sale of assets							804
Asset impairment write-down				526,309	22,337	337	537
Total operating expenses	103,717	254,538	451,106	986,931	358,728	163,822	209,760
Income (loss) from operations	(35,105)	(46,398)	(112,865)	(672,297)	(3,315)	4,627	24,537
Interest expense	(40,047)	(79,629)	(132,137)	(100,700)	(68,303)	(34,523)	(29,999)
Gain on early extinguishment of debt			40,952	491,771	36,675	27,251	14,634
Interest income and other income (expense)	11,504	13,395	30,743	(17,951)	(771)	875	200
Foreign currency transaction gain (loss)		(104)	(1,357)	(1,999)	8,486	282	24,818
Income (loss) before income taxes	(63,648)	(112,736)	(174,664)	(301,176)	(27,228)	(1,488)	34,190
Income tax benefit (expense)				(5,000)	3,598	10,668	(2,953)
Income (loss) before cumulative effect of change in accounting principle	(63,648)	(112,736)	(174,664)	(306,176)	(23,630)	9,180	31,237
Cumulative effect of change in accounting principle					(10,973)	(10,973)	
Net income (loss)	(63,648)	(112,736)	(174,664)	(306,176)	(34,603)	(1,793)	31,237
Accreted and deemed dividend on convertible preferred stock							(1,678)
Income (loss) attributable to common stockholders	\$ (63,648)	\$ (112,736)	\$ (174,664)	\$ (306,176)	\$ (34,603)	\$ (1,793)	\$ 29,559
Basic income (loss) per common share	\$ (2.61)	\$ (3.72)	\$ (4.40)	\$ (5.73)	\$ (0.54)	\$ (0.03)	\$ 0.35
Diluted income (loss) per common share	\$ (2.61)	\$ (3.72)	\$ (4.40)	\$ (5.73)	\$ (0.54)	\$ (0.03)	\$ 0.34
Weighted average shares outstanding:							
Basic	24,432	30,323	39,691	53,423	64,631	64,367	85,332
Diluted	24,432	30,323	39,691	53,423	64,631	64,367	87,572

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	Year Ended December 31,					Six Months Ended June 30,	
	1998	1999	2000	2001	2002	2002	2003

Year Ended December 31,

Six Months Ended
June 30,

(in thousands, except ratios)

Geographic
Data
Net revenue: