SUNCOM WIRELESS HOLDINGS, INC.
Form 10-Q
November 01, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

o **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	**23-2974475**
(State or other jurisdiction of incorporation or organization)	(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 þ No o

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 o Accelerated filer þ Non-accelerated filer o

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

Yes o No þ

As of October 19, 2007, 59,227,085 shares of the registrant s Class A common stock, par value $0.01 per share, were outstanding.

SUNCOM WIRELESS HOLDINGS, INC.
THIRD QUARTER REPORT
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2007	December 31, 2006
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 63,544	$ 37,683
Short-term investments	174,200	157,600
Restricted cash and restricted short-term investments	1,737	1,668
Accounts receivable, net of allowance for doubtful accounts of $10,004 and $8,895, respectively	93,414	96,255
Accounts receivable roaming partners	14,745	14,811
Inventory, net	17,707	27,441
Prepaid expenses	21,357	16,446
Assets held for sale	104	11,446
Other current assets	6,691	11,960
Total current assets	393,499	375,310
Long-term assets:		
Property and equipment, net	439,217	480,880
Intangible assets, net	770,892	794,250
Other long-term assets	8,675	4,419
Total assets	$ 1,612,283	$ 1,654,859
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 81,691	$ 71,602
Accrued liabilities	71,203	89,134
Current portion of long-term debt	2,808	2,810
Other current liabilities	26,253	24,937
Total current liabilities	181,955	188,483
Long-term debt:		
Capital lease obligations	429	531
Senior secured term loan	240,625	242,500
Senior notes	715,306	714,341
Senior long-term debt	956,360	957,372

Subordinated notes	12,215	732,365
Total long-term debt	968,575	1,689,737
Deferred income taxes, net	150,640	143,124
Deferred revenue	1,365	1,766
Deferred gain on sale of property and equipment	57,180	46,173
Other	5,680	2,468
Total liabilities	1,365,395	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 September 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 59,227,085 shares outstanding as of September 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 September 30, 2007; 60,000,000 shares authorized; 792,610 shares issued and outstanding as of December 31, 2006		79
Additional paid-in capital	1,503,244	611,961
Accumulated deficit	(1,255,207)	(1,027,824)
Class A common stock held in trust		(173)
Deferred compensation		173
Class A common stock held in treasury, at cost (114,491 and 178,119 shares, respectively)	(1,741)	(1,741)
Total stockholders equity (deficit)	246,888	(416,892)
Total liabilities and stockholders equity (deficit)	$ 1,612,283	$ 1,654,859

See accompanying notes to financial statements.

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

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Revenue:				
Service	$ 199,502	$ 171,106	$ 581,611	$ 491,003
Roaming	20,129	23,503	67,230	64,488
Equipment	20,289	24,445	66,453	72,143
Total revenue	239,920	219,054	715,294	627,634
Operating expenses:				
Cost of service (excluding the below amortization and excluding depreciation and asset disposal of $18,150 and $18,977 for the three months ended September 30, 2007 and 2006, respectively, and $57,297 and $203,504 for the nine months ended September 30, 2007 and 2006, respectively)	66,580	66,691	195,774	201,356
Cost of equipment	35,163	38,003	108,822	109,494
Selling, general and administrative (excluding depreciation and asset disposal of $2,591 and $2,543 for the three months ended September 30, 2007 and 2006, respectively, and $8,525 and $6,046 for the nine months ended September 30, 2007 and 2006, respectively)	91,938	84,419	272,604	256,431
Termination benefits and other related charges		380		1,936
Depreciation and asset disposal	20,741	21,520	65,822	209,550
Amortization	6,704	9,202	21,781	31,395
Total operating expenses	221,126	220,215	664,803	810,162
Income (loss) from operations	18,794	(1,161)	50,491	(182,528)
Interest expense	(21,548)	(38,393)	(89,517)	(114,302)
Interest and other income	2,526	3,210	7,352	10,617
Loss on debt-for-equity exchange	(284)		(183,152)	
Loss before taxes	(512)	(36,344)	(214,826)	(286,213)
Income tax provision	(4,544)	(4,138)	(12,146)	(11,881)
Net loss	($5,056)	($40,482)	($226,972)	($298,094)
Net loss per common share (basic and diluted)	($0.09)	($5.87)	($6.83)	($43.42)

Weighted average common shares outstanding (basic and diluted)	59,003,732	6,890,890	33,239,542	6,865,380

See accompanying notes to financial statements.

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

	Class A Common Stock	Class B Non-Voting Common Stock	Additional Paid-In Capital	Deferred Compensation	Common Stock Held in Trust	Treasury Stock	Accumulated Deficit	Total Stockholders Equity (Deficit)
Balance at December 31, 2006	**$ 633**	**$ 79**	**$ 611,961**	**$ 173**	**($173)**	**($1,741)**	**($1,027,824)**	**($416,892)**
Adoption of FASB Interpretation No. 48 (FIN 48)							(411)	(411)
Deferred compensation, net of forfeitures	7		(7)					
Termination of deferred compensation plan				(173)	173			
Conversion of Class B to Class A	79	(79)						
Reverse stock split	(647)		647					
Stock issuance in connection with debt-for-equity exchange	520		889,165					889,685
Non-cash compensation			1,521					1,521
Net loss							(226,972)	(226,972)
Other			(43)					(43)
Balance at September 30, 2007	**$ 592**	**$**	**$ 1,503,244**	**$**	**$**	**($1,741)**	**($1,255,207)**	**$ 246,888**
Balance at December 31, 2005	**$ 627**	**$ 79**	**$ 607,849**	**$ 145**	**($145)**	**($1,375)**	**($690,446)**	**($83,266)**

Deferred compensation, net of forfeitures	8		(8)	28	(28)			
Non-cash compensation			3,627					3,627
Purchase of treasury stock						(366)		(366)
Net loss							(298,094)	(298,094)
Balance at September 30, 2006	**$ 635**	**$ 79**	**$ 611,468**	**$ 173**	**($173)**	**($1,741)**	**($988,540)**	**($378,099)**

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

	Nine Months Ended September 30,	
	2007	**2006**
Cash flows from operating activities:		
Net loss	($226,972)	($298,094)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities, net of effects from divestitures:		
Depreciation, asset disposal and amortization	87,603	240,945
Deferred income taxes	10,247	10,993
Accretion of interest	2,707	3,363
Bad debt expense	22,853	15,899
Non-cash compensation	1,521	3,627
Loss on debt-for-equity exchange	183,152	
Change in operating assets and liabilities:		
Accounts receivable	(20,863)	(20,603)
Inventory	9,734	(4,290)
Prepaid expenses and other current assets	(5,872)	(7,319)
Intangible and other assets	(4,513)	(657)
Accounts payable	9,704	(1,672)
Accrued payroll and liabilities	(5,585)	(6,000)
Deferred revenue	(200)	3,493
Accrued interest	(2,183)	15,970
Other liabilities	(1,197)	(3,679)
Net cash provided by (used in) operating activities	60,136	(48,024)
Cash flows from investing activities:		
Purchase of available for sale securities	(540,800)	(589,854)
Proceeds from sale of available for sale securities	524,200	708,200
Proceeds from sale of assets	28,358	2,284
Payment of direct costs on business transactions	(451)	(389)
Capital expenditures	(25,450)	(49,429)
Other		(172)
Net cash provided by (used in) investing activities	(14,143)	70,640
Cash flows from financing activities:		
Payments under senior secured term loan	(1,875)	(1,875)
Change in bank overdraft	(9,522)	(12,772)
Principal payments under capital lease obligations	(257)	(227)
Payment of direct costs on debt-for-equity exchange	(8,462)	(3,586)
Purchase of treasury stock		(366)
Other	(16)	

Net cash used in financing activities		(20,132)		(18,826)
Net increase in cash and cash equivalents		25,861		3,790
Cash and cash equivalents, beginning of period		37,683		16,083
Cash and cash equivalents, end of period	$	63,544	$	19,873
Non-cash investing and financing activities				
Change in capital expenditures included in accounts payable	$	731		($2,483)
Change in direct transaction costs included in accrued expenses		(617)		
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.

SUNCOM WIRELESS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 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 nine months ended September 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 9^3/8% Senior Subordinated Notes due 2011 and 8^3/4% Senior Subordinated Notes due 2011 of SunCom Wireless (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 reflected 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 then-current directors of Holdings, as well as eight new directors who were 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 (see Note 3).

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. On May 15, 2007, pursuant to the merger agreement, SunCom Merger Corp. 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 SunCom Merger Corp. was canceled 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 Class A 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

SUNCOM WIRELESS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

amount of the eliminated shares of Class A 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 $183.2 million, or $5.51 per basic and diluted share for the nine months ended September 30, 2007. 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 $13.6 million of transaction costs related to the exchange.

3. Merger Agreement with T-Mobile

On September 16, 2007, Holdings entered into an Agreement and Plan of Merger (the Merger Agreement) with T-Mobile USA, Inc. (T-Mobile), a Delaware corporation and wholly-owned subsidiary of Deutsche Telekom AG, and Tango Merger Sub, Inc. (Merger Sub), a newly-formed Delaware corporation and a wholly-owned subsidiary of T-Mobile.

Under the terms of the Merger Agreement, Merger Sub will be merged with and into Holdings, with Holdings surviving the merger as a wholly-owned subsidiary of T-Mobile. At the effective time of the merger, shares of Class A common stock owned by T-Mobile or Merger Sub and shares of Class A common stock held by Holdings (as treasury stock or otherwise) will be canceled. All other outstanding shares of Class A common stock, other than shares owned by any stockholder who is entitled to and who properly exercises appraisal rights under Delaware law, will be canceled and each converted into the right to receive $27.00 in cash, without interest, and less any applicable withholding taxes. Restricted shares, granted subject to vesting or other lapse restrictions, will vest and become free of such restrictions immediately prior to the effective time of the merger and will be canceled and converted into the right to receive $27.00 in cash, without interest, and less any applicable withholding taxes, subject to certain limitations with respect to restricted shares granted after the date of the Merger Agreement.

Holdings Board of Directors unanimously approved the Merger Agreement. Consummation of the merger is not subject to a financing condition, but it is subject to certain customary conditions, including adoption of the Merger Agreement by Holdings stockholders, authorization by the Federal Communications Commission, the expiration or termination of any applicable review period by the Committee on Foreign Investment in the United States under the Exon-Florio Act if the parties file a voluntary notification, and the expiration or termination of the required waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

Under Delaware law, the adoption of the Merger Agreement requires the affirmative vote of the holders of a majority of Holdings outstanding shares of Class A common stock. In connection with the Merger Agreement, on September 16, 2007, certain funds managed by, and other entities affiliated with, Highland Capital Management, L.P. and Pardus Capital Management, L.P., which collectively hold a majority of the outstanding shares of Class A common stock of Holdings, entered into a voting agreement with T-Mobile and Merger Sub (the Voting Agreement) pursuant to which such stockholders have independently agreed to vote their shares in favor of the merger and against any alternative proposal (as such term is defined in the Merger Agreement), or any other proposal submitted to our stockholders that would reasonably be expected to materially and adversely delay, impede or be in opposition to or in competition with the Merger Agreement and the other related transactions, and to not sell, assign, transfer, pledge, encumber, or otherwise dispose of their shares of Class A common stock, except to their respective affiliates or other signatories of the Voting Agreement, if certain conditions and requirements are satisfied, and in connection with certain bona fide financing or derivative transactions. If either Holdings or T-Mobile terminates the Merger Agreement before the merger is completed under certain specified circumstances, the Voting Agreement will remain in effect for seven months and fifteen days following the termination of the Merger Agreement; in certain other circumstances, the Voting Agreement will terminate upon the termination of the Merger Agreement. The merger is expected to close in the second quarter of 2008.

Holdings has made certain customary representations and warranties in the Merger Agreement and agreed to certain customary covenants, including covenants regarding operation of the business of the Company prior to the closing and covenants prohibiting Holdings from, among other things, soliciting, providing non-public information relating to the Company in

SUNCOM WIRELESS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

connection with, or entering into discussions concerning, proposals relating to alternative business combination transactions, except in limited circumstances relating to unsolicited proposals that are, or may reasonably be expected to lead to, a superior proposal (as such term is defined in the Merger Agreement).

The Merger Agreement contains certain termination rights for both Holdings and T-Mobile and provides that, if the Merger Agreement is terminated under specified circumstances (including if Holdings Board of Directors elects to enter into an agreement involving a superior proposal), Holdings may be required to pay T-Mobile a termination fee of $48.0 million and, under other specified circumstances, Holdings may be required to reimburse T-Mobile its transaction expenses up to $10.0 million.

4. New Accounting Pronouncements

In September 2006, the Financial Accounting Standard Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements , which is effective for fiscal years beginning after November 15, 2007. The statement was issued to define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurements. The Company is currently assessing the effect, if any, this statement will have on its financial statements or its results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 . This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. This statement does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. This statement is effective for fiscal years beginning after November 15, 2007. The Company does not expect this statement to have a material effect on its financial statements or its results of operations.

5. Stock-Based Compensation

Holdings grants restricted stock under its Amended and Restated Stock and Incentive Plan and its Directors Stock and Incentive Plan to provide incentives to key employees and non-management directors and to further align the interests of such individuals with those of its stockholders. Grants of restricted stock generally are made annually under these stock plans, and the grants generally vest over a four-year period.

The Company measures the fair value of restricted stock awards based upon the market price of Holdings Class A common stock as of the date of grant, and these grants are amortized over their applicable vesting period using the straight-line method. In accordance with SFAS No. 123(R) Share-Based Payment , the Company has estimated that its forfeiture rate is 3% based on historical experience. The Company s net loss for the three months ended September 30, 2007 and 2006 included approximately $0.4 million and $0.6 million, respectively, of stock-based compensation expense, and the Company s net loss for the nine months ended September 30, 2007 and 2006 included approximately $1.5 million and $3.6 million, respectively, of stock-based compensation expense. The following table summarizes the allocation of this compensation expense.