PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-Q/A
February 02, 2010
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended June 30, 2009

OR

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

Commission File No. 0-29092

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**54-1708481**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
7901 Jones Branch Drive, Suite 900, McLean, VA	**22102**
(Address of principal executive offices)	**(Zip Code)**

(703) 902-2800

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports),

and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

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

Class	Outstanding as of July 31, 2009
Common Stock $0.001 par value	9,600,000

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-in-Possession)

INDEX TO FORM 10-Q/A

			Page No.
Part I.	FINANCIAL INFORMATION		
	Item 1.	FINANCIAL STATEMENTS (UNAUDITED)	
		Consolidated Condensed Statements of Operations	1
		Consolidated Condensed Balance Sheets	2
		Consolidated Condensed Statements of Cash Flows	3
		Consolidated Condensed Statements of Comprehensive Income (Loss)	4
		Notes to Consolidated Condensed Financial Statements	5
	Item 2.	MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	65
	Item 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	84
	Item 4.	CONTROLS AND PROCEDURES	85
Part II.	OTHER INFORMATION		
	Item 1.	LEGAL PROCEEDINGS	87
	Item 1A.	RISK FACTORS	87
	Item 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	98
	Item 3.	DEFAULTS UPON SENIOR SECURITIES	98
	Item 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	98
	Item 5.	OTHER INFORMATION	98
	Item 6.	EXHIBITS	98
SIGNATURES			99
EXHIBIT INDEX			100

Table of Contents

Explanatory Note

This Quarterly Report on Form 10-Q/A is being filed in order to furnish Exhibit 32 with a corrected date reference within Paragraph 1.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
NET REVENUE	$ 196,742	$ 235,897	$ 391,216	$ 461,331
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)	125,914	142,495	255,288	283,979
Selling, general and administrative	50,400	69,969	95,836	138,827
Depreciation and amortization	6,250	8,091	12,346	16,050
(Gain) loss on sale or disposal of assets	16	115	(43)	(2,465)
Total operating expenses	182,580	220,670	363,427	436,391
INCOME FROM OPERATIONS	14,162	15,227	27,789	24,940
INTEREST EXPENSE (contractual interest expense for the three months and six months ended June 30, 2009 was $11,986 and $24,201, respectively)	(3,359)	(13,554)	(14,135)	(28,747)
ACCRETION ON DEBT DISCOUNT, net		217	189	187
GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT		32,177		34,487
INTEREST AND OTHER INCOME	161	2,127	396	3,189
FOREIGN CURRENCY TRANSACTION GAIN	24,170	8,134	21,121	9,841
INCOME FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	35,134	44,328	35,360	43,897
REORGANIZATION ITEMS, net	(8,271)		8,297	
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	26,863	44,328	43,657	43,897
INCOME TAX BENEFIT (EXPENSE)	(1,110)	2,382	(3,907)	(38)
INCOME FROM CONTINUING OPERATIONS	25,753	46,710	39,750	43,859
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(283)	(21)	(676)	(66)
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax			251	
NET INCOME	25,470	46,689	39,325	43,793
Less: Net (income) loss attributable to the noncontrolling interest	(104)	(165)	32	(268)
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 25,366	$ 46,524	$ 39,357	$ 43,525
BASIC INCOME PER COMMON SHARE:				
Income from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ 0.18	$ 0.33	$ 0.28	$ 0.31
Loss from discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Gain from sale of discontinued operations			0.00	
Net income attributable to Primus Telecommunications Group, Incorporated	$ 0.18	$ 0.33	$ 0.28	$ 0.31
DILUTED INCOME PER COMMON SHARE:				
Income from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ 0.15	$ 0.25	$ 0.23	$ 0.23

Loss from discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Gain from sale of discontinued operations			0.00	
Net income attributable to Primus Telecommunications Group, Incorporated	$ 0.15	$ 0.25	$ 0.23	$ 0.23
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	142,695	142,633	142,695	142,633
Diluted	173,117	190,328	173,117	195,221
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED				
Income from continuing operations, net of tax	$ 25,649	$ 46,545	$ 39,782	$ 43,591
Loss from discontinued operations	(283)	(21)	(676)	(66)
Gain from sale of discontinued operations			251	
Net income	$ 25,366	$ 46,524	$ 39,357	$ 43,525

See notes to consolidated financial statements.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except share amounts)

(unaudited)

	June 30, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 41,461	$ 37,000
Accounts receivable (net of allowance for doubtful accounts receivable of $9,095 and $9,710)	93,826	99,483
Prepaid expenses and other current assets	16,955	15,846
Total current assets	152,242	152,329
RESTRICTED CASH	9,467	8,133
PROPERTY AND EQUIPMENT Net	117,840	112,152
GOODWILL	35,351	32,688
OTHER INTANGIBLE ASSETS Net	482	746
OTHER ASSETS	19,155	24,396
TOTAL ASSETS	$ 334,537	$ 330,444
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 50,890	$ 58,671
Accrued interconnection costs	38,778	41,422
Deferred revenue	12,322	13,303
Accrued expenses and other current liabilities	53,982	42,440
Accrued income taxes	20,986	18,213
Accrued interest	19	10,248
Current portion of long-term obligations	107,097	564,797
Total current liabilities	284,074	749,094
LONG-TERM OBLIGATIONS	25,740	40,040
OTHER LIABILITIES		35
Total liabilities not subject to compromise	309,814	789,169
LIABILITIES SUBJECT TO COMPROMISE	451,050	
Total Liabilities	760,864	789,169
COMMITMENTS AND CONTINGENCIES (See Note 6.)		
STOCKHOLDERS DEFICIT:		
Primus Telecommuncations Group, Incorporated Stockholders Deficit:		
Preferred stock: Not Designated, $0.01 par value 1,410,050 shares authorized; none issued and outstanding; Series A and B, $0.01 par value 485,000 shares authorized; none issued and outstanding; Series C, $0.01 par value 559,950 shares authorized; none issued and outstanding		

Common stock, $0.01 par value 300,000,000 shares authorized; 142,695,390 shares issued and outstanding	1,427	1,427
Additional paid-in capital	718,983	718,956
Accumulated deficit	(1,060,452)	(1,099,809)
Accumulated other comprehensive loss	(89,216)	(82,113)
Total Primus Telecommunications Group, Incorporated stockholders deficit	(429,258)	(461,539)
Noncontrolling interest	2,931	2,814
Total stockholders deficit	(426,327)	(458,725)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	$ 334,537	$ 330,444

See notes to consolidated financial statements.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 39,325	$ 43,793
Adjustments to reconcile net income to net cash provided by operating activities:		
Reorganization items, net	(8,297)	
Provision for doubtful accounts receivable	5,140	5,696
Stock compensation expense	27	132
Depreciation and amortization	12,346	16,056
Gain on sale or disposal of assets	(294)	(2,465)
Accretion of debt discount	(189)	(187)
Deferred income taxes		2,845
Gain on early extinguishment or restructuring of debt		(34,487)
Unrealized foreign currency transaction gain on intercompany and foreign debt	(20,702)	(9,628)
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	7,798	(6,388)
Decrease in prepaid expenses and other current assets	461	11,234
Decrease in other assets	2,454	905
Decrease in accounts payable	(12,794)	(16,639)
Increase (decrease) in accrued interconnection costs	(5,361)	3,159
Increase (decrease) in accrued expenses, deferred revenue, other current liabilities and other liabilities, net	1,313	(3,347)
Increase (decrease) in accrued income taxes	2,113	(4,455)
Decrease in accrued interest	(1,600)	(921)
Net cash provided by operating activities before cash reorganization items	21,740	5,303
Cash effect of reorganization items	(4,595)	
Net cash provided by operating activities	17,145	5,303
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(5,660)	(14,599)
Sale of property and equipment	179	805
Cash from disposition of business, net of cash disposed	232	1,676
Cash used in business acquisitions, net of cash acquired	(199)	(34)
(Increase) decrease in restricted cash	(146)	103
Net cash used in investing activities	(5,594)	(12,049)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of the Company s debt securities		(11,217)
Principal payments on long-term obligations	(8,292)	(8,287)
Net cash used in financing activities	(8,292)	(19,504)

EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,202	518
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,461	(25,732)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	37,000	81,282
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 41,461	$ 55,550
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 14,909	$ 28,440
Cash paid for taxes	$ 962	$ 469
Non-cash investing and financing activities:		
Capital lease additions	$ 1,882	$ 35
Settlement of outstanding debt with issuance of new senior secured debt	$	$ (133,159)
Issuance of new senior secured debt in exchange for outstanding debt	$	$ 88,794

See notes to consolidated financial statements.

3

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
NET INCOME	$ 25,470	$ 46,689	$ 39,325	$ 43,793
OTHER COMPREHENSIVE LOSS				
Foreign currency translation adjustment	(8,426)	(3,011)	(6,954)	(4,073)
COMPREHENSIVE INCOME	17,044	43,678	32,371	39,720
Comprehensive loss attributable to the noncontrolling interest	(319)	(175)	(117)	(243)
COMPREHENSIVE INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 16,725	$ 43,503	$ 32,254	$ 39,477

See notes to consolidated financial statements.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Debtor-In-Possession)

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

1. PROCEEDINGS UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

Voluntary Reorganization under Chapter 11 On March 16, 2009, Primus Telecommunications Group, Incorporated (Group or PTGI) and three of its subsidiaries, Primus Telecommunications Holding, Inc. (Holding or PTHI), Primus Telecommunications International, Inc. (PTII) and Primus Telecommunications IHC, Inc., (IHC and together with Group, Holding and PTII, collectively, the Debtors) each filed a voluntary petition (the Chapter 11 Cases) in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court) for reorganization relief (Reorganization) under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.*, as amended (the Bankruptcy Code). Subsequently, the Debtors sought and received an order directing the joint administration of the Chapter 11 Cases under the caption In re: Primus Telecommunications Group, Incorporated, et al., Debtors, Case No. 09-10867. On April 8, 2009, April 20, 2009, and April 24, 2009, filings were made by the Debtors in the Bankruptcy Court concerning amended Disclosure Statements and Joint Plans of Reorganization of Primus Telecommunications Group, Incorporated and its Affiliate Debtors. On April 24, 2009, an unsecured creditors committee was appointed by the United States Trustee.

On April 27, 2009, the Bankruptcy Court approved the Debtors use of a disclosure statement dated April 27, 2009 (the Disclosure Statement) to solicit votes on the Joint Plan of Reorganization of Primus Telecommunications Group, Incorporated and its Affiliate Debtors attached thereto (the Plan). The Disclosure Statement was distributed to holders of record (as of April 27, 2009) of claims against, and interests in, the Debtors who are entitled to vote on the Plan (the Record Date).

The order approving the Disclosure Statement also (i) established the Record Date and a voting deadline of June 5, 2009, (ii) established June 5, 2009 as the last date and time for filing and serving objections to confirmation of the Plan (and related requirements and procedures set forth in such order), and (iii) fixed June 1, 2009 as the deadline for claimants and interest holders to file and serve motions under Bankruptcy Rule 3018(a) requesting temporary allowance of the movant s claim or interest for purposes of voting.

The Plan was confirmed by the Bankruptcy Court on June 12, 2009 (the Confirmation Date). On July 1, 2009 (the Effective Date), the Debtors consummated their reorganization under the Bankruptcy Code and the Plan became effective.

The Plan provides for a plan of reorganization of the Debtors on terms that are summarized below:

Holding s Term Loan facility due February 2011 was reinstated and amended (see Amended Term Loan Facility below);

IHC s 14 1/4% Senior Secured Notes were cancelled and the holders thereof received (a) their pro rata portion of $123.5 million of aggregate principal amount of 14 1/4% Senior Subordinated Secured Notes due May 20, 2013 (see Amendment of IHC s 14 1/4% Senior Secured Notes Indenture below), (b) 4,800,000 shares of the new Common Stock of Group (the New Common Stock), and (c) all reasonable fees, expenses and disbursements of their counsel;

the 5% Exchangeable Senior Notes and 8% Senior Notes issued by Holding (collectively, the Holding Senior Notes) were cancelled, and the holders thereof received (a) 4,800,000 shares of the New Common Stock, (b) Class A warrants to purchase up to an aggregate of 3,000,000 shares of New Common Stock on terms described below under Warrant Agreements, and (c) all reasonable fees, expenses and disbursements of their counsel;

the 3 3/4 % Senior Notes due September 2010, 12 3/4% Senior Notes due October 2009 and Step Up Convertible Subordinated Debentures due August 2009 issued by Group (collectively, the Group Notes) were cancelled, and the holders thereof received Class B warrants to purchase up to an aggregate of 1,500,000 shares of the New Common Stock on terms described below under Warrant Agreements;

all existing shares of common stock outstanding prior to the Effective Date (the Old Common Stock) were cancelled on the Effective Date, and holders thereof received their pro rata share of contingent value rights (Contingent Value Rights or CVRs) to acquire up to 2,665,000 shares of New Common Stock on terms described below under Contingent Value Rights Distribution Agreement;

all outstanding equity incentive grants of Group were cancelled on the Effective Date, and the Primus Telecommunications Group, Incorporated Management Compensation Plan (the Management Compensation Plan) became effective. As of the Effective Date, 400,000 restricted stock units, 400,000 service-based stock options and 100,000 performance-based stock options were granted to certain employees and executive officers under the Management Compensation Plan.

The following table summarizes the effect of the Plan of Reorganization adjustments with respect to long-term obligations after giving effect to the July 1, 2009 emergence from bankruptcy.

	Predecessor	Plan of Reorganization Adjustments	Successor
Long-Term Obligations			
Obligations under capital leases and other	$ 5,056	$	$ 5,056
Leased fiber capacity	2,531		2,531
Senior secured term loan facility	95,750		95,750
Canadian credit facility	29,500		29,500
Senior secured subordinated notes		123,472	123,472
Subtotal	132,837	123,472	256,309
Less: Current portion of long-term obligations	(107,097)	91,100	(15,997)
Total long-term obligations	$ 25,740	$ 214,572	$ 240,312
Liabilities Subject to Compromise			
Senior secured notes	$ 173,157	$ (173,157)	$
Senior notes	200,186	(200,186)	
Exchangeable senior notes	23,369	(23,369)	
Convertible senior notes	34,200	(34,200)	
Step up convertible subordinated debentures	8,641	(8,641)	
Accrued interest	11,497	(11,497)	
Total liabilities subject to compromise	$ 451,050	$ (451,050)	$

Table of Contents

The following table reflects the contractual payments of principal and interest for all long-term obligations after giving effect to the July 1, 2009 emergence from bankruptcy.

Year Ending December 31,	Vendor Financing and Other	Senior Secured Term Loan Facility (1)	Canadian Credit Facility (2)	Senior Secured Subordinated Notes	Total
2009 (as of June 30, 2009)	$ 1,888	$ 7,694	$ 4,011	$ 7,331	$ 20,924
2010	5,151	16,767	7,685	17,595	47,198
2011	1,068	89,713	21,036	17,595	129,412
2012	257			17,595	17,852
2013	64			131,731	131,795
Thereafter	33				33
Total Minimum Principal & Interest Payments	8,461	114,174	32,732	191,847	347,214
Less: Amount Representing Interest	(874)	(18,424)	(3,232)	(68,375)	(90,905)
Total Long-Term Obligation	$ 7,587	$ 95,750	$ 29,500	$ 123,472	$ 256,309

(1) For preparation of this table, the Company has assumed the interest rate of the Senior Secured Term Loan Facility to be 12.0% and principal payments as according to the Term Loan Modification Term Sheet.

(2) For preparation of this table, the Company has assumed the interest rate of the Canadian Credit Facility to be 7.0%.

Notwithstanding confirmation of the Plan, we expect to continue to have significant debt service obligations on a long-term basis. Cash flows from operations are not anticipated to be sufficient to make the balloon payments on the remaining outstanding principal of the Senior Secured Tem Loan Facility and the Canadian Credit Facility due February and May 2011, respectively; therefore, we expect to seek external financing prior to that date. There can be no assurance we will be successful in these efforts to consummate timely any such transactions or at all or to obtain any such financing on acceptable terms or at all, especially in consideration of the state of the current global economic and credit situation.

Agreements Relating to the Debtors Securities

Amended Term Loan Facility

As of the Effective Date, Group and Holding entered into a Third Amendment to the Term Loan Agreement, dated as of February 18, 2005 (as amended through the date hereof, the Amended Term Loan), with the several banks and other financial institutions or entities from time to time parties thereto, Lehman Commercial Paper, Inc., a debtor and debtor in possession under chapter 11 of the Bankruptcy Code acting through one or more of its branches as the Administrative Agent and The Bank of New York Mellon, as the successor Administrative Agent. All of the terms in the Term Loan Modification Term Sheet, as described in Note 5 Long-Term Obligations and Liabilities Subject to Compromise, were accepted and included in the Amended Term Loan with the exception of certain interest rate terms that are described below in item (i). In accordance with the Amended Term Loan, Holding s Term Loan facility due February 2011 was reinstated and amended in certain respects, including: (i) at the option of Holding, interest rates are now (A) LIBOR + 9.00% with a LIBOR floor of 3.00% (or LIBOR + 11.00% with 4.00% to be paid in kind) or (B) Prime Rate + 8.00% with a Prime Rate floor of 4.00% (or Prime Rate + 10.00% with 4.00% to be paid in kind); (ii) The Bank of New York Mellon has been appointed as successor Administrative Agent; (iii) amortization payments have been increased; (iv) mandatory prepayments are required from (A) 25% of the net proceeds of certain equity issuances (including 25% of the cash of businesses acquired in exchange for equity), (B) 100% of the net proceeds from debt issuances (other than as permitted under the limitation of indebtedness covenant), and (C) 80% of net cash proceeds from asset sales or insurance recoveries not otherwise reinvested within 180 days or committed to reinvestment within 270 days of such asset sales; (v) Group or its affiliates are able to purchase annually up to $5 million in principal amount of loans at less than par without being subject to the pro-rata provisions of the Term Loan facility (or

Table of Contents

purchases in excess of such annual amount by way of an offer to all lenders), any such purchased loans deemed immediately cancelled; and (vi) certain covenants have been modified, including restrictions on the ability to incur additional debt and the addition of a minimum EBITDA covenant, a maximum indebtedness covenant and a maximum capital expenditure covenant. In addition, the Debtors have agreed to pay all reasonable fees, expenses and disbursements of counsel and the financial advisor to the Term Loan lenders.

Amendment of IHC s 14.25% Senior Secured Notes Indenture

On the Effective Date, IHC, Group, Holding, the other Guarantors party thereto and U.S. Bank National Association, as trustee, entered into a supplemental indenture (the Supplemental Indenture) to the indenture governing IHC s 1/4% Senior Secured Notes due 2011 (the Original Indenture). The Supplemental Indenture amended the Original Indenture to provide for the issuance of 14 1/4% Senior Subordinated Secured Notes due May 20, 2013 (the Modified Second Lien Notes). At the option of IHC, prior to the earlier of (1) the extension of the maturity of or the repayment in full of the indebtedness outstanding pursuant to the Amended Term Loan and the loan facility entered into by Primus Telecommunications Canada Inc., an indirect wholly owned subsidiary of Group, and (2) June 1, 2011, up to 4.25% per annum of the interest on the Modified Second Lien Notes may be paid in kind. The Supplemental Indenture also modified covenants in the Original Indenture to prevent subsidiary guarantors from incurring debt to refinance indebtedness of non-guarantors and to limit the incurrence of indebtedness of restricted persons that is secured by a lien on the assets of IHC, any subsidiary guarantor or other restricted persons, as defined under the modified indenture.

Pursuant to the Plan, the 14 1/4% Senior Secured Notes due 2011 were cancelled on the Effective Date and the holders thereof received their pro rata portion of approximately $123.5 million aggregate principal amount of Modified Second Lien Notes.

On the Effective Date, IHC entered into a First Amendment to the Intercreditor Agreement, dated as of February 26, 2007 (as amended through the date hereof, the Amended Intercreditor Agreement), with Group, Holding, The Bank of New York Mellon, as First Lien Collateral Agent, and U.S. Bank National Association, as Second Lien Collateral Agent. Pursuant to the Amended Intercreditor Agreement, the Modified Second Lien Notes shall be subordinated in right of payment to the prior indefeasible payment in cash in full of all obligations under the Amended Term Loan.

Also on the Effective Date, IHC, each of the Grantors party thereto and U.S. Bank National Association, as collateral agent, entered into a First Amendment to the Collateral Agreement, dated as of February 26, 2007 (as amended through the date hereof, the Amended Collateral Agreement), to provide that the obligations of both IHC and PTII, an indirect wholly owned subsidiary of Group, shall be secured by PTII s assets, including 65% of the voting stock of foreign subsidiaries owned by PTII. In addition, on the Effective Date, Group and Holding entered into an Assumption Agreement in favor of U.S. Bank National Association, as collateral agent, pursuant to which each of Group and Holding became party to the Amended Collateral Agreement. As a result, Group and Holding s existing guarantees of the Modified Second Lien Notes are secured by a lien on the property of Group and Holding, respectively.

Warrant Agreements

As of the Effective Date, Group issued Class A warrants to purchase up to an aggregate of 3,000,000 shares of New Common Stock to holders of the Holding Notes. The Class A warrants consist of 1,000,000 each of Class A-1 warrants, Class A-2 warrants and Class A-3 warrants. In connection with the issuance of the Class A warrants, Group entered into a warrant agreement, dated as of the Effective Date (the Class A Warrant Agreement), with StockTrans, Inc., as warrant agent. Subject to the terms of the Class A Warrant Agreement, Class A-1 warrant holders are entitled to purchase up to 1,000,000 shares of New Common Stock at an initial exercise price of $12.22 per share, Class A-2 warrant holders are entitled to purchase up to 1,000,000 shares of New Common Stock at an initial exercise price of $16.53 per share, and Class A-3 warrant holders are entitled to

purchase up to 1,000,000 shares of New Common Stock at an initial exercise price of $20.50 per share. The Class A warrants have a five-year term and will expire on July 1, 2014. A holder may exercise Class A warrants by paying the applicable exercise price in cash. In addition, a holder may exercise Class A warrants on a cashless basis in connection with a change of control (as defined in the Class A Warrant Agreement), in connection with a transaction pursuant to an effective registration statement covering the sale of New Common Stock underlying such Class A warrants, or if the exercise occurs on a date when the daily volume-weighted average price of the New Common Stock for the immediately preceding 10 trading days exceeds 150% of the exercise price applicable to such Class A warrants. The Class A warrants are freely transferrable by the holder thereof.

As of the Effective Date, Group issued Class B warrants to purchase up to an aggregate of 1,500,000 shares of New Common Stock to holders of the Group Notes. In connection with the issuance of the Class B warrants, Group entered into a warrant agreement, dated as of the Effective Date (the Class B Warrant Agreement), with StockTrans, Inc., as warrant agent. Subject to the terms of the Class B Warrant Agreement, Class B warrant holders are entitled to purchase 1,500,000 shares of New Common Stock at an initial exercise price of $26.01 per share. The Class B warrants have a five-year term and will expire at on July 1, 2014. A holder may exercise Class B warrants by paying the applicable exercise price in cash. In addition, a holder may exercise Class B warrants on a cashless basis in connection with a change of control (as defined in the Class B Warrant Agreement), in connection with a transaction pursuant to an effective registration statement covering the sale of New Common Stock underlying such Class B warrants, or if the exercise occurs on a date when the daily volume-weighted average price of the New Common Stock for the immediately preceding 10 trading days exceeds 150% of the exercise price applicable to the Class B warrants. The Class B warrants are freely transferrable by the holder thereof.

The number of shares of New Common Stock issuable upon exercise of the Class A warrants and Class B warrants (together, the Warrants) and the exercise prices of the Warrants will be adjusted in connection with any dividend or distribution of New Common Stock, assets or cash (other than any regular cash dividend not to exceed in any fiscal year 45% of the consolidated net income of Group), or any subdivision or combination of the New Common Stock. In addition, the number of shares of New Common Stock issuable upon exercise of the Warrants and the exercise prices of the Warrants are also subject to adjustment in connection with any issuance, grant or sale to any person of (A) rights, warrants, options, exchangeable securities or convertible securities entitling such person to subscribe for, purchase or otherwise acquire shares of New Common Stock at a price per share less than the fair market value of the New Common Stock on the trading day immediately prior to such issuance, sale or grant, subject to certain exceptions, or (B) shares of New Common Stock at a price per share less than the fair market value of the New Common Stock on the trading day immediately prior to such issuance, sale or grant. Additionally, if any transaction or event occurs in which all or substantially all of the outstanding New Common Stock is converted into, exchanged for, or the holders thereof are otherwise entitled to receive on account thereof stock, other securities, cash or assets (each, a Fundamental Change Transaction) the holder of each Warrant outstanding immediately prior to the occurrence of such Fundamental Change Transaction shall have the right to receive upon exercise of the applicable Warrant the kind and amount of stock, other securities, cash and/or assets that such holder would have received if such Warrant had been exercised.

Contingent Value Rights Distribution Agreement

Pursuant to the terms of the Plan, Group issued to holders of Group s Old Common Stock Contingent Value Rights to receive up to an aggregate of 2,665,000 shares (the CVR Shares) of New Common Stock. In connection with the issuance of the Contingent Value Rights, Group entered into a Contingent Value Rights Distribution Agreement (the CVR Agreement), in favor of holders of CVRs thereunder, dated as of the Effective Date.

The CVRs may not be transferred by the holder thereof except in certain limited circumstances. Subject to the terms of the CVR Agreement, holders of CVRs will receive their pro rata share of up to 2,665,000 CVR Shares. A distribution of CVR Shares is required to be made by Group if, as of any determination date (described

Table of Contents

below), Group s equity value (assuming cash exercise in full on such date of in-the-money warrants and options of Group) divided by the sum of the number of shares of New Common Stock then issued and outstanding plus the number of shares of New Common Stock underlying warrants, options and similar securities of Group (other than CVRs) that are then in-the-money exceeds $35.95. The aggregate number of such shares of New Common Stock is referred to as the Applicable Shares; the price per share of $35.95, subject to adjustment as described below, is referred to as the CVR Strike Price; and the per share amount of any such excess over the CVR Strike Price is referred to as the Excess Equity Value Per Share. If such a distribution is required, the number of CVR Shares to be distributed by Group equals the product of Excess Equity Value Per Share multiplied by the number of Applicable Shares divided by the CVR Strike Price. Such product of Excess Equity Value Per Share and the number of Applicable Shares is referred to as the Excess Equity Value.

Group will determine if and to the extent a distribution of CVR Shares is required on January 1 and July 1 of each year, commencing on the first such date (but in no event later than July 1, 2013) on which data is available to confirm that Group s adjusted EBITDA for the immediately preceding four fiscal quarters is equal to at least $100 million, and upon a change of control of Group. Distributions of CVR Shares (if any) will be made within 45 calendar days of a determination by Group that a distribution is required.

Notwithstanding the foregoing, no distribution of CVR Shares is required to be made by Group unless Excess Equity Value exceeds $1 million as of any determination date.

The number of CVR Shares and the CVR Strike Price will be adjusted from time to time in connection with any stock dividend or distribution, or subdivision, split, combination, reclassification or recapitalization of the New Common Stock. In addition, if Group distributes to holders of New Common Stock any of its assets (including but not limited to cash), securities or rights to purchase securities of Group (other than any regular cash dividend not to exceed in any fiscal year 45% of the consolidated net income of Group for the immediately preceding fiscal year), then the number of CVR Shares will be increased and the CVR Strike Price will be decreased, in each case pursuant to the terms of the CVR Agreement. Additionally, in case of any reclassification, merger, consolidation, capital reorganization or other change in the capital stock of Group (other than in connection with a change of control) in which all or substantially all of the outstanding shares of New Common Stock are converted into or exchanged for stock, other securities or other property, Group shall make appropriate provision so that the holders of Contingent Value Rights shall thereafter be entitled to receive, at such time such holder would have otherwise been entitled to receive a distribution under the CVR Agreement, the kind and amount of stock and other securities and property having a value substantially equivalent to the value of New Common Stock that the holders of Contingent Value Rights would have been entitled to receive in connection with a distribution of CVR Shares immediately prior to such reclassification, merger, consolidation, reorganization or other change in the capital stock of Group at a CVR Strike Price that, in each case, is reasonably determined by the board of directors of Group after consultation with an independent valuation advisor to preserve, to the extent practicable, the intrinsic value of such CVR immediately prior to such event.

The Contingent Value Rights will expire and the CVR Agreement will terminate upon the earliest to occur of: (1) the date upon which no further CVR Shares are available for distribution, (2) the consummation of a change of control (subject to any potential distribution of CVR Shares as a result thereof), and (3) July 1, 2019.

Current Impact on Group s Subsidiaries that have not sought Reorganization. Group s subsidiaries other than Holding, IHC and PTII are not part of the Reorganization; operating subsidiary companies, including those in the United States, Australia, Canada, India, Europe and Brazil (the Operating Subsidiaries), were not party to the Reorganization and have continued to manage and to operate their businesses without interruption, and employees, customers, suppliers and partners of these Operating Subsidiaries have been unaffected by the filing of the Chapter 11 Cases.

Table of Contents

2. BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements of Primus Telecommunications Group, Incorporated and subsidiaries (the Company or Primus) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and Securities and Exchange Commission (SEC) regulations. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such principles and regulations. In the opinion of management, the financial statements reflect all adjustments (all of which are of a normal and recurring nature), which are necessary to present fairly the financial position, results of operations, cash flows and comprehensive income (loss) for the interim periods. The results for the three months and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

In accordance with Statement of Position (SOP) No. 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code, all pre-petition liabilities subject to compromise are segregated in the unaudited Consolidated Condensed Balance Sheets and classified as liabilities subject to compromise, at management s estimate of the amount of allowable claims. Liabilities not subject to compromise are separately classified as current and non-current in the unaudited Consolidated Condensed Balance Sheet as of June 30, 2009. Revenues, expenses, realized gains and losses, and provisions for losses that result from the reorganization are reported separately as reorganization items, net, in the unaudited Consolidated Condensed Statements of Operations for the three months and six months ended June 30, 2009. Net cash used for reorganization items is disclosed separately in the unaudited Consolidated Condensed Statements of Cash Flows. The outcome of the plan of reorganization could materially change the amounts reported in the financial statements, which do not give effect to all adjustments of the carrying value of assets or liabilities that might be necessary as a consequence of the plan, or the effect of any operational changes that may be made in the business.

After the emergence from bankruptcy on July 1, 2009, the amounts reported in the Company s subsequent financial statements may materially change. The Company will be required to adopt the fresh start provisions of SOP No. 90-7 in the third quarter 2009, which requires that all assets and liabilities be restated to their fair value. Certain of these fair values may differ materially from the values recorded on the accompanying Consolidated Condensed Balance Sheets. Additionally, the Company must also adopt any changes in generally accepted accounting principles (GAAP) that it is otherwise required to adopt within twelve months of such date. Furthermore, it may opt to make other changes in accounting principles and policies upon adoption of fresh start. For all of these reasons, the Company s financial statements for periods subsequent to July 1, 2009, the Effective Date of the emergence from bankruptcy, will not be comparable to previous periods.

The results for the three months and six months ended June 30, 2009 reflect the activities of certain operations as discontinued operations (see Note 10 Discontinued Operations).

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The consolidated financial statements include the Company s accounts, its wholly-owned subsidiaries and all other subsidiaries over which the Company exerts control. The Company owns 45.6% of Globility Communications Corporations (GCC) through direct and indirect ownership structures. The results of GCC and its subsidiary are consolidated with the Company s results based on guidance from Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46 (R), Consolidation of Variable Interest Entities-an Interpretation of Accounting Research Bulletins (ARB) No. 51. All intercompany profits, transactions and balances have been eliminated in consolidation. In the first quarter 2009, the Company sold certain assets of its Japan retail operations. Therefore, the Company reported Japan retail operations as a

Table of Contents

discontinued operation. During the second quarter of 2008, the Company intended and had the authority to sell certain assets of its German retail operations, and therefore, reported this unit as a discontinued operation. However, buyers were not found; therefore the Company decided it would cease operations of the German retail business during the first quarter of 2009.

Effective January 1, 2009, the Company adopted SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment to ARB No. 51, Consolidated Financial Statements. This statement changes the presentation of outstanding noncontrolling interests in one or more subsidiaries or the deconsolidation of those subsidiaries. The Company owns 45.6% of Globility Communications Corporations (GCC) through direct and indirect ownership structures. The results of GCC and its subsidiary are consolidated with the Company s results based on guidance from FIN No. 46 (R). Reconciliations at the beginning and the end of the period of the total equity, equity attributable to the Company and equity attributable to the noncontrolling interest (in thousands) for the six months ended June 30, 2008 and 2009 are as follows:

			As of June 30, 2008 Primus Telecommunications Group, Incorporated Shareholders					
			Common Stock					
	Total	Comprehensive Income	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interest
Balance as of January 1, 2008	$ (446,701)		142,633	$ 1,426	$ 718,695	$ (1,074,778)	$ (92,883)	$ 839
Stock Option Compensation Expense	132				132			
Comprehensive Income								
Net income	$ 43,793	$ 43,793				43,525		268
Other comprehensive loss	(4,073)	(4,073)					(4,048)	(25)
Comprehensive Income	39,720	$ 39,720						
Balance as of June 30, 2008	$ (406,849)		142,633	$ 1,426	$ 718,827	$ (1,031,253)	$ (96,931)	$ 1,082

			As of June 30, 2009 Primus Telecommunications Group, Incorporated Shareholders					
			Common Stock					
	Total	Comprehensive Income	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interest
Balance as of January 1, 2009	$ (458,725)		142,695	$ 1,427	$ 718,956	$ (1,099,809)	$ (82,113)	$ 2,814
Stock Option Compensation Expense	27				27			
Comprehensive Income								
Net income (loss)	39,325	$ 39,325				39,357		(32)
Other comprehensive income (loss)	(6,954)	(6,954)					(7,103)	149
Comprehensive Income	32,371	$ 32,371						
Balance as of June 30, 2009	$ (426,327)		142,695	$ 1,427	$ 718,983	$ (1,060,452)	$ (89,216)	$ 2,931

Presentation of Taxes Collected The Company reports any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between the Company and a customer (including sales, use, value-added and some excise taxes) on a net basis (excluded from revenues).

Table of Contents

Stock-Based Compensation The Company uses a Black-Scholes option valuation model to determine the fair value of stock-based compensation under Statements of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payments, consistent with that used for pro forma disclosures under SFAS No. 123. The Black-Scholes model incorporates various assumptions including the expected term of awards, volatility of stock price, risk-free rates of return and dividend yield. The expected term of an award is no less than the option vesting period and is based on the Company s historical experience. Expected volatility is based upon the historical volatility of the Company s stock price. The risk-free interest rate is approximated using rates available on U.S. Treasury securities with a remaining term similar to the option s expected life. The Company uses a dividend yield of zero in the Black-Scholes option valuation model as it does not anticipate paying cash dividends in the foreseeable future.

The Company recorded an incremental $11 thousand and $27 thousand stock-based compensation expenses for the three months and six months ended June 30, 2009, respectively, and an incremental $70 thousand and $132 thousand stock-based compensation expenses for the three and six months ended June 30, 2008, respectively, under guidance in SFAS No. 123(R).

The Company granted 125,000 options during the three months ended June 30, 2008. No options were granted during the three months ended June 30, 2009. The weighted average fair value at date of grant for options granted during the three months ended June 30, 2008 was $0.10 per option. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	For the Three Months Ended June 30, 2008
Expected dividend yield	0%
Expected stock price volatility	96%
Risk-free interest rate	3.0%
Expected option term	4 years

As of June 30, 2009, the Company had 0.9 million unvested awards outstanding of which $0.1 million of compensation expense will be recognized over the weighted average remaining vesting period of 1.98 years. Under the Plan or Reorganization, as described in Note 1 *Voluntary Reorganization under Chapter 11* above, all outstanding options were cancelled upon the July 1, 2009 Plan Effective Date.

Use of Estimates The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of net revenue and expenses during the reporting period. Actual results may differ from these estimates. Significant estimates include allowance for doubtful accounts receivable, accrued interconnection cost disputes, the fair value of embedded derivatives, market assumptions used in estimating the fair values of certain assets and liabilities such as marketable securities, long-term obligations and liabilities subject to compromise, the calculation used in determining the fair value of the Company s stock options required by SFAS No. 123(R), various tax contingencies, asset impairment write-downs, and purchase price allocations.

Newly Adopted Accounting Principles

Effective April 1, 2009, the Company adopted SFAS No. 165, Subsequent Events. SFAS No. 165 establishes principles and requirements for evaluating and reporting subsequent events and distinguishes which subsequent events should be recognized in the financial statements versus which subsequent events should be disclosed in the financial statements. SFAS No. 165 also requires disclosure of the date through which subsequent events are evaluated by management. The adoption did not have a material effect on the Company s results of operations, financial position or cash flows. Management has evaluated subsequent events through August 13, 2009, for this quarterly report on Form 10-Q, for the quarter ended June 30, 2009.

Table of Contents

Effective January 1, 2009, the Company adopted FSP No. 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). FSP No. 14-1 requires issuers of convertible debt securities to separate securities into a debt component and an equity component, resulting in the debt component being recorded at fair value without consideration given to the conversion feature. Issuance costs are also allocated between the debt and equity components. FSP No. 14-1 requires that convertible debt within its scope reflect a company s nonconvertible debt borrowing rate when interest expense is recognized. The adoption did not have a material effect on the Company s results of operations, financial position or cash flows.

Effective January 1, 2009, the Company adopted SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 identifies the sources of accounting principles and provides the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles in the United States. The adoption did not have a material effect on the Company s results of operations, financial position or cash flows.

Effective January 1, 2009, the Company adopted SFAS No. 141R, Business Combinations. SFAS No. 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. The adoption did not have a material effect on the Company s results of operations, financial position or cash flows.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-1, Application of FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 1 and FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157. The provisions of SFAS No. 157, Fair Value Measurements, which provide guidance for, among other things, the definition of fair value and the methods used to measure fair value, where adopted January 1, 2008 for financial instruments. The provisions adopted in 2008 did not have a material impact on the Company s financial statements. FSP 157-1 and FSP 157-2 collectively delayed the effective date of SFAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and liabilities (except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis) until financial years beginning after November 15, 2008, and changed the scope of SFAS No. 157. On January 1, 2009, the Company adopted the provisions of SFAS No. 157 for nonrecurring fair value measurements of nonfinancial assets and liabilities. The provisions adopted in the first quarter 2009 did not have an impact on the Company s financial statements as the Company did not have any fair value measurements of nonfinancial assets and liabilities as of June 30, 2009.

The valuation techniques required by SFAS No. 157 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Significant inputs to the valuation model are unobservable.

The Company has an outstanding cross-currency principal and interest rate agreement with Lehman Brothers Special Financing, Inc., who entered bankruptcy in October 2008 and ceased performing on the agreement. The Company has estimated the value to be zero, requiring a write-off of $1.2 million in the third quarter of 2008, and has moved the instrument from Level 2 to Level 3 because the counter party s credit risk is not observable.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging with the intent to provide users of financial statements with an enhanced understanding of the use of derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity s financial statements. SFAS No. 161 is effective for financial statements issued for fiscal years interim periods beginning after November 15, 2008. The adoption on January 1, 2009 did not have a material impact on the Company s results of operations, financial position and cash flows.

New Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, which establishes the FASB Accounting Standards Codification as the source of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements. The provisions of SFAS No. 168 will be applied prospectively beginning in the third quarter of 2009. The Company anticipates that the adoption of this standard will not have a material impact on its results of operations, financial position and cash flows.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46 (R), which amends the definition of the primary beneficiary of a variable interest entity and will require the Company to assess each reporting period if any of the Company s variable interests give it a controlling financial interest in the applicable variable interest entity. The provisions of SFAS No. 167 will become effective for financial statements issued for fiscal years and interim periods begin after November 15, 2009. The Company is currently evaluating the impact the provisions of SFAS No. 167 on its financial statements.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	As of June 30, 2009			As of December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer lists	$ 4,229	$ (3,806)	$ 423	$ 3,806	$ (3,150)	$ 656
Other	1,673	(1,614)	59	1,665	(1,575)	90
Total	$ 5,902	$ (5,420)	$ 482	$ 5,471	$ (4,725)	$ 746

Amortization expense for customer lists and other intangible assets for the three months ended June 30, 2009 and 2008 was $0.2 million and $0.5 million, respectively. Amortization expense for customer lists and other intangible assets for the six months ended June 30, 2009 and 2008 was $0.5 million and $1.0 million, respectively. The Company expects amortization expense for customer lists and other intangible assets for the remainder of 2009 and the year ended December 31, 2010 and 2011 to be approximately $0.1 million, $0.2 million and $0.1 million, respectively, excluding any potential changes to the intangible assets as a result of applying fresh start accounting as of July 1, 2009.

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

	As of June 30, 2009	As of December 31, 2008
Goodwill	$ 35,351	$ 32,688

15

Table of Contents

The changes in the carrying amount of goodwill for the six months ended June 30, 2009 are as follows (in thousands):

	United States	Canada	Asia-Pacific	Total
Balance as of January 1, 2009				
Gross Goodwill	$ 198,140	$ 102,777	$ 30,775	$ 331,692
Accumulated impairment losses	(197,983)	(80,864)	(20,157)	(299,004)
Net Goodwill	157	21,913	10,618	32,688
Effect of change in foreign currency exchange rate	32	1,267	1,364	2,663
Balance as of June 30, 2009				
Gross Goodwill	198,172	104,044	32,139	334,355
Accumulated impairment losses	(197,983)	(80,864)	(20,157)	(299,004)
Net Goodwill	$ 189	$ 23,180		