

SUNCOM WIRELESS HOLDINGS, INC.

Form 10-Q

July 31, 2007

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

**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.**

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 1-15325

SUNCOM WIRELESS HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

23-2974475

(I.R.S. employer
identification no.)

1100 Cassatt Road

Berwyn, Pennsylvania 19312

(Address and zip code of principal executive offices)

(610) 651-5900

(Registrant's telephone number, including area code)

Indicate by a 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 No

Indicate by a 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.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of July 20, 2007, 59,228,826 shares of the registrant's Class A common stock, par value \$0.01 per share, were outstanding.

Table of Contents

**SUNCOM WIRELESS HOLDINGS, INC.
SECOND QUARTER REPORT
TABLE OF CONTENTS**

	Page No.
<u>PART I. Financial Information</u>	
<u>Item 1 Financial Statements (unaudited)</u>	
<u>Consolidated Balance Sheets at June 30, 2007 and December 31, 2006</u>	3
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2007 and 2006</u>	4
<u>Consolidated Statements of Stockholders' Equity (Deficit) for the Six Months Ended June 30, 2007 and 2006</u>	5
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2007 and 2006</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	28
<u>Item 4 Controls and Procedures</u>	28
<u>PART II. Other Information</u>	
<u>Item 1 Legal Proceedings</u>	29
<u>Item 1A Risk Factors</u>	29
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
<u>Item 3 Defaults Upon Senior Securities</u>	31
<u>Item 4 Submission of Matters to a Vote of Security Holders</u>	31
<u>Item 5 Other Information</u>	33
<u>Item 6 Exhibits</u>	33
<u>Letter Agreement Waiver, dated May 14, 2007</u>	
<u>Certification of Chief Executive Officer</u>	
<u>Certification of Chief Financial Officer</u>	
<u>Certification of Vice President of Accounting and Controller</u>	
<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(b)</u>	
<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(b)</u>	

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

SUNCOM WIRELESS HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except par value)
(Unaudited)

	June 30, 2007	December 31, 2006
ASSETS:		
<i>Current assets:</i>		
Cash and cash equivalents	\$ 55,638	\$ 37,683
Short-term investments	127,300	157,600
Restricted cash and restricted short-term investments	1,711	1,668
Accounts receivable, net of allowance for doubtful accounts of \$8,741 and \$8,895, respectively	94,235	96,255
Accounts receivable - roaming partners	17,493	14,811
Inventory, net	28,205	27,441
Prepaid expenses	22,990	16,446
Assets held for sale	377	11,446
Other current assets	6,655	11,960
Total current assets	354,604	375,310
<i>Long-term assets:</i>		
Property and equipment, net	453,198	480,880
Intangible assets, net	777,794	794,250
Other long-term assets	10,742	4,419
Total assets	\$ 1,596,338	\$ 1,654,859
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
<i>Current liabilities:</i>		
Accounts payable	\$ 78,935	\$ 71,602
Accrued liabilities	55,344	89,134
Current portion of long-term debt	2,792	2,810
Other current liabilities	26,994	24,937
Total current liabilities	164,065	188,483
<i>Long-term debt:</i>		
Capital lease obligations	389	531
Senior secured term loan	241,250	242,500
Senior notes	714,977	714,341
Senior long-term debt	956,616	957,372
Subordinated notes	12,205	732,365

Total long-term debt	968,821	1,689,737
Deferred income taxes, net	146,993	143,124
Deferred revenue	1,520	1,766
Deferred gain on sale of property and equipment	57,866	46,173
Other	5,551	2,468
Total liabilities	1,344,816	2,071,751
Commitments and contingencies		
Stockholders equity (deficit):		
Preferred stock, \$0.01 par value, 70,000,000 shares authorized; no shares issued or outstanding as of June 30, 2007 and December 31, 2006		
Class A common stock, \$0.01 par value, 580,000,000 shares authorized, 59,341,576 shares issued and 59,228,826 shares outstanding as of June 30, 2007; and 520,000,000 shares authorized, 6,511,238 shares issued and 6,333,119 shares outstanding as of December 31, 2006 (see Note 2)	592	633
Class B non-voting common stock, \$0.01 par value, no shares authorized as of June 30, 2007; 60,000,000 shares authorized; 792,610 shares issued and outstanding as of December 31, 2006		79
Additional paid-in capital	1,502,822	611,961
Accumulated deficit	(1,250,151)	(1,027,824)
Class A common stock held in trust		(173)
Deferred compensation		173
Class A common stock held in treasury, at cost (112,750 and 178,119 shares, respectively)	(1,741)	(1,741)
Total stockholders equity (deficit)	251,522	(416,892)
Total liabilities and stockholders equity (deficit)	\$ 1,596,338	\$ 1,654,859

See accompanying notes to financial statements.

Table of Contents

SUNCOM WIRELESS HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Revenue:				
Service	\$ 195,674	\$ 164,430	\$ 382,109	\$ 319,897
Roaming	25,099	19,519	47,101	40,985
Equipment	21,681	22,739	46,164	47,698
Total revenue	242,454	206,688	475,374	408,580
Operating expenses:				
Cost of service (excluding the below amortization and excluding depreciation and asset disposal of \$18,134 and \$82,856 for the three months ended June 30, 2007 and 2006, respectively, and \$39,147 and \$184,527 for the six months ended June 30, 2007 and 2006, respectively)	66,262	66,717	129,194	134,665
Cost of equipment	34,792	32,270	73,659	71,491
Selling, general and administrative (excluding depreciation and asset disposal of \$2,801 and \$1,675 for the three months ended June 30, 2007 and 2006, respectively, and \$5,934 and \$3,503 for the six months ended June 30, 2007 and 2006, respectively)	91,626	83,385	180,666	172,012
Termination benefits and other related charges		658		1,556
Depreciation and asset disposal	20,935	84,531	45,081	188,030
Amortization	7,243	10,689	15,077	22,193
Total operating expenses	220,858	278,250	443,677	589,947
Income (loss) from operations	21,596	(71,562)	31,697	(181,367)
Interest expense	(29,635)	(38,167)	(67,969)	(75,909)
Interest and other income	2,422	3,313	4,826	7,407
Loss on debt-for-equity exchange	(182,868)		(182,868)	
Loss before taxes	(188,485)	(106,416)	(214,314)	(249,869)
Income tax provision	(4,504)	(3,991)	(7,602)	(7,743)
Net loss	(\$192,989)	(\$110,407)	(\$221,916)	(\$257,612)
Net loss per common share (basic and diluted)	(\$5.80)	(\$16.07)	(\$11.02)	(\$37.59)

Weighted average common shares outstanding (basic and diluted)	33,246,761	6,868,498	20,143,932	6,852,413
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See accompanying notes to financial statements.

4

Table of Contents

SunCom Wireless Holdings, Inc.
Consolidated Statements of Stockholders Equity (Deficit)
(Dollars in thousands)

	Class		Common				Total	
	Class A	Class B Non-Voting	Additional Paid-In Capital	Deferred Compensation	Stock Held in Trust	Treasury Stock	Accumulated Deficit	Stockholders Equity (Deficit)
Balance at December 31, 2006	\$ 633	\$ 79	\$ 611,961	\$ 173	\$ (173)	\$ (1,741)	\$ (1,027,824)	\$ (416,892)
Adoption of FASB Interpretation No. 48 (FIN 48)							(411)	(411)
Deferred compensation, net of forfeitures	7		(7)					
Termination of deferred compensation plan				(173)	173			
Conversion of Class B to Class A	79	(79)						
Reverse stock split	(647)		647					
Stock issuance in connection with debt-for-equity exchange	520		889,165					889,685
Non-cash compensation			1,099					1,099
Net loss							(221,916)	(221,916)
Other			(43)					(43)
Balance at June 30, 2007	\$ 592	\$	\$ 1,502,822	\$	\$	\$ (1,741)	\$ (1,250,151)	\$ 251,522

Balance at December 31, 2005	\$ 627	\$ 79	\$ 607,849	\$ 145	\$ (145)	\$ (1,375)	\$ (690,446)	\$ (83,266)
Deferred compensation, net of forfeitures	6		(6)	5	(5)			
Non-cash compensation			3,021					3,021
Purchase of treasury stock						(366)		(366)
Net loss							(257,612)	(257,612)
Balance at June 30, 2006	\$ 633	\$ 79	\$ 610,864	\$ 150	\$ (150)	\$ (1,741)	\$ (948,058)	\$ (338,223)

Table of Contents

SUNCOM WIRELESS HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30,	2007	2006
Cash flows from operating activities:			
Net loss		(\$221,916)	(\$257,612)
Adjustments to reconcile net loss to net cash used in operating activities, net of effects from divestitures:			
Depreciation, asset disposal and amortization		60,158	210,223
Deferred income taxes		6,489	7,171
Accretion of interest		2,069	2,215
Bad debt expense		14,100	10,065
Non-cash compensation		1,099	3,021
Loss on debt-for-equity exchange		182,868	
Change in operating assets and liabilities:			
Accounts receivable		(16,949)	(10,707)
Inventory		(764)	7,561
Prepaid expenses and other current assets		(7,422)	(5,831)
Intangible and other assets		(5,199)	(807)
Accounts payable		5,018	(1,473)
Accrued payroll and liabilities		(5,961)	(6,547)
Deferred revenue		661	2,829
Accrued interest		(17,814)	(46)
Other liabilities		(536)	(2,421)
Net cash used in operating activities		(4,099)	(42,359)
Cash flows from investing activities:			
Purchase of available for sale securities		(337,950)	(436,604)
Proceeds from sale of available for sale securities		368,250	540,800
Proceeds from sale of assets		27,530	1,590
Payment of direct costs on business transactions		(451)	(54)
Capital expenditures		(16,347)	(42,173)
Other			(37)
Net cash provided by investing activities		41,032	63,522
Cash flows from financing activities:			
Payments under senior secured term loan		(1,250)	(1,250)
Change in bank overdraft		(9,474)	(6,270)
Principal payments under capital lease obligations		(160)	(151)
Payment of direct costs on debt-for-equity exchange		(8,078)	(2,886)
Purchase of treasury stock			(366)
Other		(16)	

Net cash used in financing activities	(18,978)	(10,923)
Net increase in cash and cash equivalents	17,955	10,240
Cash and cash equivalents, beginning of period	37,683	16,083
Cash and cash equivalents, end of period	\$ 55,638	\$ 26,323
Non-cash investing and financing activities		
Change in capital expenditures included in accounts payable	\$ 2,661	(\$1,284)
Change in direct transaction costs included in accrued expenses	(517)	
Fair value of equity issued in the debt-for-equity exchange	889,685	
Carrying value of debt retired in the debt-for-equity exchange	(720,977)	
Write-off of deferred financing costs in connection with the debt-for- equity exchange	896	

See accompanying notes to financial statements.

Table of Contents

SUNCOM WIRELESS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

1. Basis of Presentation

The accompanying consolidated financial statements are unaudited and have been prepared by management. In the opinion of management, these consolidated financial statements contain all of the adjustments, consisting of normal recurring adjustments, necessary to state fairly, in summarized form, the financial position and the results of operations of SunCom Wireless Holdings, Inc. (Holdings) and its wholly-owned subsidiaries (collectively, the Company). SunCom Wireless refers to SunCom Wireless, Inc., an indirect wholly-owned subsidiary of Holdings. The results of operations for the three and six months ended June 30, 2007 may not be indicative of the results that may be expected for the year ending December 31, 2007. The financial information presented herein should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2006, which include information and disclosures not included herein.

All significant intercompany accounts or balances have been eliminated in consolidation.

Certain reclassifications have been made to prior period financial statements to conform to the current period presentation.

2. Debt-for-Equity Exchange

The construction of the Company's network and the marketing and distribution of wireless communications products and services have required, and will continue to require, substantial capital. Capital outlays have included license acquisition costs, capital expenditures for network construction, funding of operating cash flow losses and other working capital costs, debt service and financing fees and expenses. The Company will have additional capital requirements, which could be substantial, for future upgrades and advances in new technology.

Therefore, on January 31, 2007, Holdings, SunCom Wireless and SunCom Wireless Investment Company LLC, a Delaware limited liability company and a wholly-owned subsidiary of Holdings, and certain holders of the 9³/₈% Senior Subordinated Notes due 2011 and 8³/₄% Senior Subordinated Notes due 2011 of SunCom Wireless, or collectively the SunCom Wireless Subordinated Notes, entered into an Exchange Agreement, which was amended on May 15, 2007. Pursuant to the amended Exchange Agreement, on May 15, 2007, the holders of the SunCom Wireless Subordinated Notes that were parties thereto exchanged \$731.6 million principal amount of their outstanding SunCom Wireless Subordinated Notes for an aggregate of approximately 52.0 million shares of Holdings' Class A common stock. The 52.0 million shares reflect a 1-for-10 reverse stock split that was effected immediately prior to the exchange pursuant to the merger described below. As a result of the exchange, the holders of the outstanding SunCom Wireless Subordinated Notes participating in the exchange received in the aggregate (in respect of their SunCom Wireless Subordinated Notes tendered in the exchange) approximately 87.9% of Holdings' outstanding Class A common stock on a fully-diluted basis. Following the exchange, the existing holders of Holdings' Class A common stock owned approximately 12.1% of Holdings' Class A common stock on a fully-diluted basis.

In connection with the Exchange Agreement, the holders of the SunCom Wireless Subordinated Notes agreed to exit consents that removed, effective as of the closing of the exchange, substantially all of the restrictive covenants and certain of the events of default from the indentures governing the SunCom Wireless Subordinated Notes.

The Exchange Agreement contained covenants, which called for the board of directors of Holdings to be reconstituted immediately following the closing of the exchange, to include Michael Kalogris and Scott Anderson, both current directors of Holdings, as well as eight new directors who have been designated by various of the holders of the SunCom Wireless Subordinated Notes that were parties to the Exchange Agreement. Also pursuant to the Exchange Agreement, Holdings agreed to pursue strategic alternatives, including the potential sale of substantially all of its business.

Also on January 31, 2007, concurrent with the execution of the Exchange Agreement, Holdings entered into an Agreement and Plan of Merger with SunCom Merger Corp., a Delaware corporation and direct wholly-owned subsidiary of Holdings formed for the purpose of entering into the merger agreement (Merger Sub). On May 15, 2007, pursuant to the merger agreement, Merger Sub merged with and into Holdings, with Holdings continuing as the surviving corporation in the merger. In the merger, each issued and outstanding share of Class A common stock of

Holdings was converted into 0.1 share of Class A common stock of Holdings, as the surviving corporation in the merger. Each issued and outstanding share of common stock of Merger Sub was cancelled in the exchange for no consideration. The merger was consummated prior to the consummation of the transactions contemplated by the Exchange Agreement. The merger was effected, among other reasons, to implement a 1-for-10 reverse stock split and to ensure that Holdings had sufficient authorized shares of Class A common stock to complete the exchange. The par value of the common stock was not affected by the reverse stock split and remained at \$0.01 per share. Consequently, the aggregate par value of the issued Class A common stock was reduced by reclassifying the par value amount of the eliminated

Table of Contents

SUNCOM WIRELESS HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

shares of common stock to additional paid-in capital in the Company's consolidated balance sheets. The Company has paid cash in lieu of any fractional shares to which a holder of Class A common stock would otherwise be entitled as a result of the reverse stock split. The number of authorized shares of Class A common stock remains unchanged, and all shares and per share amounts have been adjusted in the consolidated financial statements and in the notes to the consolidated financial statements for all periods presented to reflect the reverse stock split. Prior period additional paid-in capital and Class A common stock balances have not been adjusted on the consolidated balance sheet to reflect the reverse stock split.

During January 2007, and in connection with the exchange, J.P. Morgan SBIC LLC and Sixty Wall Street SBIC Fund L.P. transferred all of their shares of Holdings' Class B non-voting common stock (which constituted all remaining outstanding shares of Class B non-voting common stock) to their affiliates, J.P. Morgan Capital, L.P. and Sixty Wall Street Fund, L.P., respectively. Such entities then converted all of such shares of Class B non-voting common stock into shares of Class A common stock.

As a result of the debt-for-equity transaction, the Company recorded a loss of \$182.9 million, or \$5.50 and \$9.08 per basic and diluted share for the three and six months ended June 30, 2007, respectively. The loss resulted from exchanging 52,028,376 shares of Holdings' Class A common stock, with a value of \$889.7 million based on a stock price of \$17.10 per share on the close date, for \$731.6 million principal amount of the SunCom Wireless Subordinated Notes, which had a carrying value of \$721.0 million as of the date of the exchange. In addition, the Company wrote-off \$0.9 million of unamortized debt issuance costs and \$13.3 million of transaction costs related to the exchange.

3. New Accounting Pronounc