PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-Q
November 09, 2006

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2006

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934.

Commission File No. 0-29092

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

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

(703) 902-2800

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x Non-accelerated filer ¨

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 October 31, 2006
Common Stock $0.01 par value	113,848,540

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
NET REVENUE	$ 247,702	$ 290,430	$ 769,557	$ 892,055
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)	158,845	196,488	506,502	592,599
Selling, general and administrative	72,484	92,817	221,455	295,895
Depreciation and amortization	7,003	21,866	41,126	66,001
(Gain) loss on sale or disposal of assets	(205)	12,772	14,302	13,350
Asset impairment write-down			209,248	
Total operating expenses	238,127	323,943	992,633	967,845
INCOME (LOSS) FROM OPERATIONS	9,575	(33,513)	(223,076)	(75,790)
INTEREST EXPENSE	(13,199)	(13,551)	(40,681)	(39,572)
ACCRETION ON DEBT DISCOUNT	222		(1,344)	
CHANGE IN FAIR VALUE OF DERIVATIVES EMBEDDED WITHIN CONVERTIBLE DEBT			5,373	
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT		(4,160)	7,409	(5,865)
INTEREST AND OTHER INCOME	845	780	3,410	2,112
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	3,896	1,974	8,520	(4,379)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,339	(48,470)	(240,389)	(123,494)
INCOME TAX EXPENSE	(1,218)	(2,779)	(3,696)	(7,684)
INCOME (LOSS) FROM CONTINUING OPERATIONS	121	(51,249)	(244,085)	(131,178)
INCOME FROM DISCONTINUED INDIA OPERATIONS, net of tax		602	1,139	1,715
GAIN FROM SALE OF DISCONTINUED INDIA OPERATIONS, net of tax			7,415	
NET INCOME (LOSS)	$ 121	$ (50,647)	$ (235,531)	$ (129,463)
BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE:				
Income (loss) from continuing operations	$ 0.00	$ (0.52)	$ (2.18)	$ (1.41)
Income from discontinued India operations		0.01		0.02
Gain from sale of discontinued India operations			0.07	
Net income (loss)	$ 0.00	$ (0.51)	$ (2.11)	$ (1.39)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
BASIC	113,844	98,640	111,866	93,035
DILUTED	160,779	98,640	111,866	93,035

See notes to consolidated condensed financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

(unaudited)

	September 30, 2006	December 31, 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 70,828	$ 42,999
Accounts receivable (net of allowance for doubtful accounts receivable of $15,735 and $16,788)	119,419	141,909
Prepaid expenses and other current assets	25,901	31,905
Total current assets	216,148	216,813
RESTRICTED CASH	9,313	10,619
PROPERTY AND EQUIPMENT Net	108,539	285,881
GOODWILL	35,183	85,745
OTHER INTANGIBLE ASSETS Net	3,099	11,392
OTHER ASSETS	29,861	30,639
TOTAL ASSETS	$ 402,143	$ 641,089
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 75,556	$ 83,941
Accrued interconnection costs	50,379	64,333
Deferred revenue	19,807	30,037
Accrued expenses and other current liabilities	48,100	31,400
Accrued income taxes	17,379	16,339
Accrued interest	8,936	13,268
Current portion of long-term obligations	41,421	16,092
Total current liabilities	261,578	255,410
LONG-TERM OBLIGATIONS (net of discount of $5,742 and $-0-)	605,520	619,120
OTHER LIABILITIES	1,376	2,893
Total liabilities	868,474	877,423
COMMITMENTS AND CONTINGENCIES (See Note 6.)		
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; 113,848,540 and 105,254,552 shares issued and outstanding	1,138	1,053
Additional paid-in capital	692,876	686,196
Accumulated deficit	(1,085,569)	(850,038)
Accumulated other comprehensive loss	(74,776)	(73,545)
Total stockholders deficit	(466,331)	(236,334)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	$ 402,143	$ 641,089

See notes to consolidated condensed financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (235,531)	$ (129,463)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for doubtful accounts receivable	11,156	17,968
Stock compensation expense	481	
Depreciation and amortization	41,746	66,880
Loss on sale or disposal of assets	6,911	13,364
Asset impairment write-down	209,248	
Accretion of debt discount	1,344	
Equity investment write-off and loss		249
Change in fair value of derivatives embedded within convertible debt	(5,373)	
(Gain) loss on early extinguishment or restructuring of debt	(7,409)	5,865
Minority interest share of loss	(1,595)	(327)
Unrealized foreign currency transaction loss on intercompany and foreign debt	(9,676)	(988)
Changes in assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	15,638	11,858
Decrease in prepaid expenses and other current assets	7,238	5,547
(Increase) decrease in other assets	91	(1,813)
Decrease in accounts payable	(12,536)	(17,912)
Decrease in accrued interconnection costs	(15,850)	(5,087)
Increase, net, in deferred revenue, accrued expenses, accrued income taxes, other current liabilities and other liabilities	7,335	857
Decrease in accrued interest	(4,243)	(4,019)
Net cash provided by (used in) operating activities	8,975	(37,021)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(23,926)	(42,522)
Cash from disposition of business, net of cash disposed	12,947	
Cash used for business acquisitions, net of cash acquired	(224)	(226)
Decrease in restricted cash	1,196	5,421
Net cash used in investing activities	(10,007)	(37,327)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	32,441	109,717
Principal payments on long-term obligations	(9,117)	(16,146)
Proceeds from sale of common stock, net of issuance costs	4,935	221
Net cash provided by financing activities	28,259	93,792
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	602	(517)
NET CHANGE IN CASH AND CASH EQUIVALENTS	27,829	18,927
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	42,999	49,668
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 70,828	$ 68,595
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 43,197	$ 41,659

Cash paid for taxes	$	2,946	$	2,664
Non-cash investing and financing activities:				
Capital lease additions	$	66	$	809
Property and equipment, accrued in current liabilities	$		$	517
Business acquisition, financed by long-term obligations	$		$	2,064
Settlement of outstanding debt with issuance of common stock	$	1,351	$	17,000
Settlement of outstanding debt with issuance of new convertible debt	$	(27,417)	$	
Issuance of new convertible debt in exchange for convertible subordinated debentures	$	27,481	$	
Settlement of outstanding debt with issuance of new exchangeable debt	$	(54,750)	$	
Issuance of new exchangeable debt in exchange for convertible senior notes	$	47,102	$	

See notes to consolidated condensed financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
NET INCOME (LOSS)	$ 121	$ (50,647)	$ (235,531)	$ (129,463)
OTHER COMPREHENSIVE LOSS, NET OF TAX				
Foreign currency translation adjustment	(2,594)	(579)	(883)	(5,423)
Reclassification of foreign currency translation adjustment for loss from the India transaction included in net loss			(349)	
COMPREHENSIVE LOSS	$ (2,473)	$ (51,226)	$ (236,763)	$ (134,886)

See notes to consolidated condensed financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

1. 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 loss for the interim periods. The results for the nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

Our results for the nine months ended September 30, 2006 and the three and nine months ended September 30, 2005 reflect the activities of our India 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 and the notes thereto included in the Company s most recently filed Form 10-K.

2. 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 51% of the common stock of Matrix Internet, S.A. (Matrix), 51% of CS Communications Systems GmbH and CS Network GmbH (Citrus) and owned approximately 85% of Direct Internet Limited (DIL) (the India operations) through June 23, 2006, in all of which the Company has or had a controlling interest. In the second quarter of 2006, the Company consummated a share purchase agreement with Videsh Sanchar Nigam Limited (VSNL), whereby VSNL purchased 100% of the stock of DIL. The Company has agreed to purchase an additional 39% of Matrix with the purchase price to be paid in the Company s common stock and is awaiting certain conditions to be met before closing can be completed. All intercompany profits, transactions and balances have been eliminated in consolidation. The Company uses the equity method of accounting for its investment in Bekkoame Internet, Inc. (Bekko).

Presentation of Sales 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).

Stock-Based Compensation On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payments, which addresses the accounting for stock-based payment transactions whereby an entity receives employee services in exchange for equity instruments, including stock options. SFAS No. 123(R) eliminates the ability to account for stock-based compensation transactions using the intrinsic value method under Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and instead generally requires that such transactions be accounted for using a fair-value based method. The Company has elected the modified prospective transition method as permitted under SFAS No. 123(R), and accordingly prior periods have not been restated to reflect the impact of SFAS No. 123(R). The modified prospective transition method requires that stock-based compensation expense be recorded for all new and unvested stock options that are ultimately expected to vest as the requisite service is rendered beginning on January 1, 2006. Stock-based compensation for awards granted prior to January 1, 2006 is based upon the grant-date fair value of such compensation as determined under the pro forma provisions of SFAS No. 123, Accounting for Stock-Based Compensation. The Company issues new shares of common stock upon the exercise of stock options.

The Company uses a Black-Scholes option valuation model to determine the fair value of stock-based compensation under SFAS No. 123(R), 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 generally 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 also had an Employee Stock Purchase Plan, which was suspended on July 27, 2006, and allowed employees to elect to purchase stock at 85% of fair market value (determined monthly) and was considered compensatory under SFAS No. 123(R).

The Company recorded an incremental $246 thousand and $481 thousand of stock-based compensation expense during the three months and nine months ended September 30, 2006, respectively, as a result of the adoption of SFAS No. 123(R).

Prior to the adoption on January 1, 2006 of SFAS No. 123(R), the Company used the intrinsic value method to account for these plans under the recognition and measurement principles of APB Opinion No. 25 and related interpretations. The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation during 2005.

	For the Three Months Ended September 30, 2005		
	As Determined Under SFAS No. 123(R)	**As Reported Under APB No. 25**	**Difference**
Loss from continuing operations	$ (52,196)	$ (51,249)	$ (947)
Income from discontinued India operations	602	602	
Net loss	$ (51,594)	$ (50,647)	$ (947)
Basic income (loss) per share:			
Loss from continuing operations	$ (0.53)	$ (0.52)	$ (0.01)
Income from discontinued operations	0.01	0.01	
Net loss	$ (0.52)	$ (0.51)	$ (0.01)
Diluted income (loss) per share:			
Loss from continuing operations	$ (0.53)	$ (0.52)	$ (0.01)
Income from discontinued operations	0.01	0.01	
Net loss	$ (0.52)	$ (0.51)	$ (0.01)

	For the Nine Months Ended September 30, 2005		
	As Determined Under SFAS No. 123(R)	As Reported Under APB No. 25	Difference
Loss from continuing operations	$ (134,002)	$ (131,178)	$ (2,824)
Income from discontinued India operations	1,715	1,715	
Net loss	$ (132,287)	$ (129,463)	$ (2,824)
Basic income (loss) per share:			
Loss from continuing operations	$ (1.44)	$ (1.41)	$ (0.03)
Income from discontinued operations	0.02	0.02	
Net loss	$ (1.42)	$ (1.39)	$ (0.03)
Diluted income (loss) per share:			
Loss from continuing operations	$ (1.44)	$ (1.41)	$ (0.03)
Income from discontinued operations	0.02	0.02	
Net loss	$ (1.42)	$ (1.39)	$ (0.03)

The weighted average fair value, under SFAS No. 123(R), at date of grant for options granted during the three and nine months ended September 30, 2006 was $0.29 and $0.43 per option, respectively. The weighted average fair value, under SFAS No. 123(R), at date of grant for options granted during the three and nine months ended September 30, 2005 was $0.28 and $0.43, respectively. The fair value, under SFAS No. 123(R), of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	For the Three Months Ended September 30,	
	2006	2005
Expected dividend yield	0%	0%
Expected stock price volatility	94.9%	72.1%
Risk-free interest rate	5.1%	4.1%
Expected option term	4 years	4 years

Under SFAS No. 123(R), the Company was required to apply expense recognition provisions beginning January 1, 2006. As of September 30, 2006, the Company had 1.6 million unvested awards outstanding of which $0.7 million of compensation expense will be recognized over the weighted average remaining vesting period of 2.2 years.

On December 21, 2005, the Company accelerated the vesting of certain unvested stock options previously awarded under the Company s Equity Incentive Plan and Director Plan. The Company took this action because the future costs to be recognized if this action were not taken were disproportionate to the retention value of the stock options. As a result of this action, stock options to purchase up to 1.5 million shares of common stock, which would otherwise have vested over the next three years, became exercisable effective December 21, 2005. These stock options have exercise prices ranging from $1.61 to $6.30 per share. Based upon the closing stock price for the Company s common stock of $0.82 per share on December 21, 2005, all of these stock options were under water or out-of-the-money. Of the stock options whose vesting was accelerated, 0.6 million stock options were held by executive officers and 30,000 stock options were held by non-employee directors. Outstanding unvested stock options to purchase 1.5 million shares of the Company s common stock, with per share exercise prices ranging from $0.62 to $0.92, were not accelerated.

Derivative Instruments The Company does not hold or issue derivative instruments for trading purposes. During the three months ended March 31, 2006, the Company had entered into financing arrangements that contained embedded derivative features due to the Company having insufficient authorized shares. The Company accounted for these arrangements in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , and Emerging Issues Task Force (EITF) Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock , as well as related interpretations of these standards. The Company bifurcated embedded derivatives that were not clearly and closely related to the host contract and recorded them as a liability in its balance sheet at their estimated fair value. Changes in their estimated fair value of $5.4 million were recognized in earnings during the period of change. Since June 20, 2006, when authorization for sufficient authorized shares was obtained, the feature that established the embedded derivative no longer exists. The fair value of the embedded derivative at June 20, 2006, was added back to the debt balance.

The Company estimated the fair value of its embedded derivatives using available market information and appropriate valuation methodologies. These embedded derivatives derived their value primarily based on changes in the price and volatility of the Company s common stock. Considerable judgment is required in interpreting market data to develop the estimates of fair value.

Accounting for derivatives was based upon valuations of derivative instruments determined using various valuation techniques including Black-Scholes and binomial pricing methodologies. The Company considered such valuations to be significant estimates.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R), SFAS No. 158 requires recognition of the over- or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur. SFAS No. 158 also requires measurement of the funded status of a plan as of the date of the statement of financial position. SFAS No. 158 is effective for recognition of the funded status of the benefit plans for fiscal years ending after December 15, 2006 and is effective for the measurement date provisions for fiscal years ending after December 15, 2008. 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 September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurement. SFAS No. 157 does not require new fair value measurements and the Company does not expect the application of this standard to change our current practices. The provisions of SFAS No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently assessing the impact that adoption of SFAS No. 157 will have on its results of operations, financial position and cash flows.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, which is effective for fiscal years beginning after December 15, 2006. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. This Interpretation prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The Company is currently evaluating the impact of adopting FIN No. 48 on its results of operations, financial position and cash flows.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140. SFAS No. 155 clarifies certain issues relating to embedded derivatives and beneficial interests in securitized financial assets. The provisions of SFAS No. 155 are effective for all financial instruments acquired or issued after fiscal years beginning after September 15, 2006. The Company is currently assessing the impact that the adoption of SFAS 155 will have on its results of operations, financial position and cash flows.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	As of September 30, 2006			As of December 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer lists	$ 3,541	$ (473)	$ 3,068	$ 190,370	$ (179,863)	$ 10,507
Brand name acquired				3,420	(3,148)	272
Other	257	(226)	31	2,400	(1,787)	613
Total	$ 3,798	$ (699)	$ 3,099	$ 196,190	$ (184,798)	$ 11,392

Amortization expense for customer lists, brand name and other intangible assets for the three months ended September 30, 2006 and 2005 was $0.7 million and $3.9 million, respectively. Amortization expense for customer lists, brand name and other intangible assets for the nine months ended September 30, 2006 and 2005 was $4.3 million and $12.7 million, respectively. The Company expects amortization expense for customer lists, brand name and other intangible assets for the remainder of 2006 and the fiscal years ended December 31, 2007, 2008 and 2009 to be approximately $0.5 million, $1.5 million, $0.8 million and $0.3 million, respectively.

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

	As of September 30, 2006	As of December 31, 2005
Goodwill	$ 35,183	$ 85,745

The changes in the carrying amount of goodwill for the nine months ended September 30, 2006 are as follows (in thousands):

	United States and Other	Canada	Europe	Asia-Pacific	Total
Balance as of January 1, 2006	$ 36,771	$ 31,427	$ 1,822	$ 15,725	$ 85,745
Goodwill impairment write-down	(21,769)	(19,337)	(1,927)	(8,880)	(51,913)
Sale of discontinued operations				(723)	(723)
Effect of change in foreign currency exchange rates	230	1,521	105	218	2,074
Balance as of September 30, 2006	$ 15,232	$ 13,611	$	$ 6,340	$ 35,183

4. LONG-TERM OBLIGATIONS

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

	As of September 30, 2006	As of December 31, 2005
Obligations under capital leases	$ 6,449	$ 7,612
Leased fiber capacity	13,505	19,717
Senior secured term loan facility	98,500	99,250
Financing facility and other	32,633	17,454
Senior notes	306,560	309,060
Convertible senior notes	75,757	132,000
Exchangeable senior notes	67,603	
Step up convertible subordinated debentures	23,232	
Convertible subordinated debentures	22,702	50,119
Subtotal	646,941	635,212
Less: Current portion of long-term obligations	(41,421)	(16,092)
Total long-term obligations	$ 605,520	$ 619,120

Payments of principal and interest were due as follows (in thousands):

Year Ending December 31,	Vendor Financing	Senior Secured Term Loan Facility (1)	Financing Facility and Other	Senior Notes	Convertible and Exchangeable Senior Notes (2) (3)	Step Up Convertible Subordinated Debentures	Convertible Subordinated Debentures	Total
2006 (as of September 30, 2006)	$ 2,390	$ 3,110	$ 961	$ 4,562	$ 1,424	$	$	$ 12,447
2007	12,49							