PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-Q
August 14, 2007
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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 June 30, 2007

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 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 July 31, 2007**
Common Stock $0.01 par value	**142,632,540**

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
NET REVENUE	$ 227,357	$ 250,071	$ 454,377	$ 517,705
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)	142,218	167,465	286,874	345,680
Selling, general and administrative	68,879	71,557	137,212	147,391
Depreciation and amortization	7,343	16,497	13,900	34,068
Loss on sale or disposal of assets	676	13,495	684	14,507
Asset impairment write-down		209,248		209,248
Total operating expenses	219,116	478,262	438,670	750,894
INCOME (LOSS) FROM OPERATIONS	8,241	(228,191)	15,707	(233,189)
INTEREST EXPENSE	(16,424)	(13,801)	(29,858)	(27,470)
ACCRETION ON DEBT DISCOUNT, NET	(76)	(1,174)	(374)	(1,566)
CHANGE IN FAIR VALUE OF DERIVATIVES EMBEDDED WITHIN CONVERTIBLE DEBT		2,850		5,373
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	(2,315)	4,796	(8,274)	7,409
INTEREST AND OTHER INCOME	1,058	1,993	2,554	2,560
FOREIGN CURRENCY TRANSACTION GAIN	15,081	6,637	18,055	4,625
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	5,565	(226,890)	(2,190)	(242,258)
INCOME TAX BENEFIT (EXPENSE)	6,691	(1,229)	5,686	(2,478)
INCOME (LOSS) FROM CONTINUING OPERATIONS	12,256	(228,119)	3,496	(244,736)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(155)	750	5	1,669
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax		7,415	5,958	7,415
NET INCOME (LOSS)	$ 12,101	$ (219,954)	$ 9,459	$ (235,652)
BASIC INCOME (LOSS) PER COMMON SHARE:				
Income (loss) from continuing operations	$ 0.11	$ (2.00)	$ 0.03	$ (2.21)
Income (loss) from discontinued operations	(0.01)			0.01
Gain from sale of discontinued operations		0.07	0.05	0.07
Net income (loss)	$ 0.10	$ (1.93)	$ 0.08	$ (2.13)
DILUTED INCOME (LOSS) PER COMMON SHARE:				
Income (loss) from continuing operations	$ 0.07	$ (2.00)	$ 0.02	$ (2.21)
Income from discontinued operations				0.01
Gain from sale of discontinued operations		0.07	0.04	0.07

Net income (loss)	$ 0.07	$ (1.93)	$ 0.06	$ (2.13)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
BASIC	115,715	113,809	114,928	110,862
DILUTED	184,719	113,809	184,467	110,862

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

(unaudited)

	June 30, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 104,684	$ 64,317
Accounts receivable (net of allowance for doubtful accounts receivable of $12,451 and $17,296)	116,975	118,012
Prepaid expenses and other current assets	24,860	24,278
Total current assets	246,519	206,607
RESTRICTED CASH	8,355	8,415
PROPERTY AND EQUIPMENT Net	126,271	111,682
GOODWILL	37,223	34,893
OTHER INTANGIBLE ASSETS Net	1,991	2,762
OTHER ASSETS	30,256	27,891
TOTAL ASSETS	$ 450,615	$ 392,250
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 72,244	$ 70,586
Accrued interconnection costs	45,622	48,942
Deferred revenue	16,806	18,315
Accrued expenses and other current liabilities	53,734	46,984
Accrued income taxes	19,657	17,921
Accrued interest	12,596	13,627
Current portion of long-term obligations	14,109	36,997
Total current liabilities	234,768	253,372
LONG-TERM OBLIGATIONS (net of premium (discount) of $2,454 and ($5,354))	682,232	607,077
OTHER LIABILITIES	61	56
Total liabilities	917,061	860,505
COMMITMENTS AND CONTINGENCIES (See Note 5.)		
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; 120,132,540 and 113,848,540 shares issued and outstanding	1,201	1,138
Additional paid-in capital	699,630	692,941
Accumulated deficit	(1,084,528)	(1,087,996)
Accumulated other comprehensive loss	(82,749)	(74,338)

Total stockholders deficit	(466,446)	(468,255)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	$ 450,615	$ 392,250

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 9,459	$ (235,652)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for doubtful accounts receivable	4,885	8,188
Stock compensation expense	125	235
Depreciation and amortization	13,946	34,743
(Gain) loss on sale or disposal of assets	(5,078)	7,116
Asset impairment write-down		209,248
Accretion of debt discount	374	1,566
Change in fair value of derivatives embedded within convertible debt		(5,373)
(Gain) loss on early extinguishment or restructuring of debt	8,274	(7,409)
Other		(1,556)
Unrealized foreign currency transaction gain on intercompany and foreign debt	(19,507)	(5,934)
Changes in assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	1,028	15,471
Decrease in prepaid expenses and other current assets	2,053	8,568
Increase in other assets	(106)	(141)
Decrease in accounts payable	(556)	(7,796)
Decrease in accrued interconnection costs	(4,645)	(16,225)
Increase (decrease) in accrued expenses, accrued income taxes, deferred revenue, other current liabilities and other liabilities, net	(3,915)	10,274
Decrease in accrued interest	(1,029)	(474)
Net cash provided by operating activities	5,308	14,849
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(17,041)	(16,120)
Cash from disposition of business, net of cash disposed	5,527	12,954
Cash used in business acquisitions, net of cash acquired		(179)
Decrease in restricted cash	596	2,021
Net cash used in investing activities	(10,918)	(1,324)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	109,275	35,291
Deferred financing costs	(6,570)	(2,850)
Principal payments on long-term obligations	(58,179)	(6,847)
Proceeds from sale of common stock, net of issuance costs		4,923
Net cash provided by financing activities	44,526	30,517
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,451	357
NET CHANGE IN CASH AND CASH EQUIVALENTS	40,367	44,399
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	64,317	42,999
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 104,684	$ 87,398

SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest	$	29,776	$	26,794
Cash paid for taxes	$	669	$	671
Non-cash investing and financing activities:				
Capital lease additions	$	1,981	$	21
Leased fiber capacity additions	$	1,786	$	
Settlement of outstanding debt with issuance of common stock	$	6,627	$	1,351
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 debentures	$		$	47,102
Business disposition proceeds in note receivable	$	641	$	

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
NET INCOME (LOSS)	$ 12,101	$ (219,954)	$ 9,459	$ (235,652)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX				
Foreign currency translation adjustment	(6,795)	2,617	(8,411)	1,712
Reclassification of foreign currency translation adjustment for loss from the India transaction included in net loss		(349)		(349)
COMPREHENSIVE INCOME (LOSS)	$ 5,306	$ (217,686)	$ 1,048	$ (234,289)

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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 three or six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The results for the three months and six months ended June 30, 2007 and June 30, 2006 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.

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. All intercompany profits, transactions and balances have been eliminated in consolidation. 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). In June 2007, the Company entered into an agreement to sell Citrus, subject to the buyer obtaining financing. The Company has agreed to purchase an additional 39% of Matrix with the purchase price to be paid in cash and is awaiting certain conditions to be met before closing can be completed. The Company uses the equity method of accounting for its investment in Bekkoame Internet, Inc. (Bekko). The Company entered into a share purchase agreement in the second quarter 2007 to sell its minority equity interest in Bekko for approximately $1.4 million. The sale is expected to be completed in October 2007.

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

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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.

In November 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 123R-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards. The Company elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of share-based compensation. The alternative transition method includes simplified methods to determine the beginning balance of the additional paid in capital (APIC) pool related to the tax effects of share-based compensation and to determine the subsequent impact on the APIC pool and the statement of cash flows of the tax effects of share-based award that were fully vested and outstanding upon the adoption of SFAS No. 123(R).

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 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 which 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 $67 thousand and $125 thousand stock-based compensation expense during the three months and six months ended June 30, 2007 and an incremental $122 thousand and $235 thousand during the three months and six months ended June 30, 2006, as a result of the adoption of SFAS No. 123(R).

The Company granted 90,000 options during the three months ended June 30, 2007. The weighted average fair value at date of grant for options granted during the three months ended June 30, 2007 was $0.32 per option. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	For the Three Months Ended June 30,	
	2007	**2006**
Expected dividend yield	0%	0%
Expected stock price volatility	95%	96%
Risk-free interest rate	5.0%	5.1%
Expected option term	4 years	4 years

As of June 30, 2007, the Company had 1.0 million unvested awards outstanding of which $0.3 million of compensation expense will be recognized over the weighted average remaining vesting period of 1.44 years.

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.

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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 long-term obligations, the calculation used in determining the fair value of the Company s stock options required by SFAS No. 123(R), various tax contingencies and the asset impairment write-down.

Reclassification Certain previous year amounts have been reclassified to conform with current year presentations, as related to the reporting of the Company s discontinued operations.

New Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company anticipates that the adoption of this standard will not have a material impact on our 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 its 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 anticipates that the adoption of this standard will not have a material impact on its results of operations, financial position and cash flows.

Newly Adopted Accounting Principle

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 Statement 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 a company has taken or expects to take on a tax return. See Note 8 Income Taxes.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	As of June 30, 2007			As of December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer lists	$ 3,817	$ (1,838)	$ 1,979	$ 3,537	$ (933)	$ 2,604
Other	293	(281)	12	252	(94)	158
Total	$ 4,110	$ (2,119)	$ 1,991	$ 3,789	$ (1,027)	$ 2,762

Amortization expense for customer lists and other intangible assets for the three months ended June 30, 2007 and 2006 was $1.0 million and $1.6 million, respectively. Amortization expense for customer lists and other intangible assets for the six months ended June 30, 2007 and 2006 was $1.5 million and $3.6 million, respectively. The Company expects amortization expense for customer lists and other intangible assets for the remainder of 2007 and the years ended December 31, 2008 and 2009 to be approximately $0.7 million, $1.0 million and $0.3 million, respectively.

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

	As of June 30, 2007	As of December 31, 2006
Goodwill	$ 37,223	$ 34,893

The changes in the carrying amount of goodwill for the six months ended June 30, 2007 are as follows (in thousands):

	Canada	Asia-Pacific	Total
Balance as of January 1, 2007	$ 23,082	$ 11,811	$ 34,893
Effect of change in foreign currency exchange rates	2,045	285	2,330
Balance as of June 30, 2007	$ 25,127	$ 12,096	$ 37,223

4. LONG-TERM OBLIGATIONS

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

	June 30, 2007	December 31, 2006
Obligations under capital leases	$ 7,989	$ 6,451
Leased fiber capacity	12,631	13,543
Senior secured term loan facility	97,750	98,250
Financing facility and other	35,583	31,012
Senior notes	265,813	306,560
Senior secured notes	114,605	
Exchangeable senior notes	66,180	66,180
Convertible senior notes	76,017	75,842
Step up convertible subordinated debentures	19,773	23,534
Convertible subordinated debentures		22,702
Subtotal	696,341	644,074
Less: Current portion of long-term obligations	(14,109)	(36,997)
Total long-term obligations	$ 682,232	$ 607,077

Payments of principal and interest of the June 30, 2007 long-term obligations are due as follows:

Year Ending December 31,	Vendor Financing	Senior Secured Term Loan Facility (1)	Financing Facility and Other (2)	Senior Notes	Convertible and Exchangeable Senior Notes (3)	Step Up Convertible Subordinated Debentures	Senior Secured Notes	Total
2007 (as of June 30, 2007)	$ 5,571	$ 6,397	$ 1,854	$ 11,364	$ 4,265	$ 787	$ 7,710	$ 37,948
2008	9,883	12,703	3,298	22,729	5,713	1,724	15,420	71,470
2009	3,528	12,582	3,169	53,542	5,713	24,279	15,420	118,233

2010	3,057	12,460	3,169	18,800	137,878		15,420	190,784
2011	322	94,250	3,169	18,800			115,920	232,461
Thereafter	719		35,849	282,000				318.568
Total Minimum Principal & Interest Payments	23,080	138,392	50,508	407,235	153,569	26,790	169,890	969,464
Less: Amount Representing Interest	(2,460)	(40,642)	(14,925)	(141,422)	(19,996)	(4,309)	(61,680)	(285,434)
Face Value of Long-Term Obligations	20,620	97,750	35,583	265,813	133,573	22,481	108,210	684,030
Less: Amount Representing Premium (Discount)					(1,233)	(2,708)	6,395	2,454
Add: Exchangeable Senior Notes Interest Treated as Long-Term Obligations					9,857			9,857
Book Value of Long Term Obligations	$ 20,620	$ 97,750	$ 35,583	$ 265,813	$ 142,197	$ 19,773	$ 114,605	$ 696,341

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(1) For preparation of this table, we have assumed the interest rate of the Senior Secured Term Loan Facility to be 12.1%, which is the interest rate at June 30, 2007.

(2) For preparation of this table, we have assumed the interest rate of the Financing Facility to be 9.57%, which is the interest rate at June 30, 2007.

(3) For preparation of this table, we have shown separately the cash interest payments of PTHI s (as defined below) 5% Exchangeable Senior Notes as a portion of long-term obligations (see *Senior Notes, Senior Secured Notes, Convertible Senior Notes, Exchangeable Senior Notes, Step Up Convertible Subordinated Debentures and Convertible Subordinated Debentures* below). The interest due on the 5% Exchangeable Senior Notes in 2007, 2008, 2009 and 2010 is $2.8 million, $2.8 million, $2.8 million and $1.4 million, respectively.

The indentures governing the senior notes, senior secured notes, senior secured term loan facility, convertible senior notes, step up convertible subordinated debentures and convertible subordinated debentures, as well as other credit arrangements, contain certain financial and other covenants which, among other things, will restrict the Company s ability to incur further indebtedness and make certain payments, including the payment of dividends and repurchase of subordinated debt held by the Company. The Company was in compliance with the above covenants