

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

OR

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

COMMISSION FILE NO. 0-29-092

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.)

22102
(ZIP CODE)

1700 OLD MEADOW ROAD SUITE 300
MCLEAN, VA
(ADDRESS OF PRINCIPAL EXECUTIVE
OFFICES)

(703) 902-2800
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
NONE	N/A

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
COMMON STOCK

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 X 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, INC. HELD 14,202,148
SHARES OF COMMON STOCK AS OF FEBRUARY 28, 1998. THE FAIR MARKET VALUE OF THE
STOCK HELD BY NON-AFFILIATES IS \$369,255,848 BASED ON THE SALE PRICE OF THE
SHARES ON FEBRUARY 28, 1998.

AS OF FEBRUARY 28, 1998, 19,749,170 SHARES OF COMMON STOCK, PAR VALUE \$.01,
WERE OUTSTANDING.

DOCUMENTS INCORPORATED BY REFERENCE:

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.

PART I

ITEM 1. BUSINESS

GENERAL

Primus Telecommunications Group, Inc. ("Primus" or the "Company"), organized in 1994, is a global telecommunications company that focuses on the provision of international and domestic long distance telecommunication services. The Company is capitalizing on the increasing business and residential demand for international telecommunications services as a result of the globalization of the world's economies and the worldwide trend toward deregulation of the telecommunications sector. The Company has targeted North America, Asia-Pacific, Europe and, most recently, with the pending acquisition of TresCom International, Inc. ("TresCom"), the Caribbean, Central and South America, as its primary service regions. The Company currently provides services in the United States, Canada, Mexico, Australia, Japan and the United Kingdom. The Company expects to continue to expand into additional countries as worldwide deregulation continues and the Company is permitted to offer a full range of switched public telephone services in those countries. See "--Acquisitions."

The Company targets, on a retail basis, small- and medium-sized businesses and ethnic residential customers with significant international long distance traffic and, on a wholesale basis, other telecommunications carriers and resellers with international traffic. The Company provides a broad array of competitively priced telecommunications services, including international long distance, domestic long distance, international and domestic private networks, reorigination services, prepaid and calling cards and toll-free services, as well as local and cellular services in Australia. The Company markets its services through a variety of channels, including direct sales, independent agents, and direct marketing.

NORTH AMERICA

In the United States, Primus Telecommunications, Inc., provides long distance services to small- and medium-sized businesses, residential customers, and other telecommunication carriers. The Company maintains offices in McLean, Virginia, New York City, Los Angeles, and Tampa. The Company operates international gateway telephone switches in the New York City area, Washington D.C. and Los Angeles which are connected with European and Asia-Pacific countries through owned and leased international fiber cable systems. The Company maintains a direct sales organization in these cities to sell to business customers, and has a telemarketing center for small business sales in Tampa. To reach residential customers, Primus advertises nationally in ethnic newspapers and other publications, offering discounted rates for international calls to targeted countries. Primus also utilizes independent agents to reach and enhance sales to both business and residential customers. Primus has established a direct sales force for marketing wholesale services to other long distance carriers who utilize the Primus global intelligent network to transmit international calls from the U.S. Primus maintains a national customer service center in McLean staffed with multi-lingual representatives. Primus also operates a global Network Management Center in McLean that monitors the Primus global intelligent network.

In Canada, Primus Canada provides long distance services to small- and medium-sized businesses, residential customers, and other telecommunication carriers. Primus Canada operates switches in Toronto and Vancouver, maintains points-of-presence in Ottawa, Montreal, Calgary, and has sales and customer service offices in Vancouver, Toronto, and Montreal.

The Company currently has approximately 12,000 business customers and 31,000 residential customers in North America.

ASIA-PACIFIC

Primus' Australian operation, as a result of the 1996 acquisition of Axicorp Pty., Ltd. ("Axicorp"), is the fourth largest long distance company in Australia providing domestic and international long distance services, as well as local and cellular service on a resale basis, to small- and medium-sized business customers and ethnic residential customers. Primus has invested substantial resources over the past two years to build a domestic and international long distance network to transform its Australian operations into a full facilities-based telecommunication carrier. During 1997, the Company installed and began operating a five-city switched network

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using Northern Telecom switches in Sydney, Melbourne, Perth, Adelaide, and Brisbane. The Company purchased international fiber cable capacity during 1997 and has linked the Australian network to the United States via the TPC-5, APCN, and Jassaurus cable systems, as well as to New Zealand. Primus Australia became a fully licensed facilities-based telecommunications carrier on July 1, 1997. In August 1997, equal access was introduced in Australia, and Primus began the process of migrating and connecting customers directly to its own network. Primus markets its 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. The Company currently has approximately 17,000 business customers and 90,000 residential customers in Australia.

Primus also entered the Japanese market in late 1997 through the acquisition of Telepassport Network KK. Primus maintains an office in downtown Tokyo and a switching platform to provide international calling services to resellers and small businesses. Primus has applied for a full Class-I carrier license in Japan which it expects to be awarded during 1998. Primus has interconnected its Tokyo switch to Los Angeles via the TPC-5 fiber cable system.

EUROPE

Primus Telecommunications, Ltd. is a fully licensed carrier in the United Kingdom and provides national and international long distance services to residential customers, small businesses, and other telecommunication carriers. Primus operates an Ericsson AXE-10 international gateway telephone switch in London, which is connected to the United States as well as other European countries via owned and leased international fiber optic cable capacity. Primus' European operations are headquartered in London and maintain a 24-hour customer service call center. Primus markets its services in the United Kingdom using a combination of direct sales, agents, and direct media advertising to primarily ethnic customers who make a higher than average percentage of international calls. During 1997, Primus expanded its European customer and revenue base to include small- and medium-sized business customers and other telecommunication carrier wholesale customers through expansion of its direct sales force as well as agent channels. Primus Telecommunications, Ltd. currently has approximately 25,000 residential customers using its service. Primus is in the process of expanding its services and network to continental Europe which has recently begun the process of deregulation of its telecommunications markets.

Primus was recently awarded a Class-4 switched voice telephone license in Germany. The Company has opened its first sales office in Frankfurt, and has purchased an Ericsson AXE-10 international gateway switch which is currently being installed. Primus has also applied for a license and expects to begin operations in France during 1998.

PRIMUS STRATEGY

The Company's objective is to become a leading global provider of international and domestic long distance voice, data and value-added services. Key elements of Primus' strategy include:

- . Focus on Customers with Significant International Long Distance Usage. The Company's primary focus is providing telecommunications services to small- and medium-sized businesses with significant international long distance traffic, to ethnic residential customers and, on a wholesale basis, to other telecommunications carriers and resellers with international traffic. The Company believes that the international long distance market offers an attractive business opportunity given its size and, as compared to the domestic long distance market, its higher revenue

per minute, gross margin and expected growth rate.

- . Pursue Early Entry into Selected Deregulating Markets. Primus seeks to be an early entrant into selected deregulating telecommunications markets where it believes there is significant demand for international long distance services, substantial growth and profit potential, and the opportunity to establish a customer base and achieve name recognition. The Company focuses its expansion efforts on major metropolitan areas with a high concentration of customers with international traffic.

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- . Implement Intelligent International Network. The Company expects that continued strategic development of its global intelligent network (the "Network") will lead to reduced transmission and other operating costs as a percentage of net revenue, reduced reliance on other carriers and more efficient network utilization. The Company owns and operates its own switching facilities, and purchases international fiber optic cable capacity on an end to end basis when current and expected traffic levels justify such investment.
- . Deliver Quality Services at Competitive Prices. The Company intends to maintain a low-cost structure in order to offer its customers international and domestic long distance services priced below that of its major competitors. In addition, the Company intends to continue to maintain strong customer relationships through the use of trained and experienced sales and service representatives.
- . Provide a Comprehensive Package of Services. The Company seeks to provide a comprehensive package of services to create "one-stop shopping" for its targeted customers' telecommunications needs, particularly for small- and medium-sized businesses and ethnic residential customers that prefer a full service telecommunications provider.
- . Growth through Selected Acquisitions. As part of its business strategy, the Company frequently evaluates potential acquisitions, joint ventures and strategic alliances. The Company views acquisitions as a means to enter additional markets and expand its operations within existing markets. The Company's acquisition criteria include long-distance service providers with an established customer base, complementary operations, licenses to operate as an international carrier, an experienced management team, and businesses in countries into which the Company seeks to enter.

SERVICES

Primus offers a broad array of telecommunications services through its own global intelligent network and through interconnection with the networks of other carriers.

The Company offers the following services:

International and Domestic Long Distance. The Company provides international long distance voice services to over 200 countries and provides domestic long distance voice services within each country. Access methods required to originate a call vary according to regulatory requirements and the existing domestic telecommunications infrastructure.

Private Network Services. For business customers, the Company designs and implements international private network services that may be used for voice, data and video applications.

Toll-free Services. The Company offers domestic and international toll-free services.

Prepaid and Calling Cards. The Company offers prepaid and calling cards that may be used by customers for domestic and international telephone calls both within and outside of their home country. With the Company's prepaid card service, a customer purchases a card that entitles the customer to make phone calls on the card up to a predetermined monetary limit.

Reorigination Services. In selected countries, the Company provides call reorigination services which allow country to country calling to originate

from the United States, thereby taking advantage of lower United States accounting rates.

Cellular Services. The Company resells Telstra analog and digital cellular services in Australia.

Local Switched Services. The Company will provide in the future local service on a resale basis as part of its "one-stop shopping" marketing approach, subject to commercial feasibility and regulatory limitations. The Company currently provides local service in Australia.

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NETWORK

The Company believes that the continued strategic development of its Network will lead to reduced transmission and other operating costs as a percentage of net revenue and reduced reliance on other carriers. The Network consists of international and domestic switches and points of presence, and a combination of owned undersea fiber optic cable, leased facilities, resale arrangements, and correspondent agreements.

The Network currently is comprised of 11 switches, including 7 international gateway switches in Washington, D.C., New York, Los Angeles, Toronto Vancouver, London, and Sydney, and additional domestic switches in Melbourne, Brisbane, Perth and Adelaide. The Company is currently installing an additional international gateway switch in Frankfurt, Germany. These international gateway switches are connected to the domestic and international networks of both the Company and other carriers in each country.

The Company owns and leases international fiber optic cable capacity. The Company currently has capacity via ownership and indefeasible rights of use on the TAT 12/13, CANTAT, TPC-5, APCN, Jassaurus, and intra-Europe fiber optic cable systems.

CUSTOMERS

The Company's primary focus is providing telecommunications services, on a retail basis, to small- and medium-sized businesses with significant international long distance traffic and ethnic residential consumers and, on a wholesale basis, other carriers and resellers with international traffic.

Businesses. The Company's business sales and marketing efforts target small- and medium-sized businesses with significant international long distance traffic. The Company believes that these users are attracted to Primus primarily due to its price savings compared to first-tier carriers and, secondarily, its personalized approach to customer service and support, including customized billing and bundled service offerings.

Residential Consumers. The Company's residential sales and marketing strategy targets ethnic residential consumers who generate high international traffic volumes. The Company believes that they are attracted to Primus because of price savings as compared to first-tier carriers, simplified pricing structure, and multilingual customer service and support.

Telecommunications Carriers and Resellers. The Company competes 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 the Company maximize the utilization of the Network and thereby reduce the Company's fixed costs per minute of use.

SALES AND MARKETING

The Company markets its services through a variety of sales channels, as summarized below:

Direct Sales Force. The Company's direct sales force is comprised of full-time employees who focus on small- to medium-sized business customers with substantial international traffic or traffic potential. The Company also employs 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.

The Company's direct sales efforts are organized into regional sales offices. The Company currently has offices in Washington, D.C., New York City, Los Angeles, Tampa, Toronto, Vancouver, Montreal, Mexico City, London, Frankfurt, Melbourne, Sydney, Adelaide, Brisbane, Perth and Tokyo.

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Agents and Independent Sales Representatives. The Company supplements its direct sales efforts with agents and independent sales representatives. These agents and representatives, who typically focus on small- and medium-sized businesses, as well as ethnic residential consumers, are paid commissions based on long distance revenue generated.

Telemarketing. The Company employs full-time telemarketing sales personnel to supplement sales efforts to ethnic residential consumers and small- and medium-sized business customers.

Media and Direct Mail. The Company uses a variety of print, television and radio advertising to increase name recognition and generate new customers. The Company reaches ethnic residential consumers by print advertising campaigns in ethnic newspapers, and advertising on select radio and television programs.

COMPETITION

The international telecommunications 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. The Company believes 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, the Company has numerous competitors. The Company believes that as the international telecommunications 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 calls in the markets in which the Company competes have declined historically and are likely to continue to decrease. Many of the competitors are significantly larger, have substantially greater financial, technical and marketing resources and larger networks than the Company.

North America. In the United States, which is the most competitive and among the most deregulated long distance markets in the world, competition 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, Sprint and WorldCom being the next largest providers. In the future, under provisions of recently enacted federal legislation, the Company anticipates that it will also compete with Regional Bell Operating Companies ("RBOCs"), Local Exchange Carriers ("LECs") and Internet providers in providing domestic and international long-distance services.

Asia-Pacific. Australia is one of the most deregulated and competitive telecommunications markets in the Asia-Pacific region. The Company's principal competitors in Australia are Telstra, the dominant carrier, Optus and AAPT and a number of other switchless resellers. The Company believes that competition in Australia will increase as more companies are awarded carrier licenses in the future.

Europe. The Company's principal competitors in the United Kingdom are British Telecom, the dominant supplier of telecommunications services in the United Kingdom, and Mercury, a subsidiary of Cable & Wireless. The Company also faces competition from other licensed public telephone operators that are constructing their own facilities-based networks, cable companies and switch-based resellers.

GOVERNMENT REGULATION

As a global telecommunications company, Primus is subject to varying degrees of regulation in each of the jurisdictions in which it provides its services. Regulation of the telecommunication marketplace within each country in which the company operates can have a significant impact in the Company's ability to operate and grow.

United States. In the United States, the Company's services are subject to the provisions of the Communications Act of 1934, as amended by the 1996 Telecommunications Act (the "Communications Act"),

and by the Federal Communications Commission ("FCC") regulations thereunder, as well as the applicable laws and regulations of the various states.

As a carrier offering services to the public, the Company 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. The Company is classified as a non-dominant common carrier for domestic service and is not required to obtain specific prior FCC approval to initiate or expand domestic interstate services.

International common carriers, including the Company, 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 their international telecommunications services. The Company has 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.

In addition to the general common carrier principles, the Company must conduct its international business in compliance with the FCC's international settlements policy ("ISP"), the rules that establish the permissible boundaries for U.S.-based carriers and their foreign correspondents to settle the cost of terminating each other's traffic over their respective networks. The Company intends, where possible, to take advantage of lowered accounting rates and flexible arrangements. The Company cannot predict how the FCC will resolve pending international policy issues or how such resolutions will affect its international business.

The Company's intrastate long distance operations are subject to various state laws and regulations including, in most jurisdictions, certification and tariff filing requirements. The Company has received the necessary certificate and tariff approvals to provide intrastate long distance service in 48 states. The Company is subject to a variety of tariffing, filing, and reporting requirements imposed on authorized carriers by state public service commissions ("PSCs"). PSCs also regulate access charges and other pricing for telecommunications services within each state. The RBOCs and other local exchange carriers have been seeking reduction of state regulatory requirements, including greater pricing flexibility which, if granted, could subject the Company to increased price competition.

Regulation of the telecommunications industry is changing rapidly both domestically and globally. The FCC is considering a number of international service issues in the context of several policy rulemaking proceedings and in response to specific petitions and applications filed by other international carriers. The Company is unable to predict how the FCC will resolve the pending international policy issues or how such resolution will affect its international business. In addition, the World Trade Organization during 1997 reached a 69-nation agreement on telecommunications services, which reflects efforts to dismantle government-owned telecommunications monopolies throughout Europe and Asia. Although the Company believes that these deregulation efforts will create opportunities for new entrants in the telecommunications service industry, there can be no assurance that the agreement will be implemented in a manner that would benefit the Company.

Canada. Telecommunications carriers are regulated generally by the Canadian Radio-Television and Telecommunications Commission ("CRTC") which has enacted policies and regulations that include the establishment of contribution charges (the equivalent of access charges in the United States), deregulation of the international segment of the long distance market, limitations on switched hubbing, international simple resale ("ISR") and foreign ownership rules for facilities-based carriers. Canada is expected to eliminate many of these regulatory restrictions by October 1998. Teleglobe Canada, Inc. ("Teleglobe"), which currently has a monopoly over international services until October 1, 1998, offers international carrier service on a nondiscriminatory basis to both facilities-based carriers and resellers, who may have direct access to its international gateways. The Company is not permitted to provide international services other than transborder service to the United States. The Company is also permitted to provide ISR of private leased lines to carry switched traffic to certain countries, such as the

United States, the United Kingdom, Australia, New Zealand and Sweden on a reciprocal basis. Despite these restrictions, Primus as a reseller is virtually unregulated by the CRTC. Primus is a registered

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reseller in Canada and, as such, is authorized to provide resold Canadian long distance service without rate, price or tariff regulation, ownership limitations, or other regulatory requirements.

Australia. The provision of the Company's services is subject to federal regulation. Two primary instruments of regulation have been the Telecommunications Act 1991 and federal regulation of anti-competitive practices pursuant to the Trade Practices Act 1974. The regulatory climate changed in July 1997 with the implementation of the Telecommunications Act 1997 (the "Telecom Act"). These latest changes to the regulatory framework have been described by the Australian Government as the achievement of the Government's long term objective of an internationally competitive telecommunications industry in Australia through full and open competition.

In connection with the Telecom Act, the Company became one of five licensed carriers permitted to own and operate transmission facilities in Australia. Under the new regulatory framework, the Company does not require a carriage license in order to supply carriage services to the public using network facilities owned by another carrier. Instead, with respect to carriage services, the Company must comply with legislated "service provider" rules contained in the Telecom Act covering matters such as compliance with the Telecom Act, operator services, regulation of access, directory assistance, provision of information to allow maintenance of an integrated public number database, and itemized billing.

Also, in connection with the Telecom Act, two federal regulatory authorities now 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. The Company will be required to comply with the terms of its own licenses, will be subject to the greater controls applicable to licensed facilities-based carriers and will be under the regulatory control of the ACA and the ACCC.

United Kingdom. The Company's services are subject to the provisions of the United Kingdom Telecommunications Act of 1984. The Secretary of State for Trade and Industry, acting on the advice of the United Kingdom Department of Trade and Industry (the "DTI") is responsible for granting United Kingdom telecommunications licenses, while the Director General of Telecommunications and the Office of Telecommunications ("OfTel") are responsible for enforcing the terms of such licenses. OfTel attempts to promote effective competition both in networks and in services to redress anti-competitive behavior. OfTel has imposed mandatory rate reductions on British Telecom in the past, which reductions are expected to continue for the foreseeable future, and this has had, and may continue to have, the effect of reducing the prices the Company can charge its customers.

ACQUISITIONS

On March 8, 1998 the Company purchased a controlling interest in Hotkey Internet Services Pty., Ltd. ("Hotkey"), a Melbourne, Australia based internet service provider. The Company's 60% ownership of Hotkey was purchased for approximately \$1.3 million. Prior to the Company's investment in Hotkey, Primus' chairman, K. Paul Singh, owned approximately 14% of Hotkey. As a result of the transaction Mr. Singh owns 4% of Hotkey.

On February 4, 1998 the Company entered into an Agreement and Plan of Merger ("the Agreement") with TresCom, a facilities-based international telecommunications provider specializing in traffic to the Caribbean and Central and South America. The Agreement calls for Primus to acquire all of the approximately 12.5 million outstanding shares of TresCom at a value of \$10 per share, subject to certain potential adjustments, through the exchange of newly issued shares of Primus' common stock. The transaction is subject to, among other things, the approval of both Primus and TresCom stockholders and certain regulatory authorities.

On October 20, 1997 the Company completed the acquisition of the equity and ownership interests of Telepassport L.L.C. ("Telepassport") and substantially all of the assets of USFI, Inc. ("USFI") for a purchase price of \$11.5 million in cash. Telepassport and USFI were under common control and engaged in the business of providing international and domestic long distance and reorigination services in Europe, Asia, and South Africa. Operations included a customer base in Germany and a wholly owned facilities-based carrier in Japan.

On April 8, 1997 the Company acquired the assets of Cam-Net Communications Network, Inc. and its subsidiaries ("Cam-Net"), a Canadian provider of international and domestic long distance services, for approximately \$5 million in cash. Cam-Net had a Canadian customer base in excess of 20,000 and switching facilities in Vancouver and Toronto.

EMPLOYEES

The following table summarizes the number of full-time employees of the Company as of December 31, 1997, by region and classification:

	NORTH AMERICA	ASIA- PACIFIC	EUROPE	TOTAL
	-----	-----	-----	-----
Management and Administrative.....	47	32	10	89
Sales and Marketing.....	77	81	35	193
Customer Service and Support.....	31	37	31	99
Technical.....	53	60	10	123
	---	---	---	---
Total.....	208	210	86	504
	===	===	===	===

The Company has never experienced a work stoppage, and none of its employees is represented by a labor union or covered by a collective bargaining agreement. The Company considers its employee relations to be excellent.

ITEM 2. PROPERTIES

The Company currently leases its corporate headquarters which is located in McLean, Virginia. Additionally, the Company also leases administrative, technical and sales office space in Washington, D.C., the New York City metropolitan area, Los Angeles and Tampa in the United States; Melbourne, Sydney, Brisbane, Perth and Adelaide in Australia; London in the United Kingdom; Vancouver, Toronto and Montreal in Canada; Tokyo in Japan; Mexico City in Mexico; and Frankfurt in Germany. Total leased space approximates 130,000 square feet and the total annual lease costs are approximately \$2.9 million. The operating leases expire at various times through 2006.

Certain communications equipment which includes network switches and transmission lines are leased through operating and capital leases.

Management believes that the Company's present administrative and sales office facilities are adequate for its anticipated operations and that similar space can readily be obtained as needed. The Company believes the current leased facilities to house the communications equipment are adequate. However, as the Company's network of switches grows, the Company expects to lease additional locations to house the new equipment.

ITEM 3. LEGAL PROCEEDINGS

The Company is from time to time involved in litigation incidental to the conduct of its business. The Company believes the outcome of pending legal proceedings to which the Company is a party will not have a material adverse effect on the Company's business, financial condition, results of operations, or cash flows.

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

Previously filed with the Company's Form 10-Q for the period ended September

PART II

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

COMMON STOCK

The Company's Common Stock, par value \$.01 per share (the "Common Stock"), commenced trading on the Nasdaq Stock Market on November 7, 1996 under the symbol "PRTL". Prior to that date there was no established public trading market for the Common Stock. The following table sets forth, for the period indicated, the high and low sales prices of the Company's Common Stock.

PERIOD -----	HIGH ----	LOW ----
1996		
November 7, 1996 through December 31, 1996.....	\$14 5/8	\$10 1/2
1997		
1st Quarter.....	\$ 17	\$ 7 3/8
2nd Quarter.....	\$11 1/8	\$ 7 1/8
3rd Quarter.....	\$10 5/8	\$ 7 5/8
4th Quarter.....	\$16 5/8	\$ 10

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 indenture, 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.

HOLDERS

As of February 28, 1998, the Company had approximately 282 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 October 1, 1997, 1,842,941 shares of Common Stock were issued pursuant to the exercise of warrants which previously had been issued in connection with a \$16 million private equity sale in July 1996. Such Common Stock was issued to a limited group of institutional investors in reliance upon Section 4(2) of the Securities Act of 1933 as a transaction not involving a public offering. The Company received approximately \$1.5 million in connection with such warrant exercise. No commissions were paid to any underwriter, broker or dealer in connection with such issuance.

ITEM 6. SELECTED FINANCIAL DATA

The following sets forth selected financial data of the Company for the years ended December 31, 1997, 1996, 1995 and from inception to December 31, 1994 as derived from the historical financial statements of the Company.

FOR THE PERIOD ENDED

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1997	1996	1995	1994

 (IN THOUSANDS EXCEPT PER SHARE
 DATA)

STATEMENT OF OPERATIONS DATA:

Net revenue.....	\$280,197	\$172,972	\$ 1,167	\$ 0
Gross margin (deficit).....	\$ 27,466	\$ 14,127	\$ (217)	\$ 0
Selling, general, administrative expenses.	\$ 50,622	\$ 20,114	\$ 2,024	\$ 557
Loss from operations.....	\$(29,889)	\$(8,151)	\$(2,401)	\$(569)
Net loss.....	\$(36,239)	\$(8,764)	\$(2,425)	\$(577)
Basic and diluted net loss per share.....	\$ (1.99)	\$ (0.75)	\$ (0.48)	\$(0.22)

BALANCE SHEET DATA:

(As of December 31)

Total assets.....	\$358,013	\$140,560	\$ 5,042	\$ 487
Total long term obligations.....	\$231,211	\$ 17,248	\$ 528	\$ 13
Total stockholders' equity (deficit).....	\$ 42,526	\$ 76,440	\$ 2,562	\$ (71)

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

Primus is a global telecommunications company that focuses on the provision of international and domestic long distance telecommunications services. The Company is capitalizing on the increasing business and residential demand for international telecommunication services as a result of the globalization of the world's economies and the worldwide trend toward deregulation of the telecommunication sector. The Company has targeted North America, Asia-Pacific, Europe and, most recently, with the pending acquisition of TresCom, the Caribbean and Central and South America, as its primary service regions. The Company currently provides services in the United States, Canada, Mexico, Australia, Japan and the United Kingdom. The Company expects to continue to expand into additional countries as worldwide deregulation continues and the Company is permitted to offer a full range of switched public telephone service in those countries.

Net revenue is earned based on the number of minutes billed by the Company and is recorded upon completion of a call. The Company generally prices its services at a savings compared to the major carriers operating in the Company's service regions. The Company's net revenue in North America is derived from carrying a mix of business, consumer and wholesale carrier long distance traffic. In Asia-Pacific, net revenue is derived from the provision of long distance services and from the provision of local and cellular services, primarily to small- and medium-sized businesses and residential customers. In Europe, net revenue is derived from the provision of long distance services to ethnic residential consumers, small- and medium-sized businesses and to wholesale carriers.

Cost of revenue is comprised of costs incurred from other domestic and foreign telecommunications carriers to access, transport and terminate calls. The majority of the Company's cost of revenue is variable, based upon the number of minutes of use, with transmission and termination costs being the Company's most significant expense. As the Company increases the portion of traffic transmitted over its own facilities, cost of revenue increasingly will be comprised of fixed lease costs.

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 may have a significant effect on the Company's results of operations. The Company historically has not engaged in hedging transactions.

OTHER OPERATING DATA

The following information for the year ended December 31, 1997 (in thousands), is provided for informational purposes and should be read in conjunction with the Consolidated Financial Statements and Notes.

	NET REVENUE	MINUTES OF LONG DISTANCE USE		
		INTERNATIONAL	DOMESTIC	TOTAL
North America.....	\$ 74,359	196,562	59,628	256,190
Asia-Pacific.....	183,126	39,394	243,825	283,219
United Kingdom.....	22,712	36,639	26,907	63,546
	-----	-----	-----	-----
Total.....	\$280,197	272,595	330,360	602,955
	=====	=====	=====	=====

Results of operations for the year ended December 31, 1997 as compared to the year ended December 31, 1996

Net revenue increased \$107.2 million or 62%, from \$173.0 million for the year ended December 31, 1996 to \$280.2 million for the year ended December 31, 1997. Of the increase, \$57.8 million was associated with the Company's North American operations and reflects a growth rate in excess of 300%. The growth is a result of increased traffic volumes in wholesale carrier operations and, to a lesser extent, in ethnic residential and business customer traffic. Additionally, the purchases of the Company's Canadian operations in April 1997 and those of Telepassport/USFI in October 1997 contributed to the year-over-year net revenue growth. The Asia-Pacific operations contributed \$31.9 million to the year-over-year net revenue growth, resulting in part from the residential customer marketing campaigns commenced in early 1997. The 1997 results also reflect a full year of the Australian operations as compared to ten months in 1996 as a result of the March 1, 1996 acquisition of these operations. The Asia-Pacific net revenue growth was negatively impacted by weakness in the Australian dollar during 1997 as compared to 1996. The remaining net revenue growth of \$17.6 million, a year-over-year growth rate in excess of 300%, came from the European operations as a result of expansion into the wholesale carrier marketplace during the third quarter of 1997 and continued growth in the ethnic residential and business marketplaces.

Cost of revenue increased \$93.9 million, from \$158.8 million, or 91.8% of net revenue, for the year ended December 31, 1996 to \$252.7 million, or 90.2% of net revenue, for the year ended December 31, 1997. The increase in the cost of revenue is a direct reflection of the increase in traffic volumes. The decrease in the cost of revenue as a percentage of net revenue reflects the investments made by the Company in its global intelligent network and the associated migration of customer traffic onto the Network, particularly in Australia with the advent of equal access in the second half of 1997.

Selling, general and administrative expenses increased \$30.5 million, from \$20.1 million to \$50.6 million for the year ended December 31, 1997, as compared to the year ended December 31, 1996. The increase is attributable to the hiring of additional sales and marketing staff, and operations and engineering personnel to operate the Company's global network; the addition of the Canadian and Telepassport/USFI operations; a full year of the Company's Australian operations versus ten months in the prior year; and increased advertising and promotional expenses associated with the Company's residential marketing campaigns.

Depreciation and amortization increased from \$2.2 million for the year ended December 31, 1996 to \$6.7 million for the year ended December 31, 1997. The majority of the increase is associated with capital expenditures for international fiber, telephone switches and related transmission equipment being placed into service. Additionally, amortization expense increased as a result of the additional intangible assets associated with the Company's acquisitions during 1997.

Interest expense increased from \$0.9 million for the year ended December 31, 1996 to \$12.9 million for the year ended December 31, 1997. The increase is attributable to the interest expense associated with the Company's \$225 million senior notes.

Interest income increased from \$0.8 million for the year ended December 31, 1996 to \$6.2 million for the year ended December 31, 1997. The increase is due to investment of the proceeds from the Company's senior notes offering and its

initial public equity offering.

Other income (expense) for the years ended December 31, 1997 and 1996 is the result of foreign currency transaction gains/losses on Australian dollar-denominated debt incurred by the Company for its acquisition of Axicorp, due to the fluctuations of the Australian dollar against the United States dollar during the year. This debt was paid in full during 1997.

Income taxes were attributable to the operations of the Company's United Kingdom and Australian subsidiaries.

Results of operations for the year ended December 31, 1996 as compared to the year ended December 31, 1995

Net revenue increased \$171.8 million, from \$1.2 million for the year ended December 31, 1995 to \$173.0 million for the year ended December 31, 1996. Of the increase, \$151.3 million was associated with the Company's Australian operations, which were acquired March 1, 1996, while the remaining \$20.5 million of net revenue growth was associated primarily with the commencement and expansion of the Company's operations in the United States and the United Kingdom.

Cost of revenue increased \$157.4 million, from \$1.4 million for the year ended December 31, 1995 to \$158.8 million for the year ended December 31, 1996 as a direct result of the increase in traffic volume. Most of the Company's costs of revenue are variable, since the Company had a limited Network during this period and functioned primarily as a switchless reseller. The cost of revenue in the United States reflects the start-up nature of the network operations and traffic being carried on more expensive carriers until adequate capacity on lower cost carriers could be established.

Selling, general and administrative expenses increased \$18.1 million, from \$2.0 million to \$20.1 million for the year ended December 31, 1996 as compared to the year ended December 31, 1995. Approximately \$11.4 million of the increase was attributable to the ten months of activity associated with the Australian operations, and the remaining \$6.7 million related to the non-Australian operations was a result of increased staffing levels, increased sales and marketing activity and network operations costs. The non-Australian selling, general and administrative costs as a percentage of non-Australian net revenue for the year ended December 31, 1996 was 40%, which is reflective of the growth in the infrastructure necessary to support future non-Australian net revenues. The Australian selling, general and administrative expense as a percentage of Australian net revenue was 7.5% for the ten months ended December 31, 1996.

Depreciation and amortization increased from \$0.2 million for the year ended December 31, 1995 to \$2.2 million for the year ended December 31, 1996. The majority of the increase is a result of the acquisition of Axicorp and is comprised of amortization of goodwill and the customer list which totaled \$1.3 million. The remaining depreciation is related primarily to Axicorp's assets and increased depreciation expense for the Company as a result of additional capital expenditures for switching and network related equipment.

Other income (expense) for the year ended December 31, 1996 related to foreign currency transaction losses on the Australian dollar-denominated debt incurred by the Company payable to the sellers for its acquisition of Axicorp as a result of the appreciation of the Australian dollar against the U.S. dollar during the period.

Income taxes were primarily attributable to the operations of Axicorp for the ten months from the date of purchase, and represent the amount of expense for Australian taxes.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity requirements arise from net cash used in operating activities; purchases of network equipment including switches, related transmission equipment, and international fiber cable capacity; interest and

principal payments on outstanding indebtedness; and acquisition of businesses. The Company has financed its growth to date through an August 1997 Senior Notes and Warrants Offering, the November 1996 initial public offering and

other private placements of its common stock, and capital lease financing.

The semi-annual interest payments due under the Senior Notes are pre-funded by the restricted investments for payments through August 1, 2000.

The Company believes that its cash and cash equivalents, restricted investments, and capital lease and other financing (subject to the limitations contained in the senior notes indenture) will be sufficient to fund the Company's operating losses, debt service requirements, capital expenditures (including the expansion of the Primus Network as currently contemplated), and other working capital requirements for the combined operations for the foreseeable future. As a result of the TresCom acquisition, the Company may further expand its Network, particularly as countries in the Caribbean and Central and South America experience deregulation. Such expansion may include additions to the existing TresCom network as well as additions to the Primus Network. The Company is currently analyzing the extent of such potential Network additions, and the sources of any related financing. The Company's level of indebtedness is substantial, and the Company must increase its net cash flow in order to meet long-term debt service obligations. There can be no assurance the Company will be successful in achieving the level of net cash flow necessary to meet its long-term obligations.

YEAR 2000 COMPLIANCE

In accordance with Securities and Exchange Commission Staff Legal Bulletin No. 5, dated October 8, 1997, the Company has begun a review and assessment of the anticipated costs, problems and uncertainties associated with Year 2000 issues. The Company is implementing a Year 2000 compliance plan whereby each operating unit is responsible for identifying systems requiring modification or conversion (both internal systems and those provided by or otherwise available from outside vendors). The Company believes that Year 2000 issues will not materially affect its products, services, or competitive conditions and that its costs of addressing Year 2000 compliance will not materially impact future operating results or financial condition.

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:

Limited Operating History; Entry into Developing Markets. The Company was founded in February 1994, began generating revenue in March 1995 and acquired its operating subsidiary, Axicorp, in March 1996. The Company intends to enter markets where it has limited or no operating experience. The Company's prospects should be considered in light of risks, expenses, problems and delays inherent in establishing a new business in a rapidly changing industry.

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.

Substantial Indebtedness; Liquidity. The Company currently has substantial indebtedness and anticipates that it and its subsidiaries will incur additional indebtedness in the future. The level of the Company's indebtedness (i) could make it more difficult for it to make payments of interest on its outstanding debt; (ii) could limit the ability of the Company to obtain any necessary financing in the future for working capital, capital

expenditures, debt service requirements or other purposes; (iii) requires that a substantial portion of the Company's cash flow from operations, if any, be dedicated to the payment of

principal and interest on its indebtedness and other obligations and, accordingly, will not be available for use in its business; (iv) could limit its flexibility in planning for, or reacting to, changes in its business; (v) results in the Company being more highly leveraged than some of its competitors, which may place it at a competitive disadvantage; and (vi) will make it more vulnerable in the event of a downturn in its business.

Historical and Future Operating Losses; Negative EBITDA; Net Losses. Since inception, Primus had negative cash flow from operating activities and negative EBITDA. In addition, Primus incurred net losses in 1995, 1996, and 1997, and has an accumulated deficit of approximately \$48 million as of December 31, 1997. The Company expects to continue to incur additional operating losses, negative EBITDA and negative cash flow from operations 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 its profitability or positive cash flow from operations in any future period.

Acquisition 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 effect the acquisition (subject to the limitations contained in the Indenture) and the consequent need to service that indebtedness. 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.

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, have substantially greater financial, technical and marketing resources and larger networks than the Company, a broader portfolio of service offerings, greater control over transmission lines, stronger name recognition and customer loyalty, as well as long-standing relationships with the Company's target customers. In addition, many of the Company's competitors enjoy economies of scale that result in a lower cost structure for transmission and related costs which could cause significant pricing pressures within the industry.

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 during the summer months; and potentially adverse tax consequences.

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

using "00" as the year 1900 rather than the year 2000 and are vulnerable to the Year 2000

problem which could result in a major system failure or miscalculations. There can be no assurance that the Company will be able to successfully implement upgrades to its systems to correct any year 2000 problem. A failure of the Company's computer systems, or the failure of the Company's vendors or customers to effectively upgrade their software and systems for transition to the year 2000, could have a material adverse effect on the Company's business and financial condition or results of operations.

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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This requirement is not currently applicable to Primus.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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PART III

The information required by Part III will be provided in the Company's Registration Statement on Form S-4 (which includes its Proxy Statement for the 1998 Annual Meeting of Stockholders) (the "1998 S-4"), which will be filed pursuant to Regulation 14A not later than April 30, 1998, and is incorporated herein by this reference to the following extent.

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 of Primus" in the Company's 1998 S-4 and is incorporated herein by reference. Information relating to the executive officers of the Company is set forth in the Company's 1998 S-4 under the caption "Executive Officers and Directors of Primus" and is incorporated herein by reference.

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ITEM 11. EXECUTIVE COMPENSATION

The information regarding compensation of officers and directors of the Company is set forth under the caption entitled "Executive Compensation of Primus" in the Company's 1998 S-4 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 Management of Primus" in the Company's 1998 S-4 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 Transactions of Primus" in the Company's 1998 S-4 and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES 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 by reference.

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, 1997 was filed to announce the acquisition of the assets of USFI, Inc. and the equity and ownership interests in Telepassport L.L.C.

c) Exhibit listing

EXHIBIT

NUMBER DESCRIPTION

- | | |
|-----|--|
| 2.1 | Asset Purchase Agreement by and among USFI, Inc., Primus Telecommunications, Inc., Primus Telecommunications Group, Incorporated, and US Cable Corporation, dated as of October 20, 1997; Incorporated by reference--Exhibit 2.1 of the Company's Current Report on Form 8-K dated November 3, 1997. (The exhibits and schedules listed in the table of contents to the Asset Purchase Agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of such exhibits and schedules shall be furnished supplementally to the Securities and Exchange Commission upon request). |
| 2.2 | Equity Purchase Agreement by and among Messrs. James D. Pearson, Stephen E. Myers, Michael C. Anderson, Primus Telecommunications, |

Inc., and Primus Telecommunications Group, Incorporated dated as of October 20, 1997; Incorporated by reference--Exhibit 2.2 of the Company's Current Report on Form 8-K dated November 3, 1997. (The exhibits and schedules listed in the table of contents to the Equity Purchase Agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of such exhibits and schedules shall be furnished supplementally to the Securities and Exchange Commission upon request).

- 2.3 Agreement and Plan of Merger by and among the Company, TresCom and Taurus Acquisition Corporation, dated as of February 3, 1998; Incorporated by reference--Exhibit 2.1 of the Company's 8-K dated February 12, 1998. (The schedules referred to therein have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of such schedules shall be furnished supplementally to the Securities and Exchange Commission upon request.)
- 3.1 Amended and Restated Certificate of Incorporation; Incorporated by reference--Exhibit 3.1 of the Company's Registration Statement of Form S-1 (No. 333-10875).

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EXHIBIT

NUMBER DESCRIPTION

- 3.2 Certificate of Amendment of Certificate of Incorporation; Incorporated by reference--Exhibit 3.2 of the Company's Annual Report on Form 10-K for the year ended December 31, 1996.
- 3.3 Amended and Restated By-Laws; Incorporated by reference--Exhibit 3.2 of the Company's Registration Statement of Form S-1 (No. 333-10875).
- 4.1 Specimen Certificate of the Company's Common Stock, par value \$.01 per share; Incorporated by reference--Exhibit 4.1 of the Company's Registration Statement of Form S-1 (No. 333-10875).
- 4.2 Form of Indenture; Incorporated by reference--Exhibit 4.1 of the Company's Registration Statement of Form S-1 (No. 333-30195).
- 4.3 Form of Warrant Agreement; Incorporated by reference--Exhibit 4.2 of the Company's Registration Statement of Form S-1 (No. 333-30195).
- 10.1 Switched Transit Agreement, dated June 5, 1995, between Teleglobe USA, Inc. and the Company for the provision of services to India; Incorporated by reference--Exhibit 10.2 of the Company's Registration Statement of Form S-1 (No. 333-10875).
- 10.2 Hardpatch Transit Agreement, dated February 29, 1996, between Teleglobe USA, Inc. and the Company for the provision of services to Iran; Incorporated by reference--Exhibit 10.3 of the Company's Registration Statement of Form S-1 (No. 333-10875).
- 10.3 Agreement for Billing and Related Services, dated February 23, 1995, between the Company and Electronic Data System Inc.; Incorporated by reference--Exhibit 10.4 of the Company's Registration Statement of Form S-1 (No. 333-10875).
- 10.4 Employment Agreement, dated June 1, 1994, between the Company and K. Paul Singh; Incorporated by reference--Exhibit 10.5 of the Company's Registration Statement of Form S-1 (No. 333-10875).*
- 10.5 Primus Telecommunications Group, Incorporated Stock Option Plan-- Amended and Restated Effective March 21, 1997; Incorporated by reference to Exhibit 10.6 of the Company's Registration Statement Form S-1 (No. 333-10875).*
- 10.6 Primus Telecommunications Group, Incorporated 1995 Director Stock Option Plan; Incorporated by reference to Exhibit 10.7 of the Company's Registration Statement Form S-1 (No. 333-10875).*
- 10.7 Registration Rights Agreement, dated July 31, 1996, among the Company, Quantum Industrial Partners LDC, S-C Phoenix Holdings, L.L.C., Winston Partners II LDC and Winston Partners LLC; Incorporated by reference-- Exhibit 10.11 of the Company's Registration Statement of Form S-1 (No. 333-10875).
- 10.8 Service Provider Agreement between Telstra Corporation Limited and Axicorp Pty., Ltd. dated May 3, 1995; Incorporated by reference-- Exhibit 10.12 of the Company's Registration Statement of Form S-1 (No. 333-10875).
- 10.9 Dealer Agreement between Telstra Corporation Limited and Axicorp Pty., Ltd. dated January 8, 1996; Incorporated by reference--Exhibit 10.13 of the Company's Registration Statement of Form S-1 (No. 333-10875).

- 10.10 Hardpatch Transit Agreement dated October 5, 1995 between Teleglobe USA, Inc. and the Company for the provision of services to India; Incorporated by reference--Exhibit 10.14 of the Company's Registration Statement of Form S-1 (No. 333-10875).
- 10.11 Securities Purchase Agreement dated as of July 31, 1996 among the Company, Quantum Industrial Partners LDC, S-C Phoenix Holdings L.L.C, Winston Partners II LLC, and Winston Partners II, LDC; Incorporated by reference--Exhibit 10.15 of the Company's Registration Statement of Form S-1 (No. 333-10875).

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EXHIBIT

NUMBER DESCRIPTION

- 10.12 Primus Telecommunications Group, Incorporated Employee Stock Purchase Plan; Incorporated by reference--Exhibit 10.15 of the Company's Registration Statement Form S-1 (No. 333-30195).*
- 10.13 Primus Telecommunications Group, Incorporated 401(k) Plan; Incorporated by reference Exhibit 4.4 of the Company's Registration Statement on Form S-8 (No. 333-35005).*
- 10.14 Stockholder Agreement among Warburg, Pincus Investors, LP, K. Paul Singh and the Company, dated as of February 3, 1998; Incorporated by reference--Exhibit 10.1 of the Company's Current Report on Form 8-K dated February 12, 1998.
- 10.15 Voting Agreement between the Company and Wesley T. O'Brien, dated as of February 3, 1998; Incorporated by reference--Exhibit 10.4 of the Company's Current Report on Form 8-K dated February 12, 1998.
- 10.16 Voting Agreement between the Company and Rudy McGlasgan dated as of February 3, 1998, Incorporated by reference--Exhibit 10.5 of the Company's Current Report on Form 8-K dated February 12, 1998.
- 10.17 Master Lease Agreement dated as of November 21, 1997 between NTFC Capital Corporation and Primus Telecommunications, Inc.
- 21.1 Subsidiaries of the Registrant.
- 24.1 Power of Attorney (included on Page 19).
- 27.1 Financial Data Schedule for the Company for the year ended December 31, 1997.

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* Management Contract or compensatory benefit plan.

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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

/s/ K. Paul Singh

By: _____
K. Paul Singh
Chairman of the Board, President and
Chief Executive Officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints K. Paul Singh and Neil L. Hazard, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities to sign any and all amendments to this Form 10-K of the Securities and Exchange Commission for the fiscal year of Primus Telecommunications Group, Incorporated ended December 31, 1997, and to file the same, with all exhibits thereto, and other documents in connection therewith, with authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises as fully to all

intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or either of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

SIGNATURE	TITLE	DATE
/s/ K. Paul Singh ----- K. Paul Singh	Chairman, President and Chief Executive Officer (principal executive officer) and Director	March 18, 1998
/s/ Neil L. Hazard ----- Neil L. Hazard	Executive Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	March 18, 1998
/s/ John F. DePodesta ----- John F. DePodesta	Executive Vice President, Law and Regulatory Affairs and Director	March 18, 1998
/s/ Herman Fialkov ----- Herman Fialkov	Director	March 18, 1998
/s/ David E. Hershberg ----- David E. Hershberg	Director	March 18, 1998
/s/ John Puente ----- John Puente	Director	March 18, 1998

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors 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, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 Telecommunication Group, Incorporated and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Washington, D.C.

February 12, 1998, except for Note 15 as to which the date is March 8, 1998

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED STATEMENT OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	FOR THE YEAR ENDED		
	DECEMBER 31,		
	1997	1996	1995
NET REVENUE.....	\$280,197	\$172,972	\$1,167
COST OF REVENUE.....	252,731	158,845	1,384
GROSS MARGIN (DEFICIT).....	27,466	14,127	(217)
OPERATING EXPENSES:			
Selling, general and administrative.....	50,622	20,114	2,024
Depreciation and amortization.....	6,733	2,164	160
Total operating expenses.....	57,355	22,278	2,184
LOSS FROM OPERATIONS.....	(29,889)	(8,151)	(2,401)
INTEREST EXPENSE.....	(12,914)	(857)	(59)
INTEREST INCOME	6,238	785	35
OTHER INCOME (EXPENSE).....	407	(345)	--
LOSS BEFORE INCOME TAXES.....	(36,158)	(8,568)	(2,425)
INCOME TAXES.....	(81)	(196)	--

NET LOSS.....	\$ (36,239)	\$ (8,764)	\$ (2,425)
	=====	=====	=====
BASIC AND DILUTED NET LOSS PER SHARE.....	\$ (1.99)	\$ (0.75)	\$ (0.48)
	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING.....	18,250	11,660	5,019
	=====	=====	=====

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED BALANCE SHEET

ASSETS	DECEMBER 31, 1997	DECEMBER 31, 1996
-----	-----	-----
	(IN THOUSANDS, EXCEPT SHARE AMOUNTS)	
CURRENT ASSETS:		
Cash and cash equivalents.....	\$115,232	\$ 35,474
Restricted investments.....	22,774	--
Short-term investments.....	--	25,125
Accounts receivable (net of allowance of \$5,044 and \$2,585).....	58,172	35,217
Prepaid expenses and othe current assets.....	5,152	910
	-----	-----
Total current assets.....	201,330	96,726
RESTRICTED INVESTMENTS.....	50,776	--
PROPERTY AND EQUIPMENT--Net.....	59,241	16,596
INTANGIBLES--Net.....	33,164	21,246
DEFERRED INCOME TAXES.....	2,620	4,951
OTHER ASSETS.....	10,882	1,041
	-----	-----
TOTAL ASSETS.....	\$358,013	\$140,560
	=====	=====
 LIABILITIES AND STOCKHOLDERS' EQUITY		

CURRENT LIABILITIES:		
Accounts payable.....	\$ 56,358	\$ 32,675
Accrued expenses and other current liabilities....	12,468	7,931
Accrued interest.....	11,016	847
Deferred income taxes.....	4,434	5,419
Current portion of long-term obligations.....	1,059	10,572
	-----	-----
Total current liabilities.....	85,335	57,444
LONG TERM OBLIGATIONS.....	230,152	6,676
	-----	-----
Total liabilities.....	315,487	64,120
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value--authorized 2,455,000 shares; none issued and outstanding	--	--
Common stock, \$.01 par value--authorized 40,000,000 shares; issued and outstanding, 19,662,233 and 17,778,731 shares.....	197	178
Additional paid-in capital.....	92,181	88,106
Accumulated deficit.....	(48,005)	(11,766)
Cumulative foreign currency translation adjustment.	(1,847)	(78)
	-----	-----
Total stockholders' equity.....	42,526	76,440
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	\$358,013	\$140,560
	=====	=====

1997.....	--	\$ --	19,662	\$197	\$92,181	\$(48,005)	\$(1,847)	\$ 42,526
	====	=====	=====	=====	=====	=====	=====	=====

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED STATEMENT OF CASH FLOWS

(IN THOUSANDS)

FOR THE YEAR ENDED
DECEMBER 31,

	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss.....	\$ (36,239)	\$ (8,764)	\$ (2,425)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization.....	6,733	2,164	160
Sales allowance.....	6,185	1,960	132
Foreign currency transaction (gain) loss	(407)	345	--
Stock issuance--401(k) plan employer match....	45	--	--
Changes in assets and liabilities, net of effects of acquisitions:			
(Increase) decrease in accounts receivable...	(34,240)	(19,405)	(797)
(Increase) decrease in prepaid expenses and other current assets.....	(4,080)	(227)	(62)
(Increase) decrease in other assets.....	1,147	(1,621)	(533)
Increase (decrease) in accounts payable.....	30,247	11,729	1,195
Increase (decrease) in accrued expense and other current liabilities.....	5,000	6,032	322
Increase (decrease) in accrued interest payable.....	10,852	847	0
Net cash used in operating activities.....	(14,757)	(6,940)	(2,008)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment.....	(39,465)	(12,745)	(396)
(Purchase) sale of short-term investments.....	25,125	(25,125)	--
Purchase of restricted investments.....	(73,550)	--	--
Cash used in business acquisitions, net of cash acquired.....	(16,349)	(1,701)	--
Net cash used in investing activities.....	(104,239)	(39,571)	(396)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on capital lease.....	(529)	(112)	(64)
Principal payments on long-term obligations....	(16,352)	(396)	--
Sale of common stock, net of transaction costs.	1,514	77,576	4,543
Proceeds from long-term obligations.....	225,000	2,407	--
Deferred financing costs.....	(9,500)	--	--
Net cash provided by financing activities.	200,133	79,475	4,479
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS.....			
	(1,379)	214	--
NET INCREASE IN CASH AND CASH EQUIVALENTS.....	79,758	33,178	2,075
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD..	35,474	2,296	221
CASH AND CASH EQUIVALENTS, END OF PERIOD.....	\$ 115,232	\$ 35,474	\$ 2,296
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for interest.....	\$ 2,745	\$ 149	\$ 36
Non-cash investing and financing activities			
Common stock issued for services.....	--	\$ 990	\$ 693

Conversion of related party debt to common stock.....	--	--	\$	350
Increase in capital lease liability for acquisition of equipment.....	\$ 8,228	\$ 388	\$	578
Increase in notes payable for acquisition of equipment.....	--	\$ 2,826	--	--

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BUSINESS

Primus Telecommunications Group, Incorporated (the "Company") is a global telecommunications company that focuses on the provision of international and domestic long distance telecommunications services. Incorporated in Delaware in February 1994, the Company's customers include small-and medium-sized businesses, residential consumers and other telecommunication carriers, primarily located in North America, Asia-Pacific, and Europe. The Company operates as a holding company and has wholly-owned operating subsidiaries in the United States, Canada, Mexico, Australia, Japan, Germany and the United Kingdom. The Company intends to enter the Caribbean, and the Central and South American markets with its pending acquisition of TresCom International, Inc. ("TresCom"). See Note 15 below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation--The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Revenue Recognition--Revenues from long distance telecommunications services are recognized when the services are provided and are presented net of estimated uncollectible amounts.

Cost of Revenue--Cost of revenue includes network costs which consist of access, transport, and termination costs. 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, and income and expenses are translated at the average exchange rate during the period. The net effect of such translation gains and losses are accumulated as a separate component of stockholders' equity. Foreign currency transaction gains and losses are the primary components of Other Income (Expense) in the consolidated statement of operations.

Cash and Cash Equivalents--The Company considers cash on hand, deposits in banks, certificates of deposit, and overnight repurchase agreements with original maturities of three months or less to be cash and cash equivalents.

Restricted Investments--Restricted investments consist of United States Federal Government-backed obligations which are reflected at amortized cost. These securities are classified as held-to-maturity and are restricted to satisfy certain interest obligations on the Company's senior notes.

Short Term Investments--Highly liquid investments in United States Federal Government-backed obligations with original maturities in excess of three months are classified as available-for-sale and reported at fair value. Cost approximates fair value for all components of short-term investments; unrealized gains and losses are reflected in stockholders' equity and are not material.

Property and Equipment--Property and equipment, which consists of furniture and computer equipment, leasehold improvements, software, fiber optic cable and telecommunications equipment, is stated at cost less accumulated depreciation and amortization. Expenditures for maintenance and repairs that do not materially extend the useful lives of the assets are charged to expense. Depreciation and amortization expense is computed using the straight-

line method over the estimated useful lives of the assets which range from three to twenty-five years, or for leasehold improvements and leased equipment, over the terms of the leases, whichever is shorter.

Intangible Assets--At December 31, 1997 and 1996 intangible assets, net of accumulated amortization, consist of goodwill of \$27,848,000 and \$17,434,000, respectively, and customer lists of \$5,316,000 and \$3,812,000, respectively. Goodwill is being amortized over 30 years on a straight-line basis and customer lists

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

over the estimated run-off of the customer bases not to exceed five years. Accumulated amortization at December 31, 1997 and 1996, was \$1,152,000 and \$498,000 related to goodwill and \$1,939,000 and \$762,000 related to customer lists, respectively. The Company periodically evaluates the realizability of intangible 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 intangibles. The Company believes that no impairments of intangible assets exist as of December 31, 1997.

Deferred Financing Costs--Deferred financing costs incurred in connection with the 1997 Senior Notes and Warrants Offering are reflected within other assets on the balance sheet and are being amortized over the life of the senior notes using the straight-line method, which does not differ materially from the effective interest method.

Stock-Based Compensation--In 1996, the Company adopted Statement of Financial Accounting Standards No. 123 ("SFAS 123"), Accounting for Stock-Based Compensation. Upon adoption 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 10 pro forma disclosures of the effect on net loss and basic and diluted net 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 financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of net revenue and expenses during the reporting period. Actual results could differ from those 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.

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--During 1997, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, Earnings Per Share and has computed basic and diluted net loss per share based on the weighted average number of shares of common stock and potential common stock outstanding during the period, after giving effect to stock splits (Note 9). Potential common stock, for purposes of determining diluted net loss per share, would include, where applicable, the effects of dilutive stock options, warrants, and convertible securities, and the effect of such potential common stock would be computed using the treasury stock method or the if-converted method. None of the Company's outstanding options and warrants are considered to be dilutive.

Comparative net loss per share data have been restated for prior periods. In connection therewith, common stock, options and warrants issued within one year prior to the original filing of the Company's initial public offering (IPO) at prices below the IPO price, which had previously been considered outstanding for all periods presented even though antidilutive, have been reflected in the computations of basic and diluted net loss per share in accordance with SFAS No. 128 and Securities and Exchange Commission Staff Accounting Bulletin No. 98, issued February 3, 1998. Such common stock has been treated as outstanding only since issuance, and options and warrants have been excluded from the computations as they are considered antidilutive.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

New Accounting Pronouncements--In 1998, the Company will be required to adopt the provisions of Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income, and SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. The Company will report comprehensive income in a separate statement which will show the effects of the foreign currency translation adjustment as a component of comprehensive income. The Company believes its segment disclosures under SFAS No. 131 will be consistent with those currently presented.

Reclassifications--Certain prior year amounts have been reclassified to conform with certain current year presentation.

3. ACQUISITIONS

On October 20, 1997, the Company completed the acquisition of the equity and ownership interests in Telepassport L.L.C. ("Telepassport") for a purchase price of \$6.0 million. Additionally, on October 20, 1997, the Company purchased substantially all of the assets of USFI, Inc. ("USFI") for \$ 5.5 million. Telepassport and USFI were under common control and engaged in the business of providing international and domestic telecommunication services, including long distance and reorigination services in Europe, Asia, and South Africa. The purchase price was allocated on a preliminary basis to the net assets acquired based upon the estimated fair value of such net assets, which resulted in an allocation of \$7.75 million to goodwill.

On April 8, 1997, the Company acquired the assets of Cam-Net Communications Network, Inc. and its subsidiaries, a Canadian based provider of domestic and international long distance service. The purchase price was approximately \$5.0 million in cash.

On March 1, 1996, the Company completed the acquisition of the outstanding capital stock of Axicorp Pty., Ltd. ("Axicorp"), the fourth largest telecommunications carrier in Australia. The purchase price consisted of cash, Company stock, and seller financing. The Company paid \$5.7 million cash, including transaction costs, and issued 455,000 shares of its Series A Convertible Preferred Stock, which were subsequently converted to 1,538,355 common shares. The Company also issued two notes aggregating \$8.1 million to the sellers, both of which were repaid in full during 1997.

The Company has accounted for all of the referenced acquisitions using the purchase method. Accordingly, the results of operations of the acquired companies are included in the consolidated results of operations of the Company, as of the date of their respective acquisition.

Pro forma operating results for the years ended December 31, 1997 and 1996, as if the acquisitions of Telepassport, USFI and Axicorp had occurred as of January 1, 1996, are as follows (in thousands, except per share amounts):

	1997	1996
	-----	-----
Net revenue.....	\$300,672	\$227,311
Net loss.....	\$(44,905)	\$(17,555)

Basic and diluted net loss per share..... \$ (2.46) \$ (1.26)

The pro forma financial information is presented for informational purposes only and is not necessarily indicative of the operating results that would have occurred had the acquisitions been consummated as of the above dates, nor are they necessarily indicative of future operations.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

4. PROPERTY AND EQUIPMENT

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

	DECEMBER 31,	
	1997	1996
Network equipment.....	\$48,246	\$ 4,109
Furniture and equipment.....	9,334	1,272
Leasehold improvements.....	1,845	508
Construction in progress.....	5,147	12,008
	64,572	17,897
Less: Accumulated depreciation and amortization.....	(5,331)	(1,301)
	\$59,241	\$16,596
	=====	=====

Equipment under capital leases totaled \$9,194,000 and \$966,000 with accumulated depreciation of \$835,000 and \$207,000 at December 31, 1997 and 1996, respectively.

5. LONG-TERM OBLIGATIONS

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

	DECEMBER 31,	
	1997	1996
Obligations under capital leases.....	\$ 8,487	\$ 788
Senior Notes.....	222,616	--
Note payable--equipment financing.....	--	2,826
Note payable--stockholder.....	--	2,000
Notes payable relating to Axicorp acquisition.....	--	8,455
Settlement obligation.....	108	3,179
	231,211	17,248
Less: Current portion of long-term obligations.....	(1,059)	(10,572)
	\$230,152	\$ 6,676
	=====	=====

On August 4, 1997 the Company completed the sale of \$225 million 11 3/4% senior notes and warrants to purchase 392,654 shares of the Company's common stock. The senior notes are due August 1, 2004 with early redemption at the option of the Company at any time after August 1, 2001. Dividends are currently restricted by the senior notes indenture. Interest payments are due semi-annually on February 1st and August 1st. A portion of the proceeds from

this offering have been pledged to secure the first six semi-annual interest payments on the senior notes and are reflected on the balance sheet as restricted investments. A portion of the proceeds of this offering, \$2.535 million, was allocated to the warrants, and the resulting debt discount is being amortized over the life of the debt on the straight-line method which does not differ materially from the effective interest method.

Notes payable-equipment financing represents vendor financing of network switching equipment for use in the Company's Australian network. This obligation was paid in full in connection with the Company's senior notes and warrants offering.

In relation to an investment agreement, in February 1996 the Company issued a \$2.0 million note payable to Teleglobe. This obligation was paid in full in connection with the Company's senior notes and warrants offering.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

In association with the acquisition of Axicorp on March 1, 1996, the Company issued two notes to the sellers for a total of \$8.5 million. These obligations were paid in full in connection with the Company's senior notes and warrants offering.

In addition, in conjunction with the Axicorp acquisition, the Company accrued approximately \$3.5 million to settle a pre-acquisition contingency between Axicorp and one of its competitors. Payments of \$400,000 and \$1,583,000 were made in December 1996 and January 1997, respectively. The remaining balance is due in 12 equal monthly payments which began in February 1997.

6. INCOME TAXES

The income tax expense recorded results from current foreign taxes on earnings at the Company's Australian and United Kingdom subsidiaries.

The differences between the tax provision (benefit) calculated at the statutory federal income tax rate and the actual tax provision (benefit) for each period is shown in the table below (in thousands) :

	FOR THE YEAR ENDED		
	DECEMBER 31,		
	1997	1996	1995
Tax benefit at federal statutory rate.....	\$ (12,294)	\$ (2,913)	\$ (825)
State income tax, net of federal benefit.....	(2,100)	(491)	(91)
Foreign taxes.....	81	196	--
Unrecognized benefit of net operating losses.....	14,394	3,387	911
Other.....	--	17	5
Income taxes.....	\$ 81	\$ 196	\$ --

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

DECEMBER 31,	
1997	1996

Deferred tax asset (non-current):

Cash to accrual basis adjustments (U.S.).....	\$ 590	\$ 168
Accrued expenses.....	936	1,456
Net operating loss carryforwards.....	17,856	6,055
Valuation allowance.....	(16,762)	(2,728)
	-----	-----
	\$ 2,620	\$ 4,951
	=====	=====
Deferred tax liability (current):		
Accrued income.....	\$ 3,523	\$ 4,934
Other.....	385	139
Depreciation.....	526	346
	-----	-----
	\$ 4,434	\$ 5,419
	=====	=====

At December 31, 1997, the Company had United States Federal net operating loss carryforwards of approximately \$24 million that may be applied against future United States taxable income until they expire between the years 2009 and 2012. The Company also has Australian Federal net operating loss carryforwards of approximately \$26 million at December 31, 1997.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Due to a deemed "ownership change" of the Company as a result of the Company's initial public offering and private placements, pursuant to Section 382 of the Internal Revenue Code, the utilization of the net operating loss carryforwards of approximately \$4.0 million that expire in the year 2009 will be limited to approximately \$1.3 million per year during the carryforward period.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reported in the balance sheet for cash and cash equivalents, restricted and short-term investments, accounts receivable and accounts payable approximate fair value. The estimated fair value of the Company's senior notes (carrying value of \$222.6 million) at December 31, 1997 was \$241.9 million based upon market quotation.

8. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments under capital lease obligations and operating leases as of December 31, 1997, are as follows (in thousands) :

YEAR ENDING DECEMBER 31, -----	CAPITAL LEASES -----	OPERATING LEASES -----
1998.....	\$ 1,942	\$2,907
1999.....	1,686	2,218
2000.....	2,211	929
2001.....	2,378	779
2002.....	3,096	336
Thereafter.....	--	560
	-----	-----
Total minimum lease payments.....	11,313	\$7,729
		=====
Less: Amount representing interest.....	(2,826)	

	\$ 8,487	
	=====	

Rent expense under operating leases was \$2,574,000, \$1,050,000 and \$215,000 for the years ended December 31, 1997, 1996 and 1995, respectively.

9. STOCKHOLDERS' EQUITY

On October 1, 1997, the Company issued 1,842,941 shares of its common stock pursuant to the exercise of certain warrants, which had been issued in connection with the Company's July 1996 private equity sale of \$16 million. In connection with such exercise, the Company received approximately \$1.5 million.

On August 4, 1997 the Company completed a senior notes and warrants offering. Warrants valued at \$2,535,000 to purchase 392,654 shares of the Company's common stock at a price of \$9.075 per share were issued.

In November 1996, the Company completed an initial public offering of 5,750,000 shares of its common stock. The net proceeds to the Company (net of underwriter discounts and offering expenses) were \$54.4 million.

In connection with the Company's initial public offering, the Board approved a split of all shares of common stock at a ratio of 3.381 to one as of November 7, 1996 and amended the Company's Amended and Restated Certificate of Incorporation (the "Certificate") to increase the authorized Common Stock to 40,000,000 shares.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

In February 1996, the Company's Certificate was amended to authorize 2,455,000 shares of preferred stock (nonvoting) with a par value of \$0.01 per share. On March 1, 1996, 455,000 shares of Series A Convertible Preferred Stock were issued in connection with the purchase of Axicorp. The outstanding preferred stock was converted to common stock prior to the date of the Company's initial public offering.

In January 1996, the Company raised approximately \$4.7 million, net of transaction costs, in a private placement. This placement included the sale of 1,771,194 shares of common stock to numerous investors. The Company also issued 278,899 shares of common stock for services rendered in conjunction with this offering.

Also in January 1996, the Company entered into an agreement with Teleglobe USA, Inc., under which it sold 410,808 shares of common stock for approximately \$1.4 million and borrowed \$2.0 million (see Note 5).

In December 1995, \$359,000 was committed to the Company in exchange for 121,209 shares of the Company's common stock in conjunction with a private placement. The shares were sold in December 1995 and the physical certificates were issued in January 1996.

Effective March 13, 1995, the Company's Certificate was amended to increase the number of authorized shares of the Company's common stock from 1,000,000 shares to 5,000,000 shares and to split each share of common stock outstanding on March 13, 1995, into 2.1126709 shares of common stock.

All share amounts have been restated to give effect to the November 7, 1996 and the March 13, 1995 stock splits.

10. STOCK-BASED COMPENSATION

The Company has established an Employee Stock Option Plan (the "Employee Plan"). The total number of shares of common stock authorized for issuance under the Employee Plan is 3,690,500. 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 no 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 has established a Director Stock Option Plan (the "Director Plan") for nonemployee directors. Under the Director Plan, an option is granted to each nonemployee director to purchase 50,715 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 338,100 shares of common stock were reserved for issuance under the Director Plan.

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

	1997		1996		1995	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Options outstanding--Beginning of year.....	1,583,661	\$ 3.14	722,013	\$2.64	--	\$ --
Granted.....	1,062,500	\$12.59	913,546	\$3.35	722,013	\$2.64
Exercised.....	(35,724)	\$ 1.19	--	\$ --	--	\$ --
Forfeitures.....	(63,002)	\$ 6.03	(51,898)	\$3.55	--	\$ --
Outstanding--end of year.....	2,547,435	\$ 6.96	1,583,661	\$3.14	722,013	\$2.64
Eligible for exercise--End of year.....	894,944	\$ 3.00	511,149	\$2.81	219,765	\$2.96

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The following table summarizes information about stock options outstanding at December 31, 1997 :

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
TOTAL OUTSTANDING	WEIGHTED AVERAGE REMAINING LIFE IN YEARS	WEIGHTED AVERAGE EXERCISE PRICE	TOTAL EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
72,128	2.0	\$ 0.67	38,318	\$0.67
924,873	3.0	\$ 2.96	684,200	\$2.96
507,184	3.3	\$ 3.55	168,426	\$3.55
226,750	4.3	\$ 8.25	4,000	\$8.25
83,500	4.8	\$12.25	--	--
733,000	5.0	\$14.00	--	--
2,547,435			894,944	

The weighted average fair value at date of grant for options granted during 1997, 1996 and 1995 was \$x.xx, \$1.38 and \$1.04 per option, respectively. The fair value of the option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

1997 1996 1995

Expected dividend yield.....	0%	0%	0%
Expected stock price volatility.....	80%	49%	49%
Risk-free interest rate.....	5.7%	6.0%	5.8%
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 :

	1997	1996	1995
Net loss (amounts in thousands)			
As reported.....	\$(36,239)	\$(8,764)	\$(2,425)
Pro forma.....	\$(37,111)	\$(9,242)	\$(2,702)
Basic and diluted net loss per share			
As reported.....	\$ (1.99)	\$ (0.75)	\$ (0.48)
Pro forma.....	\$ (2.03)	\$ (0.79)	\$ (0.54)

11. EMPLOYEE BENEFIT PLANS

The Company has a 401(k) employee benefit plan (the "401(k) Plan") that covers substantially all United States based employees. The 401(k) Plan provides that employees may contribute amounts not to exceed statutory limitations. During 1997, the shareholders adopted an employer matching contribution of 50% of the first 6% of employee annual salary contributions. The employer match is made in common stock of the Company and is subject to 3-year cliff vesting. The Company contributed Primus common stock valued at approximately \$45,000 during 1997.

During 1997, the Company's shareholders approved the adoption of 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. The Plan commenced on January 1, 1998. An aggregate of 2,000,000 shares of common stock were reserved for issuance under the ESPP.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

12. RELATED PARTIES

During 1995, a former director received commissions of 110,944 shares of common stock and \$542,000 in connection with the Company's first private placement. Consulting fees earned by the former director under the 1995 private placement totaled \$169,000. During 1996, the same former director received commissions of 82,774 shares of common stock and \$425,000 which related to a second private placement. Consulting fees earned in connection with this second private placement totaled \$157,000. Total consulting fees due the former director are \$134,000 and \$220,000 at December 31, 1997 and 1996, respectively. The stock and cash commissions and consulting fees relate to services provided in conjunction with the private placements and, as such, have been netted against the proceeds of the respective placements.

13. VALUATION AND QUALIFYING ACCOUNTS

Activity in the Company's allowance accounts for the years ended December 31, 1997, 1996 and 1995 were as follows (in thousands) :

DOUBTFUL ACCOUNTS

PERIOD	BALANCE AT BEGINNING OF PERIOD	CHARGED TO OPERATIONS	DEDUCTIONS	OTHER(1)	BALANCE AT END OF PERIOD
1995	\$ --	\$ 132	\$ --	\$ --	\$ 132
1996	\$ 132	\$ 1,960	\$ (377)	\$870	\$ 2,585
1997	\$2,585	\$ 6,185	\$ (4,309)	\$583	\$ 5,044

DEFERRED TAX ASSET VALUATION

PERIOD	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	OTHER(1)	BALANCE AT END OF PERIOD
1995	\$ --	\$ 1,087	\$ --	\$ --	\$ 1,087
1996	\$1,087	\$ 1,641	\$ --	\$ --	\$ 2,728
1997	\$2,728	\$14,034	\$ --	\$ --	\$16,672

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

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

14. GEOGRAPHIC DATA

The Company has subsidiaries in various foreign countries that provide domestic and international long-distance telecommunications services. Summary information with respect to the Company's geographic operations is as follows:

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(IN THOUSANDS)		
NET REVENUE			
North America.....	\$ 74,359	\$ 16,573	\$ 1,167
Asia-Pacific.....	183,126	151,253	--
Europe.....	22,712	5,146	--
Total.....	\$280,197	\$172,972	\$ 1,167
OPERATING INCOME (LOSS)			
North America.....	\$ (17,036)	\$ (6,364)	\$ (2,276)
Asia-Pacific.....	(9,463)	525	--
Europe.....	(3,390)	(2,312)	(125)
Total.....	\$ (29,889)	\$ (8,151)	\$ (2,401)
	DECEMBER 31,		
	1997	1996	1995
ASSETS			
North America.....	\$251,729	\$ 72,526	\$ 4,996
Asia-Pacific.....	83,476	62,823	--
Europe.....	22,808	5,211	46
Total.....	\$358,013	\$140,560	\$ 5,042

15. SUBSEQUENT EVENTS

On March 8, 1998 the Company purchased a controlling interest in Hotkey Internet Services Pty., Ltd. ("Hotkey"), a Melbourne, Australia based internet service provider. The Company's 60% ownership of Hotkey was purchased for approximately \$1.3 million. Prior to the Company's investment in Hotkey, Primus' chairman, K. Paul Singh, owned approximately 14% of Hotkey. As a result of the transaction Mr. Singh owns 4% of Hotkey.

On February 4, 1998 the Company entered into an Agreement and Plan of Merger ("the Agreement") with TresCom International, Inc. ("TresCom"), a facilities-based international telecommunications provider specializing in traffic to the Caribbean and Central and South America. The Agreement calls for the Company to acquire all of the approximately 12.1 million outstanding TresCom shares at a value of \$10 per share, subject to certain potential adjustments, through an exchange of the Company's shares of common stock. The transaction is subject to, among other things the approval of both Primus and TresCom stockholders and certain regulatory authorities.

MASTER LEASE AGREEMENT

This MASTER LEASE AGREEMENT ("Agreement"), is dated as of November 2, 1997, by and between the following parties:

LESSOR: NTFC CAPITAL CORPORATION, a Delaware corporation with offices at 220 Athens Way, Nashville, Tennessee 37228 and its affiliate, successor or assigns

LESSEE: PRIMUS TELECOMMUNICATIONS, INC., a Delaware corporation with its principal office at 2070 Chain Bridge Road, Suite 425, Vienna, VA 22182 ("Primus")

LEASE AMOUNT: US\$6,000,000.00

SUPPLIER: NORTHERN TELECOM INC. (NORTEL)

This is a Master Lease Agreement for the lease and purchase of the following equipment: New Northern Telecom DMS250/3000 and DMS250 telephone switches and related equipment to be installed at (i) 111 Pavonia Avenue, Jersey City, New Jersey 07310, (ii) 624 South Grand Ave., Suite 2810, Los Angeles, California 90017 and, (iii) at a site in Sydney, New South Wales, Australia, by sublease to PRIMUS TELECOMMUNICATIONS PTY., LTD., a wholly owned subsidiary of Primus ("Installation Sites"), as more completely described in one or more Equipment Schedules attached hereto. The parties may enter into one or more "Leases" pursuant hereto, all of which shall be subject to the terms set forth below.

This Master Lease Agreement is entered into pursuant to that certain Commitment Letter dated August 25, 1997, from Lessor and accepted by Lessee as evidenced hereby ("Commitment Letter").

IN WITNESS WHEREOF, the parties have executed this Master Lease Agreement by their duly authorized representatives:

NTFC CAPITAL CORPORATION

PRIMUS TELECOMMUNICATIONS, INC.

BY: /s/

BY: /s/

MASTER LEASE AGREEMENT

1. LEASE: Subject to Lessee's compliance with its obligations herein, Lessor shall purchase and lease to Lessee, and Lessee shall lease from Lessor, the equipment and associated items ("Equipment") that shall be described on or referred to in any Equipment Schedule ("Schedule") to this Master Lease/Purchase Agreement ("Agreement") which is executed from time to time by Lessor and Lessee and which makes reference to this Agreement, all of which shall become a part hereof. Terms and conditions set forth in this Agreement shall be incorporated into each Schedule. To the extent certain computer programs and intelligence and documentation used to describe, maintain and use the programs ("Software") are furnished with the Equipment, and a non-exclusive license and/or sublicense is granted in Lessee's agreement with the Supplier or another supplier to purchase the Equipment ("Supplier Agreement"), Lessor grants to Lessee a similar non-exclusive sublicense to use the Software only in conjunction with the Equipment for so long as the Equipment is leased hereunder or purchased hereunder. The Equipment and Software (collective, the "System") include all parts, repairs, and accessions thereto necessary for the proper operation of the System. Any references to "Lease" shall mean with respect to each System described in any particular Schedule, this Agreement, the Schedule, the Consent of Supplier, the Delivery and Acceptance Certificate, any riders, amendments, annexes and addenda thereto, and other documents as may from time to time be made a part hereof.

As conditions precedent to Lessor's obligations to purchase and lease any Equipment and sublicense the Software to Lessee, not later than the

scheduled Commencement Date as set forth on the applicable Schedule, (a) Lessee and Lessor shall have both executed this Agreement and a Schedule, and Lessee shall have delivered to Lessor the other documentation contemplated herein, and (b) Lessor, in its reasonable opinion, shall determine that there has not been a material adverse change in Lessee's financial condition. Upon Lessor's execution and acceptance of the Schedule, Lessee hereby assigns to Lessor its rights to receive title to the Equipment and any non-exclusive sublicense to use the Software as of the Commencement Date (as defined below), and delegates to Lessor its duty to pay to the Supplier the applicable portion of the Lease Amount (As stated above or in any Schedule) for the System under the Supplier Agreement, but no other right, interest or obligation thereunder. Effective upon the termination of the Term (as defined below and as shown in the applicable Schedule), for any reason after the commencement of the Lease, Lessee hereby assigns to Lessor and Lessor hereby accepts from Lessee, all of Lessee's then remaining rights pursuant to the applicable Supplier Agreement.

2. TERM: Provided all other conditions precedent to a Lease have been met, this Agreement will become effective as of the Effective Date stated above (or such later date as may be stated on a subsequent Schedule) and shall continue in effect for five (5) years thereafter or for so long as any Lease remains in effect hereunder. Provided all other conditions precedent to a Lease have been met, the lease term for the System described on each Schedule shall commence on the Effective Date indicated on such Schedule (the "Commencement Date"). If no Effective Date is indicated, the Commencement Date shall be the earlier of the date of execution by the Lessee of Lessor' form of Delivery and Acceptance Certificate or the date Lessor deems the System accepted pursuant to Section 5 herein. ("Commencement Date"). Unless earlier terminated as expressly provided for in the Lease, the lease term shall continue and be non-cancelable for the full number of months or other periods set forth in such Schedule ("Term"). The Term may be earlier terminated upon the occurrence of any of the following events: (a) the exercise by Lessee of the Purchase Option granted hereunder or under the provisions of any Schedule, (c) the termination of a Lease with respect to any System pursuant to the provisions of Section 13 hereof, and the payment of all amounts required to be paid by Lessee under that Section, or (d) an Event of Default by Lessee and Lessor's election to terminate a Lease pursuant to Section 17 hereof.

3. RENT AND PAYMENT: Lessee shall pay to Lessor all the rental payments in the amounts as shown below and in any applicable Schedule and Rent and Purchase Option annex thereto ("Rent") during the entire Term of the Lease, except as such Rent may be adjusted pursuant to this Section, plus such additional amounts as are due Lessor under the Lease, Rent shall be paid monthly (or other payment frequency designated in the applicable Schedule) in arrears on the first day of the month next following the month for which a Rent payment is due or on the dates set forth in the applicable Schedule (each such date being hereinafter called a "Rent Payment Date").

Unless otherwise provided on a Schedule executed subsequent to the Effective Date of this Agreement, the first twenty-four (24) monthly payments shall be "Lease Rate Factor" payments only, calculated by multiplying the "Lease Rate Factor" by the unpaid Lease Amount, and payable on the applicable Rent Payment Date. The "Lease Rate Factor" shall be equal to an interest rate determined by adding 495 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, most recently prior to the Effective Date with respect to the applicable Lease for each System. Beginning with the twenty-fifth (25th) monthly installment, each payment of Rent shall consist of a "Lease Rate Factor" payment together with an amount constituting a partial repayment of the Lease Amount as set forth below:

Installment Number -----	Percentage of Lease Amount -----
25-36	1.667%
37-48	2.500%
49-59	4.167%
60	All Unpaid Lease Amount

The Rent for a System is based upon the Supplier's estimated total price of the

System and the acceptance of the System by Lessee on or before the scheduled Commencement Date (as set forth in the applicable Schedule). If the applicable portion of the Lease Amount (as set forth above or in any applicable Schedule) of the installed System exceeds or is less than the estimate as a result of a job change order ("JCO"), the Lessee authorizes Lessor to adjust the Rent accordingly. If the Commencement Date occurs after the scheduled Commencement Date, and Lessor waives the condition precedent that the Commencement Date occur on or before the scheduled Commencement Date, Lessor's then current Lease Rate Factor for similar transactions shall apply and the Lessee authorizes Lessor to adjust the Rent, if required. In the event the Rent is adjusted, the principal, interest and purchase option amounts as set forth in the Rent and Purchase Option Annex to the applicable Schedule shall also be adjusted. Lessor shall inform Lessee in writing of any such adjustment.

Whenever any payment of Rent or any other amount due under a Lease is not made within ten days after the date when due, Lessee agrees to pay on demand (as a fee to offset Lessor's collection and administrative 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.

4. PURCHASE OPTION: Unless otherwise provided in a Schedule executed subsequent hereto, Lessee may exercise a Purchase Option of one dollar (\$1.00) with respect to each System leased pursuant hereto upon giving Lessor prior written notice thereof thirty (30) days before the expiration of the applicable Term.

Any prepayment of the unpaid Lease Amount for any System and early exercise of the Purchase Option shall be permitted only upon the payment of the entire unpaid Lease Amount, all other amounts then due hereunder, plus, if prepaid in the first three years, a "Prepayment Premium", which is a percentage of the Lease Amount, calculated as follows:

Time of Prepayment -----	Prepayment Premium -----
With first year after Commencement Date	3%
Within second year after Commencement Date	2%
Within third year after Commencement Date	1%

5. DELIVERY AND ACCEPTANCE: All transportation, delivery and installation arrangements and costs are the sole responsibility of Lessee, Lessee assumes all risk of loss and the risk of any damages if the Supplier fails to deliver or delays in the delivery of any System, or if any System is unsatisfactory for any reason. Lessee agrees to accept the System, for purposes of any Lease, by signing the Delivery and Acceptance Certificate within thirty (30) days after the date such System is delivered. If Lessee fails or refuses to sign the Delivery and Acceptance Certificate within thirty (30) days after the delivery, (a) Lessor may declare Lessee's assignments and the delegation set forth in Section 1 hereof to be null and void ab initio and thereupon the Lease shall terminate; Lessor shall have no obligations under the Lease; and Lessee shall, on demand, immediately pay to Lessor all amounts previously paid by Lessor to Supplier, as Interim Funding Advances or otherwise, plus Lessor's out-of-pocket expenses and all accrued interest on such Interim Funding Advances at the Interim Rate from the date of Lessor's payment to the Supplier to the date all sums due from Lessee to Lessor under the Lease are paid in full; or (b) unless Lessee gives Lessor written notice to the contrary within thirty (30) days after the delivery, Lessor may conclusively assume that the System is accepted by Lessee, and Lessor may purchase the Equipment and obtain a sublicense to use the Software, with the Initial Term to commence as of the thirtieth (30th) day after delivery, as determined by the Supplier.

6. NET LEASE, THIS LEASE IS A NET LEASE AND LESSOR SHALL NOT BE RESPONSIBLE FOR THE DELIVERY, INSTALLATION, MAINTENANCE, USE, OPERATION PERFORMANCE, SERVICE OR CONDITION OF ANY SYSTEM OR ANY DELAY IN, OR INADEQUACY OF, ANY OR ALL OF THE FOREGOING.

Lessee agrees that all of the Lessee's obligations under the Lease, specifically including its non-cancelable obligation to pay all Rent and other amounts due, are and shall be absolute and unconditional, and shall not be subject to any delay, reduction, setoff, defence, counterclaim or recoupment for any reason whatsoever including any failure of the System, or any part thereof, or any misrepresentation of the Supplier or any other supplier, manufacturer, Installer, vendor or distributor. Lessor and Lessee acknowledge that any manufacturer's warranties inure to the benefit of Lessee, to the extent such warranties are given, for so long as the System is leased, and Lessee agrees to pursue any claim it has directly against the Supplier or any other supplier, manufacturer, installer, vendor or distributor and agrees that it shall not pursue any such claim against Lessor. Lessor agrees to cooperate with Lessee in the latter's making claims under such warranties by providing such information or documentation as Lessee may reasonably request, subject to applicable confidentiality obligations of Lessor. Lessee shall continue to pay Lessor all amounts payable under the Lease under any and all circumstances. Except as specifically set forth in the Lease, nothing contained herein, in any Schedule, or elsewhere shall be deemed to modify, limit or expand the rights, warranties, remedies, liabilities contained in the Supplier Agreement, and neither Lessee nor Lessor shall be any greater rights, warranties, or remedies than are provided to Lessee pursuant to the Supplier Agreement.

7. QUIET ENJOYMENT: Lessor warrants that neither Lessor, nor any assignee or anyone acting or claiming through Lessor will interfere with Lessee's quiet enjoyment and use of the System so long as no Event of Default, shall have occurred under the Lease and be continuing.

8. TAXES AND FEES: Lessee shall promptly reimburse Lessor, upon demand, as additional Rent(s), or shall pay directly, if so requested by Lessor, all license and registration fees, sales, use, personal property taxes and all other taxes and charges imposed by any federal, state or local governmental or taxing authority, relating to the purchase, ownership, leasing, subleasing, possession, use, operation, or relocation of the System or upon the Rent or receipts with respect to the Lease, excluding, however, all taxes computed upon the net income of Lessor.

9. DISCLAIMER OF WARRANTIES AND DAMAGES: LESSEE ACKNOWLEDGES THAT (I) THE SIZE, DESIGN, CAPACITY OF THE SYSTEM AND THE MANUFACTURER AND SUPPLIER HAVE BEEN SELECTED BY LESSEE; (II) LESSOR IS NOT A MANUFACTURER SUPPLIER, DEALER, DISTRIBUTOR OR INSTALLER OF PROPERTY OF SUCH KIND; (III) NO MANUFACTURER OR SUPPLIER OR ANY OF THEIR REPRESENTATIVES IS AN AGENT OF LESSOR OR AUTHORIZED TO WAIVE OR ALTER ANY TERM OR CONDITION OF THE LEASE; AND (IV) EXCEPT FOR LESSOR'S WARRANTY OF QUIET ENJOYMENT, LESSOR HAS NOT MADE AND DOES NOT HEREBY MAKE ANY REPRESENTATION, WARRANTY OR COVENANT WRITTEN OR ORAL, STATUTORY, EXPRESS OR IMPLIED AS TO ANY MATTER WHATSOEVER INCLUDING, WITHOUT

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LIMITATION, THE DESIGN, QUALITY CAPACITY, MATERIAL, WORKMANSHIP, OPERATION, CONDITION MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR HIDDEN OR LATENT DEFECT OF THE SYSTEM OR ANY PORTION THEREOF, OR AS TO ANY PATENT, COPYRIGHT OR TRADEMARK INFRINGEMENT.

LESSEE LEASES THE SYSTEM "AS IS", "WHERE IS." IN NO EVENT SHALL LESSOR BE LIABLE TO LESSEE OR ANY OTHER PERSON OR ENTITY FOR SPECIAL, DIRECT, INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES, INCLUDING, WITHOUT LIMITATION, ANY PERSONAL INJURY DAMAGES, LOSS OF PROFITS OR SAVINGS, OR LOSS OF USE, OR FOR ANY DAMAGES BASED ON STRICT OR ABSOLUTE TORT LIABILITY OR LESSOR'S NEGLIGENCE (OTHER THAN PERSONAL INJURY OR PROPERTY DAMAGE CAUSED BY LESSOR'S SOLE ACTIVE NEGLIGENCE), OR CONSEQUENTIAL DAMAGES OF ANY NATURE WHATSOEVER RESULTING FROM ANY BREACH OF THE LEASE, THE USE OF THE SYSTEM OR OTHERWISE:

10. MAINTENANCE, USE AND OPERATION: At all times during the Term, Lessee, at its sole cost and expense, shall maintain the System in good repair, condition and working order in accordance with established maintenance procedures such that the System performs in accordance with published specifications, and Lessee shall maintain (and upgrade if necessary) the System at all times within two of the Supplier's latest Product Computing Loads. Lessee shall use the System and all parts thereof for its designated purpose and in compliance with all applicable laws; and shall at all time keep the System in its possession and control and not permit such System to be moved from the Installation Sites, as set forth in the applicable Schedule, without Lessor's

prior written consent.

11. TITLE, SECURITY; PERSONAL PROPERTY: upon the applicable Commencement Date, legal title to the Equipment shall vest in Lessor subject to Lessee's rights under the Lease, provided that Lessee shall immediately surrender possession of the System to Lessor upon (a) any termination of the Lease other than (i) Lessee's election of its Purchase Option pursuant hereto or to the applicable Schedule (ii) the termination of a Lease pursuant to Section 13 hereof and the payment by Lessee of all amounts required to be paid thereunder, or (b) the occurrence of an Event of Default and Lessors exercise of that remedy pursuant to Section 17 hereof. Lessee shall execute upon such delivery any such instruments as Lessor may reasonably request to evidence such transfer without warranty or indemnity.

To secure the payment of the Rent and other sums due, as well as all of Lessee's obligations under the Lease, Lessee grants to Lessor, and Lessor does hereby retain, a security interest constituting a first lien on Lessee's right, title and interest in and to the System, including the Equipment and Lessee's interest in the Software, and on all modifications, attachments, and accessions thereto, and on any proceeds therefrom. Lessee agrees to execute such additional documents, including financing statements, affidavits, notice and similar instruments, in form reasonably satisfactory to Lessor, which are necessary or appropriate to establish and maintain its security interest.

The System is, and shall at all time be deemed to be, personal property even if the Equipment is affixed or attached to real property or any improvements thereon. At Lessor's request, Lessee shall at no charge promptly affix to the System any tags, decals, or plates furnished by Lessor indicating Lessor's interest in the System, and Lessee shall not permit their removal or concealment. Lessee shall at all times keep the System free and clear of all liens and encumbrances except those arising through actions of Lessor or permitted in writing by Lessor. Lessee, at its expense, shall otherwise cooperate to defend the Interest of Lessor in the System and to maintain the status of the System and all part thereof as personal property.

If requested by Lessor, Lessee will, at Lessee's expense, furnish a waiver of any interest in the Equipment from any party having an interest in any real estate or building in which the Equipment is located or furnish an acknowledgement satisfactory to Lessor 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 Lessor notice of any claimed default by Lessee with respect to such property interest and an opportunity to remove the Equipment upon commercially reasonable terms. Lessor may inspect the System at any time during normal business hours of Lessee subject to Lessee's normal operational procedures.

12. WARRANTIES, REPRESENTATIONS AND COVENANTS OF LESSEE: Lessee warrants,

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represents, and covenants to Lessor and, so long as this Agreement is in effect and any part of Lessee's obligations to Lessor under any Lease remain unfulfilled, and shall continue to warrant, represent and covenant at all times that:

(a) Lessee is a corporation duly organized, validly existing, and in good standing under the laws of the state of its incorporation and is authorized to do business and is in good standing as a foreign corporation in each jurisdiction in which any Installation Site is located and is authorized and licensed under applicable law to operate as a facilities based carrier therein, and Lessee has the corporate power and capacity to enter into this Agreement and any Lease pursuant to this Agreement and to perform all of its obligations hereunder and thereunder.

(b) This Agreement, the Schedule and all other related documents and the performance of Lessee's obligations hereunder have been duly and validly authorized and approved under all laws and regulations and procedures applicable to Lessee, and under the terms and provisions of the resolutions of Lessee's governing body, a copy of which has been provided herewith; the consent of all necessary persons or bodies has been obtained and all of such documents executed by Lessee have been duly and validly executed and delivered by authorized representatives of Lessee and constitute valid, legal and binding obligations of Lessee enforceable against Lessee in accordance with their respective terms.

(c) No other approval, consent or withholding of objection is required from any governmental authority with respect to the entering into or performance by Lessee of this Agreement and the transactions contemplated hereby.

(d) The entering into and performance of this Agreement and any Lease entered into pursuant hereto will not violate any judgment, order, law or regulation applicable to Lessee 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 the Lessee or on any System pursuant to any instrument to which Lessee is a party of by which it or its assets may be bound.

(e) Lessee has conducted and continues to conduct its business in all material respects in accordance with applicable laws, and Lessee has paid all taxes, assessments and other governmental charges as and when due except those challenged in good faith by appropriate proceedings.

(f) There are no actions, suits or proceedings pending or threatened against or affecting Lessee in any court or before any governmental commission, board or authority which, if adversely determined, will have a material adverse effect on the ability of Lessee to perform its obligations hereunder or under any Lease pursuant hereto.

(g) Lessor has a valid first perfected security interest in each System lease pursuant to this Agreement in each Installation Site where it may be located, which secures all payment obligations of Lessee hereunder.

13. RETURN OF SYSTEM: At the end of the Term, or upon any prior termination of a Lease pursuant to the Terms of that Lease, unless Lessee has executed its Purchase Option pursuant to the Schedule or an Event of Loss shall have occurred and Lessor shall have received all sums due it pursuant to this Agreement, Lessee shall, at its own risk and sole expense, immediately return the System to Lessor, by properly removing, disassembling and packing it for shipment, loading it on board a carrier acceptable to Lessor, and shipping the same to a destination specified by Lessor, freight and insurance prepaid, in the same condition and operation order as existing when received, ordinary wear and tear expected, if, upon the expiration or earlier termination of the Lease, the Lessee does not immediately return the System to Lessor, Lessee shall pay to Lessor, upon demand, an amount equal to the Rent prorated on a daily basis for each day from the including the termination or expiration date of the Lease through and including the day Lessee ships the System to Lessor in accordance with this Section. Lessee shall pay to Lessor any amount necessary to repair the System in order for the Supplier or a maintenance organization, as applicable, to accept the System from contract maintenance at its then current rate.

14. INSURANCE: Lessee shall, at its expense, upon delivery of each System to its Installation Site and at all times thereafter, keep the System insured against all risks or loss or damage for an amount at least equal to the applicable portion of the Lease Amount, as depreciated, or the replacement cost, whichever is greater. Purchase Option Amount its that amount set forth in the Rent and Purchase Option Amount Annex to the applicable Schedule. Lessee shall also, at its expense, provide and maintain comprehensive general liability insurance. All insurance policies shall name Lessor as an additional insured and loss payee, as appropriate, and shall be with an

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insurer, having a "Best Policy Holders" rating of "A" or better, and in such form, amount and deductibles as are satisfactory to Lessor. The proceeds of any such policies shall be payable to Lessor or Lessee, as their interests may appear. Each such policy must state by endorsement that the insurer shall give Lessor not less than thirty days prior written notice of any amendment, renewal or cancellation. Lessee shall upon request, furnish to Lessor satisfactory evidence that such insurance coverage is in effect. Lessee may self insure with respect to the above coverage, with Lessor's prior written consent.

15. CASUALTY: If any System, 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"), Lessee shall promptly and fully notify Lessor thereof. Lessee shall, at its option (i) 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) pay to Lessor, within ten days of the Event of Loss, an

amount equal to the applicable portion of the Lease Amount, as depreciated, or the replacement value, whichever is greater for such affected Equipment or Software or, if such amount is not permitted by law, then the highest permitted amount shall apply, plus any other amounts then due and unpaid with respect to such Equipment and Software. If an Event of Loss occurs as to part of a System for which the purchase Option Amount is paid, such event shall be treated as applicable only to the affected Equipment or Software, whereupon the Lease with respect thereto shall abate from the date the Purchase Option Amount is actually received by Lessor. Upon the making of all required payments by Lessee pursuant to (iii) Lessee 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 Lessor shall receive any insurance proceeds or net awards, Lessor may, at its option, apply all or part of such proceeds and awards to any obligations of Lessee to Lessor.

16. DEFAULT: Lessee shall be in default under the Lease upon the occurrence of any of the following events ("Event of Default" or "default"):
(a) failure by Lessee to pay any Installment of Rent or other amounts payable under the Lease for a period of ten (10) days; or (b) failure by Lessee to perform any other material term, covenant or condition contained in this Agreement or Schedule hereto or in any Lease hereunder or any other agreement of Lessee given in connection with such a Lease, and such failure or breach shall continue uncured for twenty (20) days after receipt by Lessee of written notice thereof; or (c) the inaccuracy of any material representation, warranty or statement made by the Lessee hereunder or in connection with any Lease; or (d) the Lessee's becoming insolvent, making an assignment for the benefit of creditors, filing a voluntary petition or having an involuntary petition filed or action commenced against it under the United States Bankruptcy Code or any similar federal or state law; or (e) the Lessee's uncured or unwaived default, after the expiration of any applicable cure period, under indebtedness owed to any third party in the outstanding amount of \$100,000 or more in the aggregate.

17. REMEDIES: If an Event of Default has occurred, Lessor shall have the right, in its sole discretion, to exercise any one or more of the following remedies: (a) declare any Lease entered into pursuant to this Agreement and/or any other lease or agreement between Lessor and Lessee to be in default; (b) terminate any Lease; (c) recover from Lessee any part of the Lease Amount remaining unpaid, together with any other accrued but unpaid Rent and any and all other amounts then due and unpaid, being the agreed upon monetary damages for such default ("Liquidated Damages"); (d) charge Lessee interest on all the Liquidated Damages due by Lessor at the rate of one and one-half percent per month from the date of default until paid, but in no event more than the maximum rate permitted by law; (e) demand the Lessee return any System to Lessor in accordance with Section 13 hereof; and (f) take possession of any System wherever located, with or without demand or notice, or any court order or any process by law. Upon repossession or return of a System, Lessor may at its sole option, sell, lease or otherwise dispose of the System in a commercially reasonable manner, with or without notice and on public or private bid, and apply the proceeds thereof, if any, toward the Liquidated Damages but only after deducting all expenses including, without limitation, reasonable attorneys' fees incurred in enforcement of any remedy of Lessor. Lessee shall be liable for any deficiency if the net proceeds available after the permitted deductions are less than Liquidated Damages. No right or remedy is exclusive of any other provided herein or permitted by law or equity. All rights and remedies shall be cumulative and may be enforced concurrently or individually from time to time.

18. INDEMNITY: Each Lease is a net lease. Therefore, to the extent allowed by law, Lessee shall indemnify Lessor against and hold Lessor harmless from, and covenants to defend Lessor against, any and all losses, claims, encumbrances, actions, suits, damages, obligations, liabilities and liens (and all costs and expenses, including

without limitation, reasonable attorneys' fees, incurred by Lessor in connection therewith) arising out of or in any way related to the Lease including, without limitation, the selection, purchase, delivery, ownership, lease, licensing, possession, maintenance, condition, use, operation, rejection or return of the System, the recovery of claims under insurance policies thereon, from Lessee's failure to commence the Lease of a System, or from any misuse, breach or violation of the Software sublicense, including without limitation, unauthorized duplication of or modification to the Software, or arising by operation of law, excluding, however, any of the foregoing which result from the sole negligence or willful misconduct of Lessor. Lessee agrees that upon written notice by

lessor of the assertion of any claims, liens, encumbrances, actions, damages, obligations or liabilities, Lessee shall assume full responsibility for, or at Lessor's sole option, reimburse Lessor for the defense thereof. The provisions of this Section shall continue in full force and effect notwithstanding full payment of the obligations under the Lease and survive the termination of the Lease for any reason, provided, however, the provisions hereof shall not survive longer than the applicable statute of limitations.

19. ASSIGNMENT: Lessor may, in whole or in part, with notice to, but without the consent of Lessee, sell, assign, grant a security interest in, or pledge its interest in all or any portion of a System and/or a Lease 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. No such assignment shall be effective against Lessee unless and until Lessee shall have received a copy or written notice thereof identifying the name and address of the Assignee. Upon receiving written notice from Lessor, Lessee shall if so directed, pay all Rent 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 lessee's agreements as stated in the Lease, as applicable, and shall be considered a third-party beneficiary thereof. Lessee shall also promptly execute and deliver to Lessor or any Assignee any additional documentation as Lessor or Assignee may reasonably request to acknowledge the assignment. Lessor shall be relieved of its future obligations under the Lease as a result of such assignment if Lessor assigns to Assignee ownership of the Equipment and Assignee assumes Lessor's future obligations hereunder.

WITHOUT LESSOR'S PRIOR WRITTEN CONSENT, LESSEE SHALL NOT ASSIGN, SUBLEASE, TRANSFER, PLEDGE, MORTGAGE OR OTHERWISE ENCUMBER (COLLECTIVELY, A "TRANSFER") THE SYSTEM OR ANY LEASE HEREUNDER LESSOR AGREES TO CONSENT TO AN ASSIGNMENT BY LESSEE TO A WHOLLY OWNED SUBSIDIARY OF LESSEE OR TO AN AFFILIATE WHOLLY OWNED BY THE PARENT OF LESSEE OR ANY OF ITS RIGHTS THEREIN OR PERMIT ANY LEVY, LIEN OR ENCUMBRANCE THEREON. ANY ATTEMPTED NON-CONSENSUAL TRANSFER BY LESSEE SHALL BE VOID AB INITIO. NO TRANSFER SHALL RELIEVE LESSEE OF ANY OF ITS OBLIGATIONS UNDER THE LEASE UNLESS LESSOR RELEASES LESSEE FROM SUCH OBLIGATIONS IN WRITING.

20. MISCELLANEOUS: (a) Any failure of Lessor to require strict performance by Lessee or any waiver by Lessor of any provision of the Lease shall not be construed as a consent to or waiver of any other breach of the same or of any other provision. (b) No obligations of the Lessor hereunder shall survive the expiration or other termination of the Lease. (c) All of the Lessee's indemnities, waiver, assumptions of liability and duties contained in the Lease and all Lessor's disclaimers shall continue in full force and effect and survive the expiration or other termination of the Lease. (d) The Lessee agrees to execute and deliver, upon demand, any and all other documents necessary to evidence the intent of the Lease, or to protect Lessor's interest in the System, including any UCC financing statements or any waivers of interest or liens, and to this end, Lessee appoints Lessor as its attorney-in-fact to execute and deliver all such financing statement and to collect insurance proceeds. Lessee agrees to pay the costs of filing and recording such documentation. (e) Lessee shall deliver to Lessor such additional financial information as Lessor may reasonably request. (f) The Lease shall be governed by the laws of the State of Tennessee, except to the extent the internal laws of the state where the Equipment is located govern the perfection of security interests in equipment therein. (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. (h) In the event Lessee fails to pay or perform any obligations under the Lease, Lessor may, at its option, pay or perform said obligation, and any payment made or expense incurred by Lessor in connection therewith shall be due and payable by Lessee upon demand by Lessor with interest thereon accruing at the maximum rate permitted by law until paid. (i) No lease 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 Lease Amount or refunded. (j) Time is of the essence in the Lease and in each of the Lease provisions. (k) Lessee shall pay Lessor on demand all costs and expenses, including reasonable attorney's and collection fees incurred by Lessor in enforcing the terms and conditions of the Lease or in protecting Lessor's rights and interest in the Lease or the System.

21. NOTICES. Notices, demands and other communications to be effective shall be transmitted in writing by telex, telecopy, or other facsimile transmission and confirmed by a similar mailed writing, by hand delivery, by first class, Registered or Certified Mail, return receipt requested, or an overnight courier service, addressed to Lessor at 220 Athens Way, Nashville, Tennessee 37228-1399 (Attention: Director Operations and Administration) or to Lessee as the case may be, at the billing address set forth on the applicable Schedule or at such other address as the parties may hereinafter substitute by written notice. Notice shall be effective four (4) days after the date it was mailed (if mailed) or upon receipt whichever is earlier.

22. COUNTERPARTS: The Lease, including the Delivery and Acceptance Certificate and any Schedules and riders thereto, 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 one and the same instrument.

23. ENTIRE AGREEMENT: This Agreement and its Schedules and other documents executed and delivered in connection herewith, together with each Lease hereunder, constitute the entire agreement between Lessor and Lessee with respect to the subject matter hereof and supersede the Commitment Letter (except as referenced herein), all previous negotiations, proposals, commitments, writings, and understandings of any representation or warranty concerning the System and, unless such representation or warranty is specifically included in the Lease, it shall not be enforceable by Lessee against Lessor.

24. BINDING NATURE: This Agreement and each Lease shall be binding upon and inure to the benefit of Lessor and Lessee and their respective successors and permitted assigns.

25. CONDITIONS TO EFFECTIVE DATE: This Agreement shall not become effective until Lessor has received evidence satisfactory to it that the terms and conditions set forth above have been met or accomplished by Lessee, including but not limited to: payment of the Commitment Fee and other Fees and Expenses of Lessor as set forth in the Commitment Letter, Lease documentation satisfactory to Lessor and its counsel, Lessee's officers' certificates, evidence of good standing, insurance certificates, opinions of counsel as to matters set forth in Sections 11 and 12 above, and evidence of filing and recordation of financing statements and other security documents reasonably required by Lessor.

END OF MASTER LEASE AGREEMENT

Subsidiaries

Subsidiary	Jurisdiction of Incorporation
-----	-----
Primus Telecommunications, Inc.	Delaware
Primus Telecommunications International, Inc.	Delaware
Primus Telecommunications, Ltd.	United Kingdom
Primus Telecommunications de Mexico, S.A. de C.V.	Mexico
Primus Telecommunications Pty., Ltd.	Australia
Axicorp Pty., Ltd.	Australia
3362426 Canada Inc. d/b/a Primus Telecommunications Canada	Canada
Primus Telecommunications Netherlands B.V.	Netherlands
Primus Telecommunications SA	France
Primus Telecommunications Deutschland GmbH	Germany
PremierSource International L.L.C.	Delaware
Primus Telecommunications K.K.	Japan
Primus Japan K.K.	Japan

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY INFORMATION EXTRACTED FROM THE BALANCE SHEET OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED AT DECEMBER 31, 1997 AND THE INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

</LEGEND>

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