

# DISTRESSED DEBT INVESTOR

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## BIG PICTURE...

# Distressed Debt as a Separate Asset Class

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*When considering whether to include distressed debt in their portfolios, institutional investors need not engage in philosophical discussions about what constitutes a distinct asset class. Well-established analysis can quantify the merits of a claim that an investment category does not in reality represent a doubling up of a bet on a single set of economic factors.*

Money managers operating within a specialized segment of the market must grapple not only with the challenge of generating superior returns, but also with the intricacies of asset allocation. Institutional investors do not invariably have a portion of their assets waiting to be managed by the best available candidate in the category. Unlike managers of staples such as domestic stocks or investment grade bonds, specialists in a category such as distressed debt may need to convince the client that their product represents a worthwhile addition to the portfolio. The definition of an asset class is often a central issue in such discussions.

In some cases, focusing on a particular group of securities merely represents a strategy for achieving excellence within a well-established asset class. Consider, for instance, a manager who concentrates entirely on the stocks that constitute the Dow Jones 30 Industrials, using selection criteria that purportedly produce superior risk-adjusted returns. The manager could not credibly argue to a pension plan sponsor with an existing allocation to large-cap U.S. stocks that an entirely separate allocation ought to be set up for the investment in “the Dow’s bargain stocks.” Instead, to land a mandate, the manager would have to displace an existing large-cap U.S. stock manager or snag some of the new contributions earmarked for the established asset class.

During the 1980s, when managers of nondistressed high yield bonds began to raise funds from institutional investors, they lobbied hard to have their category designated as a separate asset class. The high yield managers generally perceived that they had a better chance of making their way into institutional portfolios by that route than by competing against entrenched investment grade fixed income managers for a segment of the existing fixed income allocation. It was not an easy sale at first, as the path of least resistance for trustees and their consultants was simply to lump “junk bonds” with all other bonds. After all, both investment grade and speculative grade bonds pay interest, which logically implies that they fluctuate in response to changes in the level of interest rates.

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On the face of it, the universe of defaulted debt instruments would seem to face fewer barriers to recognition as a separate asset class. Defaulted bonds generally do not pay current interest, which should inherently limit their interest rate sensitivity. Distressed debt managers typically also invest in troubled but nondefaulted bonds. Institutions might conclude that those securities ought to be grouped with general bonds or at least placed in a general category of nondefaulted speculative grade bonds. That could put distressed managers in the position of competing for institutional allocations with nondistressed managers.

***Correlation as an Objective Criterion***

Fortunately, issues of asset allocation need not revolve around highly conceptual and subjective definitions of asset classes. Ultimately, the reason investors invest in more than one type of asset is to obtain diversification. At the most fundamental level, long-horizon investors such as pension plan sponsors buy stocks to participate in economic growth and buy bonds to cushion themselves against economic slumps. This difference in performance dynamics is reflected by long-term total return correlations well below 100%. The same basic criterion can be used to determine whether other groups of assets can usefully be regarded as separate asset classes.

Limited historical information poses an impediment in applying this analysis to the distressed debt category. The distressed but nondefaulted subindex of Merrill Lynch's high yield bond index, which includes bonds yielding more than 1,000 basis points over Treasuries, has an inception date of December 31, 1996. That limits the analysis to a single investment cycle, rendering the conclusions somewhat tentative. With that caveat, let us consider correlations of available indexes of distressed debt – nondefaulted but distressed bonds, defaulted bonds, and defaulted loans.<sup>1</sup>

***Analysis***

**Exhibit 1** is a correlation matrix of monthly returns for the major U.S. fixed income and equity categories for the period 1997-2005. The range of possible values is 100%, which would indicate perfect tracking between two categories, and -100%, which would indicate perfectly offsetting performance by two categories. A value close to 100% implies that the two categories are part of a single asset class, notwithstanding superficial differences. From the investor's standpoint, divvying up assets between the two categories represents two bets on the same set of price influencers. A low or negative correlation, on the other hand, implies that an investor gains a diversification benefit by obtaining exposure to both asset classes.

***Asset classes can be defined on the basis of correlation analysis***

**DISTRESSED DEBT INVESTOR**

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<sup>1</sup> Our analysis is constrained by the most recent inception date among the indexes considered, which is December 31, 1996. Returns are available for one additional year (1996) on the defaulted bond and defaulted loan indexes.

**BIG PICTURE...**

In the past, a correlation cutoff of 80% was sometimes used for defining whether two categories belonged to the same asset class. A less cut-and-dried rule is probably called for in the present exercise. Nine years (the maximum available in light of the available history for the Merrill Lynch High Yield Distressed Index) is a shorter-than-optimal period for assessing return correlations. To put the matter in perspective, over the last 18 years (1988-2005) the correlation between Merrill Lynch's investment grade corporate and ten-year Treasury indexes was 91.87%, versus 86.38% over the 1997-2005 interval. Perhaps as the historical record expands, there will be clearer separation between categories that do and that do not belong to the same asset classes. For the time being, we can draw several tentative conclusions from the exhibit:

**Exhibit 1: Correlations of Monthly Returns, 1997-2005**

	HODI	HOND	GA10	COA0	M0A0	SPX	RUT	DEFBO	DEFLO
HODI	100.00%	-	-	-	-	-	-	-	-
HOND	78.09%	100.00%	-	-	-	-	-	-	-
GA10	-24.71%	4.03%	100.00%	-	-	-	-	-	-
COA0	11.33%	43.97%	86.38%	100.00%	-	-	-	-	-
M0A0	-16.10%	19.57%	82.78%	82.03%	100.00%	-	-	-	-
SPX	41.02%	50.08%	-21.48%	4.04%	-9.65%	100.00%	-	-	-
RUT	53.30%	56.37%	-22.88%	4.47%	-12.78%	72.24%	100.00%	-	-
DEFBO	77.35%	64.34%	-24.21%	6.49%	-20.48%	26.94%	41.53%	100.00%	-
DEFLO	54.74%	44.74%	-20.49%	3.88%	-12.08%	-0.45%	19.47%	60.38%	100.00%

Category	Ticker	Index Name
Distressed Nondefaulted High Yield Bonds	HODI	Merrill Lynch U.S. High Yield Distressed Index
Nondistressed High Yield Bonds	HOND	Merrill Lynch U.S. High Yield Non-Distressed Index
Investment Grade Treasury Bonds	GA10	Merrill Lynch U.S. Treasury, Current 10-Year Index
Investment Grade Corporate Bonds	COA0	Merrill Lynch U.S. Corporate Master Index
Investment Grade Mortgage Bonds	M0A0	Merrill Lynch Mortgage Master Index
Large Cap Stocks	SPX	S&P 500 Index
Small Cap Stocks	RUT	Russell 2000 Index
Defaulted Bonds	DEFBO	Altman-NYU Salomon Center Index of Defaulted Bonds
Defaulted Loans	DEFLO	Altman-NYU Salomon Center Index of Defaulted Bank Loans

Sources: Merrill Lynch & Co., Yahoo! Finance, New York University Stern School of Business.

1. The data strongly affirm the bedrock concept of debt-versus-equity diversification. All correlations of an equity category (Standard & Poor's 500, Russell 2000) with an investment grade fixed income category (Merrill Lynch's Ten-Year Treasury, Corporate, Mortgage-Backed indexes) are below 5%, with most in the negative range. In contrast, all correlations *within* investment grade fixed income groups are above 80% and the correlation between the two equity categories is 72.24%.
2. The dissimilarity between distressed debt (HODI, DEFBO, and DEFLO) and investment grade bonds is about as pronounced as the dissimilarity between equities and investment grade bonds. All correlations involving a distressed debt and an investment grade fixed category are below 15%, with the majority in the negative range.

***Distressed debt is about as different from investment grade debt as equity is***

*Different types of distressed debt form a somewhat cohesive group*

3. Distressed debt and equity can be fairly described as separate asset classes, as no correlation across those lines is as high as 55%.
4. It is perhaps defensible to regard the three distressed debt categories collectively as an asset class, but not one as well-defined as investment grade fixed income. Within the latter grouping, all correlations exceed 80%, while correlations among the distressed debt categories range from 77.35% to 54.74%.
5. Nondistressed high yield bonds (HOND) generally uphold their reputation as a separate asset class. The category shows correlations below 45% for all investment grade fixed income categories and only in the 50% to 60% range for the equity categories. Within the equity and investment grade fixed income asset classes, small cap stocks (RUT) show the highest correlation with nondistressed high yield bonds. This finding is consistent with past studies.
6. The argument for regarding distressed, nondefaulted (HODI) and nondistressed (HOND) high yield bonds as separate asset classes is marginal. The two categories show a correlation of 78.09%, only a touch below the traditional 80% cutoff. Moreover, that figure reflects a period in which correlations in general may prove lower than the longer-term levels. There is a fairly strong case, however, for regarding nondistressed high yield bonds (HOND) and defaulted bonds (DEFBO) as members of different asset classes, given their correlation of only 64.34%. Both categories are classified under the rubric of "speculative grade bonds," but they in fact perform quite differently as a function of paying interest, in the former case, and not paying interest, in the latter.

Correlation matrixes do not necessarily tell the whole story. It is possible for two categories to demonstrate low correlations by moving fairly independently during stable periods, but move sharply up or down in lockstep in response to major market shocks. In that case, it is questionable how much diversification benefit investors actually derive from spreading their holdings across the two categories.

*Distressed bonds have sometimes rallied during Treasury slumps*

Fortunately for distressed managers, this is by no means a fatal problem for the key strategy of using distressed bonds to diversify investment grade bond exposure. While one can certainly point to periods in which market forces drove down both Treasuries and distressed, nondefaulted bonds, there are also cases of sharp divergence. Outstanding examples are the following, which include the most recently completed quarter:

Quarter/Year	Total Return (%)	
	GA10	HODI
1/1997	-2.18	5.12
4/1998	-0.91	6.42
2/1999	-3.24	8.60
4/2001	-2.27	6.06
4/2002	-0.64	12.69
2/2004	-1.38	12.59
1/2006	-2.77	8.20

*There is a strong case  
for creating a  
separate niche for  
defaulted debt*

*Conclusion*

Institutional investors should not get tangled in semantics when considering whether distressed debt has a place in their portfolios. Notwithstanding the fact that the term “bonds” applies both to default-risk-free Treasuries and obligations quoted more than 1,000 basis points over Treasuries, distressed bonds are about as different as stocks are from investment grade bonds, in terms of their behavior within a portfolio. Distressed managers, who also trade in defaulted bonds, loans, and a variety of other claims, can make a strong case for classification as a separate asset class.

**DDI**

**RECOMMENDATION...****BUY: SunCom Wireless 8.75% Notes**By Gordian Group  
GGDDI@GordianGroup.com**Exhibit 1: SunCom Wireless, Inc., a wholly owned subsidiary of SunCom Wireless Holdings, Inc.**

Dollars in Millions	As of 12/31/2005	Market Value		YTW	Bond Rating		Recommendation
		Price	Value		S&P	Moody's	
Senior Secured Term Loan	\$247.5	100.00	\$247.5				
Capital Lease	1.2	100.00	\$1.2				
Total Secured Debt	248.7		248.7				
Less Est. Cash and ST Investments	155.1		155.1				
Net Secured Debt	\$93.5		\$93.5				
8.50% Senior Notes due 2013	725.0	96.00	696.0	9.28%	CCC-	Caa2	NR
Net Senior Debt	818.5		789.5				
9.375% Senior Subordinated Notes due 2011	347.0	75.00	260.3	17.29%	CCC-	Ca	NR
8.750% Senior Subordinated Notes due 2011	397.0	74.00	293.8	16.00%	CCC-	Ca	Buy
Net Debt	\$1,562.5		\$1,343.6				

Source: Public Filings.

**Investment Summary: Buy the 8.75% Senior Subordinated Notes**

We recommend that investors initiate a long position in the 8.75% Senior Subordinated Notes due 2011 issued by SunCom Wireless, Inc. (together with its consolidated subsidiaries, "Wireless"), a wholly owned subsidiary of SunCom Wireless Holdings, Inc. ("Holdings" and, when used to incorporate all SunCom including such as Wireless, the "Company"). Wireless has posted poor operating performance since its exclusive regional association with AT&T Wireless ended in late 2004, although much of this decline in operating profitability is related to certain transition expenses. Although visibility is limited, we expect Wireless to post substantially improved results in 2006. Regardless, excessive leverage and declining liquidity will likely force Wireless to implement a restructuring, material asset sale, or change-of-control transaction in the near term; financial and legal advisors have been engaged. Although the risk of a coupon default is high over the next twelve months, Wireless's subscriber base should provide adequate value cover in a restructuring scenario even incorporating discounts to prevailing per subscriber prices.

We recommend investors avoid the 8.5% Senior Notes, which have more downside risk than upside gain at current price levels. Furthermore, Wireless's underlying asset values and the relatively seniority of this issue limit potential profits from a short position. We prefer the 8.75% Senior Subordinated Notes, as this issue is ahead of the *pari passu* 9.375% Senior Subordinated Notes in the upcoming interest payment cycle, which is important given liquidity reserves.

**Although Wireless faces a restructuring, asset values should support bond prices**

Important disclosures and certifications are located on the last page of this document.

## BUY: SunCom Wireless 8.75% Notes

*Valuation Thesis*

Although public market trading data and merger and acquisition deals support a \$2,000 per subscriber valuation (or higher), we have applied a judgmental discount to prevailing prices to reflect financial distress, Wireless's non-contiguous market profile, and the relatively weaker performance of Wireless's properties. Applying this rationale, we have developed an enterprise value range for Wireless of \$1,500 million to \$1,700 million. Relating our valuation range to the Wireless's obligations as of December 31, 2005, as reduced by the midpoint of 2006 cash burn estimate, equates to a value cover of (i) 172% to 199% for the 8.5% Senior Notes, versus a recent price of 96 and (ii) 76% to 103% for Wireless's senior subordinated notes, versus recent prices of 75 for the 9.375% Senior Subordinated Notes and 74 for the 8.75% Senior Subordinated Notes.

*Return Analysis*

We have considered three different two-year return scenarios for a long position in the 8.75% Senior Subordinated Notes, including (i) one coupon payment received, followed by a restructuring in which holders receive equity in reorganized Wireless, (ii) two coupon payments received, followed by a restructuring in which holders receive equity in reorganized Wireless, and (iii) no coupon default, which contemplates that a change-of-control transaction or material asset sale is consummated prior to a coupon default. In our return analysis, we have assumed a broad range of selling prices consistent with our valuation range. Assuming one interest payment is made before default, levered returns range from 1.3% to 25.7% and unlevered returns range from 3.7% to 16.3%. Assuming two interest payments are made before default, levered returns range from 7.6% to 31.9% and unlevered returns range from 6.8% to 19.4%. Assuming no coupon default, levered returns range from 18.9% to 41.2% and unlevered returns range from 12.5% to 24.5%.

*Highlights*

- *Improved Performance in 2006:* EBITDA decreased by \$166.5 million, or 88%, to \$22.0 million in 2005, versus \$188.5 million in 2004. Approximately \$73.6 million, or roughly 44%, of reduced operating profit was related to transition efforts completed in 2005. In addition, other increased costs and/or expenses, such as expenses associated with the migration of existing customers to global system for mobile communication/general packet radio service ("GSM/GPRS") technology and duplicative costs associated with deploying two networks, should be phased out in 2006 as Wireless's Time Division Multiple Access ("TDMA") network is decommissioned. Although other increased costs are likely recurring in nature given Wireless's new business scope, we project 2006 EBITDA of \$100 million to \$120 million assuming limited revenue growth.

*Operating performance should improve in 2006, with transition expenses in the rear view mirror*

## BUY: SunCom Wireless 8.75% Notes

***A \$189 million dividend by Wireless to a subsidiary of Holdings in 2004 may come under fire from bondholders***

- *Valuation Test:* Public market trading data and merger and acquisition transactions support a valuation of at least \$2,000 per subscriber. Given Wireless's weak performance, exposure to non-contiguous markets, and financial distress, we have applied a judgmental discount in developing a valuation range based upon a range of \$1,553 to \$1,760 per subscriber, which equates to value cover of 76% to 103% for Wireless's senior subordinated notes, even assuming the majority of existing cash resources are consumed during 2006. A true test of Wireless's value may come shortly, as the Company has engaged restructuring advisors to assist in the evaluation of financial alternatives. Given existing liquidity reserves, we expect that potential asset sale or change-of-control transactions will be explored throughout the summer, if not longer.
- *Dividend Dispute a Wild Card:* Shortly after the termination of its exclusive regional association with AT&T Wireless, Wireless paid a \$189 million dividend to a subsidiary of Holdings. Such funds, which totaled \$195.1 million as of December 2005, are not currently available to Wireless. Certain bondholders have disputed the validity of that dividend, presumably on the basis that such transaction rendered Wireless insolvent. If any portion of such funds somehow reverted to Wireless as part of an overall restructuring agreement and/or litigation, holders of Wireless's senior subordinated bonds would likely be the primary beneficiaries.

***Risks***

- *Likelihood of Default:* Despite projected operating improvements, our forecasts contemplate short-form cash burn of \$100 million to \$135 million in 2006. In comparison, Wireless had approximately \$155.1 million in available cash and short-term investments as of December 31, 2005. In the absence of a "Hail Mary" change-of-control transaction or material asset sale, we expect scheduled coupon payments will eventually cease, although our instinct tells us that at least some of the next series of interest payments on public debt (May 15 for the 8.75% Senior Subordinated Notes, June 1 for the 8.5% Senior Notes, and August 1 for the 9.375% Senior Subordinated Notes) will be made. We are far less optimistic regarding the next series of interest payments, commencing with the November 15 scheduled interest payment on the 8.75% Senior Subordinated Notes. Although prospective value cover derived from Wireless's subscriber base should support senior subordinated note prices, a long restructuring process initiated without a solution in hand could impair franchise value and undercut prospective returns.

## BUY: SunCom Wireless 8.75% Notes

- *Pricing Pressures:* Wireless's average revenue per user ("ARPU") has declined for several years, from \$58.78 in 2001 to \$54.79 in 2005, due to increased price competition and reduced roaming rates. Various competitors with greater financial resources than Wireless have introduced bundled services and/or discount pricing approaches. Furthermore, a reciprocal reduction in roaming rates between Wireless and Cingular Wireless resulted in substantial declines in Wireless's roaming revenues. Given industry trends, further revenue and pricing pressure is likely.

***Business Description***

Wireless provides digital wireless communications services in the southeastern United States, Puerto Rico and the U.S. Virgin Islands. Wireless was formerly known as Triton PCS, Inc. and Holdings as Triton Holdings, Inc., prior to a name change consummated in May 2005.

***Wireless had nearly 1 million subscribers at the end of 2005***

Wireless's communications network in the continental United States covers approximately 14.8 million potential customers primarily based in portions of North Carolina, South Carolina, Tennessee, and Georgia. These operations generated approximately 74% of 2005 revenue. Wireless also operates a network covering approximately 4.1 million potential customers in Puerto Rico and the U.S. Virgin Islands; these operations represented approximately 26% of 2005 revenue. Wireless had 965,822 subscribers as of December 31, 2005.

According to a 2005 Paul Kagan Associates Report, Wireless's service area includes 11 of the top 100 US markets. Distribution channels include a network of 115 company-owned retail stores, a 37-person direct sales force for corporate accounts, more than 600 independent retailers, telemarketing, and e-commerce.

Wireless's communications network serves (i) 27 markets in the continental United States, employing 2,340 cell sites and ten switches and (ii) three markets in Puerto Rico and the U.S. Virgin Islands, employing 253 cell sites and two switches. The network has offered both older TDMA technology and GSM/GPRS technology, which allows for more advanced data and voice services. Wireless's TDMA network is scheduled for decommission by March 31, 2006 in Puerto Rico and the U.S. Virgin Islands and June 30, 2006 in the continental United States.

## BUY: SunCom Wireless 8.75% Notes

From 1998 until the fourth quarter of 2004, the Company was part of the AT&T Wireless network, a relationship that was established when AT&T Wireless provided spectrum licenses to the Company in exchange for equity in Holdings. As a result, the Company became the exclusive provider of wireless mobility services using co-branding with AT&T Corp. within certain regions of the southeastern United States. The exclusive association with AT&T ended as a result of Cingular Wireless's acquisition of AT&T Wireless in October 2004. As part of that transaction, the Company, AT&T Wireless and Cingular Wireless executed several agreements, in which (i) AT&T Wireless surrendered all equity interests in Holdings held by AT&T Wireless, (ii) the Company's exclusive right to provide wireless services under the AT&T co-brand was terminated, (iii) Wireless's roaming agreement with AT&T Wireless was terminated, and (iv) Wireless's reciprocal roaming agreement with Cingular Wireless was amended to provide for lower rates.

***Wireless's operating problems date to the end of its association with AT&T Wireless in late 2004***

In addition, Wireless, Holdings, and Cingular exchanged certain regional network assets; Wireless received \$175 million and the network assets used to serve Puerto Rico and the U.S. Virgin Island markets in this exchange. The proceeds from the exchange transaction constituted most of a \$189 million dividend from Wireless to a subsidiary of Holdings, which was consummated in November 2004. These funds, which totaled \$195.1 million as of December 31, 2005, are not currently available to Wireless. As a result, our analysis considers the assets and business of Wireless, the issuer of approximately \$1,469 million of outstanding public bonds and the primary operating entity.

***About Wireless's Publicly Traded Bonds***

The Company has three series of publicly traded bonds, with the following summary terms:

**8.5% Senior Notes:** In June 2003, the Company issued \$725 million in aggregate principal amount of 8.5% Senior Notes due 2013. Interest is payable semi-annually on June 1 and December 1 of each year until maturity in June 2013. The 8.5% Senior Notes are guaranteed by substantially all subsidiaries of Wireless except the entities that hold Wireless's real estate interests and FCC licenses, but are not guaranteed by Holdings. This instrument is effectively subordinated to obligations under the Senior Secured Term Loan. The 8.5% Senior Notes are currently trading at 96, representing a yield to maturity of 9.3%.

**9.375% Senior Subordinated Notes:** In January 2001, the Company issued \$350 million in aggregate principal amount of 9.375% Senior Subordinated Notes due 2009. Wireless subsequently repurchased \$3 million in aggregate principal amount of this issue, resulting in \$347 million of aggregate principal outstanding as of December 31, 2005. Interest is payable semi-annually on February 1 and August 1 of each year until maturity in February 2011. The 9.375% Senior Subordinated Notes are guaranteed by substantially all subsidiaries of Wireless except the entities that hold Wireless's real estate interests and FCC licenses, but are not guaranteed by Holdings. This instrument is subordinated to obligations under the Senior Secured Term Loan and the 8.5% Senior Notes, and *pari passu* with the 8.75% Senior Subordinated Notes. The 9.375% Senior Subordinated Notes are currently trading at 75.0, representing a yield to maturity of 17.3%.

BUY: SunCom Wireless 8.75% Notes

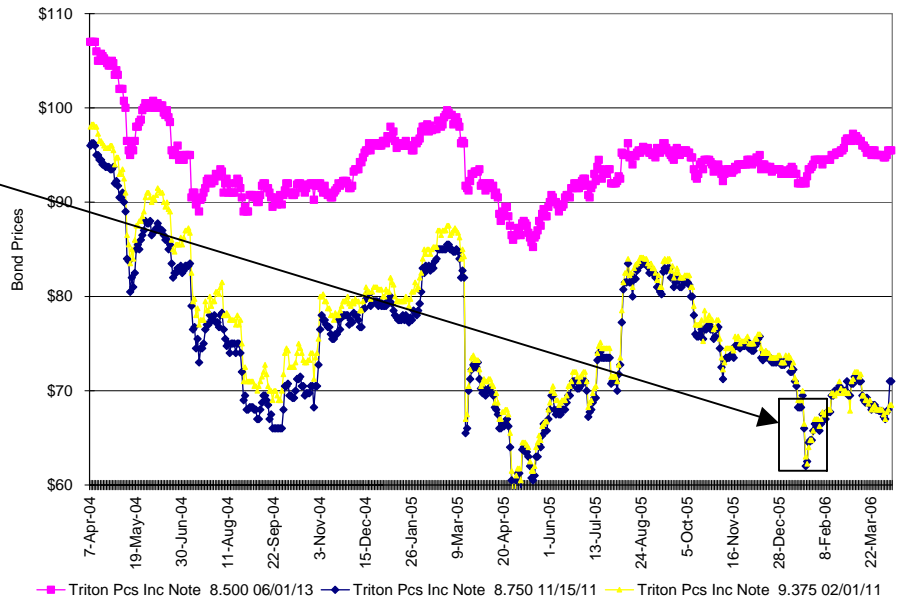
**8.75% Senior Subordinated Notes:** In November 2001, the Company issued \$400 million in aggregate principal amount of 8.75% Senior Subordinated Notes due 2011. Wireless subsequently repurchased \$3 million in aggregate principal amount of this issue, resulting in \$397 million in aggregate principal outstanding as of December 31, 2005. Interest is payable semi-annually on May 15 and November 15 of each year until maturity in November 2011. The 8.75% Senior Subordinated Notes are guaranteed by substantially all subsidiaries of Wireless except the entities that hold Wireless’s real estate interests and FCC licenses, and are not guaranteed by Holdings. This instrument is subordinated to obligations under the Senior Secured Term Loan, subordinated to the 8.5% Senior Notes, and *pari passu* with the 9.375% Senior Subordinated Notes. The 8.75% Senior Subordinated Notes are currently trading at 74, representing a yield-to-maturity of 16.0%.

Limitations on incremental indebtedness in the various indentures are driven by a total debt to annualized six-month EBITDA test set at 6x, with senior indebtedness capped at 5x annualized six month EBITDA. This general limitation is subject to exceptions for (i) senior credit facility borrowings (effectively capped at \$250 million under the senior note indenture, subject to a 5x senior debt to annualized six-month EBITDA test); (ii) vendor financing (limit of \$50 million in senior note indenture, subject to a 5x senior debt to annualized six-month EBITDA test); (iii) capital leases (effectively capped at \$25 million under senior subordinated note indentures, versus a \$50 million limit in the senior note indenture).

Please see **Exhibit 2**, below, for a price history of the Company’s publicly traded debt.

**Exhibit 2: Price History for Bonds**

*Weak fourth-quarter results pre-announced*



Source: Factset Data Systems.

BUY: SunCom Wireless 8.75% Notes

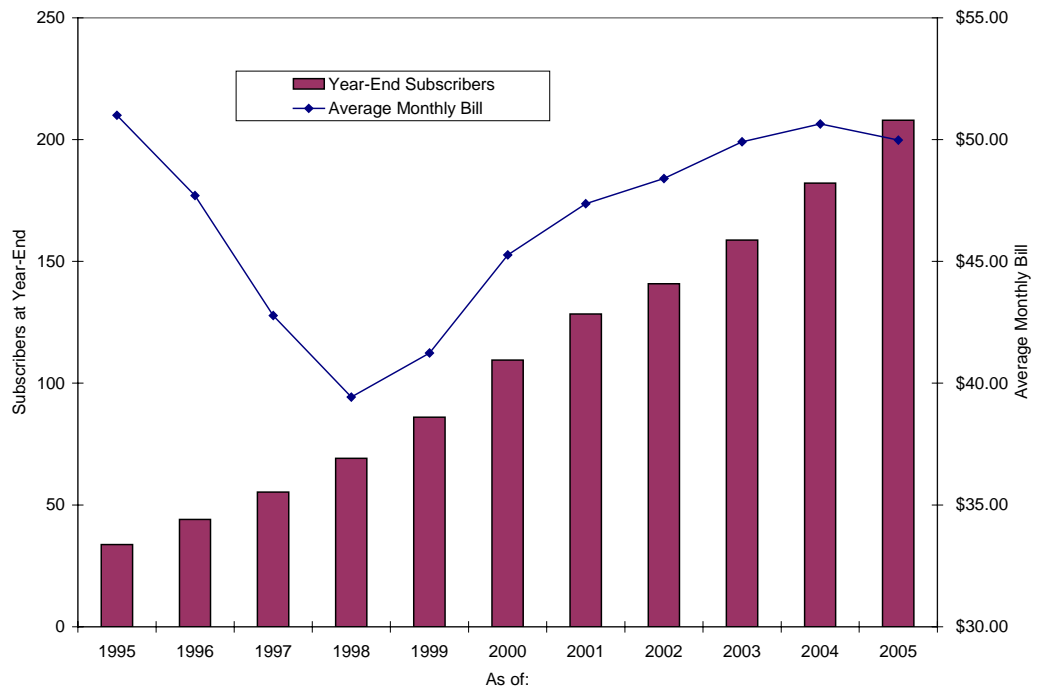
Wireless's bonds trended downward throughout spring and summer of 2004 in anticipation of the transactions with AT&T Wireless and Cingular Wireless. The bonds then rallied from October 2004 until March 2005, when Wireless announced reduced prospects for 2005 due to transition issues. Solid first-quarter results initiated a rebound in bond prices that gained further momentum when Wireless announced the termination of a sizeable acquisition in August 2005. The bonds then reversed course in September 2005, leading to a decline in prices that was accelerated in January 2006, when Wireless pre-announced particularly weak fourth-quarter results and the retention of restructuring advisors and counsel. The senior subordinated notes reached the low 60s, but have since inched back to the mid 70s recently.

**Industry Issues: Strong Growth but Increasingly Competitive**

*Industry Growth:* CTIA – The Wireless Association estimates that the number of domestic wireless subscribers reached 207.9 million as of December 2005. These estimates imply subscriber growth of 14.2% in 2005, compared with a 19.9% compound annual growth rate in subscribers from 1995 through 2005. Despite this substantial growth in subscribers (and even greater growth in minutes of use) during this period, the average monthly subscriber bill has ranged from \$39 to \$51 per month, and actually declined by 1.3% in 2005. See **Exhibit 3**, below.

**Exhibit 3: Wireless Subscribers and Average Monthly Bill per Subscriber**

*Industry subscriber base has grown, but average monthly bill is starting to decline*



Source: CTIA – The Wireless Association.

## BUY: SunCom Wireless 8.75% Notes

Between 2001 and 2005, Wireless's subscriber base grew at a compound annual rate of 8.9%, compared with a 12.8% rate for overall wireless subscribers. During this period, Wireless's ARPU declined at a compound annual rate of 1.7%, while average monthly bills for the broader wireless market grew at a compound annual rate of 1.3%.

*Competition:* Major competitors across all markets include Cingular Wireless, Verizon, and Sprint/Nextel, three of the four nationwide wireless carriers. Additional competitors in the southeastern United States include ALLTEL Corporation, Hargray Wireless, Leap Wireless, and U.S. Cellular. Additional competitors in Puerto Rico and the U.S. Virgin Islands include Puerto Rico Telephone Company, Centennial Communications, and Movistar.

Historically, Verizon, ALLTEL Corporation, and U.S. Cellular, as legacy cellular service providers, were the most dominant competitors in Wireless's markets. With the advent of personal communications services, Cingular Wireless, Sprint/Nextel, and T-Mobile have gained significant market share. In addition, wireless resellers operating as mobile virtual network operators, such as Virgin Mobile USA, are beginning to attract a significant number of subscribers.

Competitive trends include intensified pricing pressures and the increased importance of non-voice services. Price competition takes many forms, including discount pricing and bundling strategies. Some competitors have developed lower price plans to target price sensitive potential subscribers. National wireless carriers, such as Cingular Wireless, can bundle wireless offerings with landline local or long distance services. Cable operators also are entering the wireless market with bundled wireless and landline services, high-speed data and cable service. Increased demand for non-voice services, such as data transmission, text messaging, e-mail, and Internet access may serve to offset this trend somewhat.

***Competitive pricing pressures are bringing ARPU down***

*Regulatory Issues:* Given its financial condition, Wireless faces certain risks with respect to upcoming spectrum auctions. The FCC has allocated additional spectrum for wireless carrier use, and intends to hold an auction beginning June 29, 2006 to receive bids on such properties. While this spectrum could be licensed by new companies that would compete directly with Wireless, existing wireless competitors could acquire this spectrum to provide advanced or third generation data services.

The FCC is revising designated entity rules for upcoming auctions, including the June 2006 Advanced Wireless Services auction. The FCC tentatively concluded that it should prohibit the award of designated entity benefits to any entity with a "material relationship" with a "large in-region incumbent wireless service provider," but the actual rules to manage this process are still being defined. As a result, it is unclear how the final rules could affect competition for new spectrum in future FCC auctions, or the ability of existing wireless providers to partner with designated entities in those auctions.

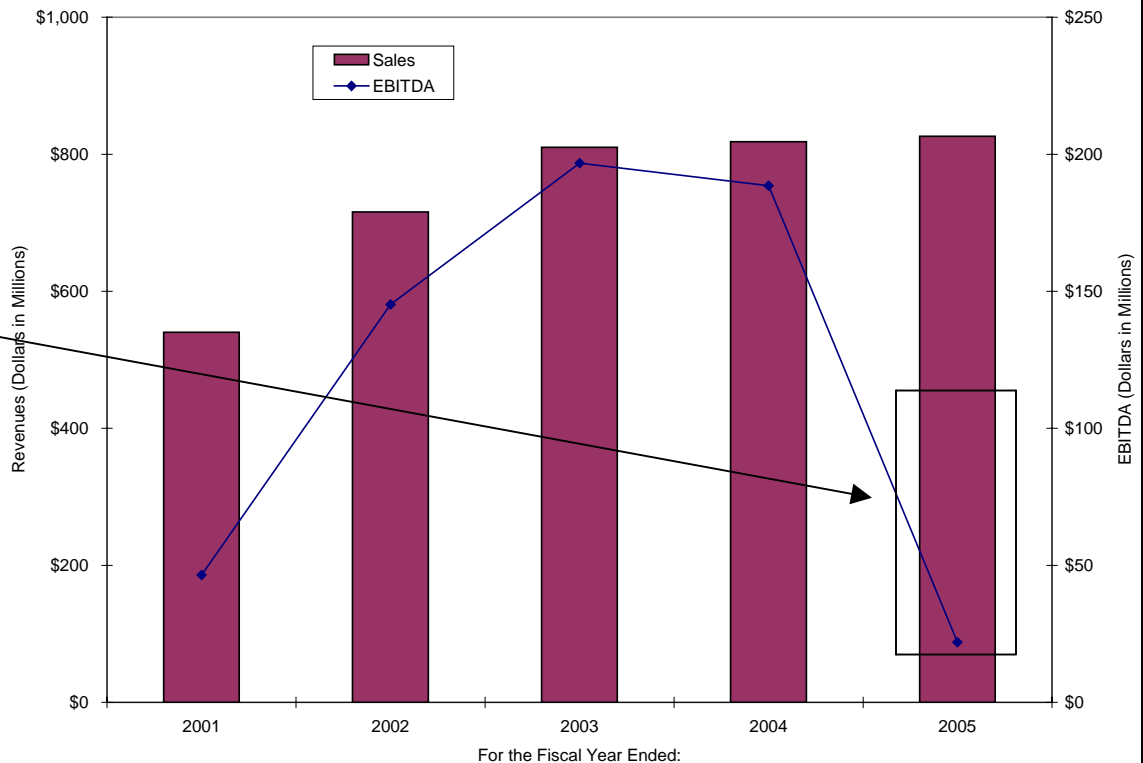
BUY: SunCom Wireless 8.75% Notes

**Operating Issues: Re-engineering the Business Model**

Wireless’s performance has fallen off dramatically since the end of regional exclusivity with AT&T in late 2004. Although revenues have grown at an 11.2% compound annual rate from 2001 through 2005, Wireless’s revenue growth was a modest 1% in 2005. Wireless’s EBITDA had grown from \$46.4 million in 2001 to \$196.8 million in 2003, but has since reversed dramatically largely due to the fallout from the end of exclusivity with AT&T Wireless. EBITDA was just \$22.0 million in 2005. See **Exhibit 4**, below.

**Exhibit 4: Revenue and EBITDA from 2001 through 2005**

*A difficult transition to a new business model*



Source: Public Filings.

Wireless’s weak 2005 performance is largely attributable to the transition from its old business model, which was based upon the exclusive regional affiliation with AT&T Wireless, to the current standalone business model. During this transition, Cingular Wireless was able to enter Wireless’s then-existing service area, increasing competition in that region. Although the transition agreements allowed Wireless to provide service in Puerto Rico and the U. S. Virgin Islands and also provided \$175 million in net proceeds to Wireless, these agreements led to materially reduced financial performance in 2005. Operating profitability in 2005 was adversely affected by reduced roaming revenues, increased customer migration costs, and increased marketing expenses due to the re-launch of the SunCom brand to existing subscribers. With various transitional and quasi-transitional expenses running through 2005 financials, there is also relatively limited visibility regarding 2006 prospects.

## BUY: SunCom Wireless 8.75% Notes

Furthermore, the liquidity cushion provided by the transactions does not currently benefit Wireless, as \$189 million was dividended from Wireless to a subsidiary of Holdings in November 2004, and is not currently available to Wireless. Certain bondholders have disputed the validity of that dividend, presumably on the basis that such transaction rendered Wireless insolvent.

*Wireless has made some moves to conserve cash*

Given its weakening financial condition, Wireless has implemented a variety of actions to preserve cash. In March 2005, Wireless agreed to sell 169 towers to an affiliate of Global Signal Inc., and negotiated a master lease agreement to continue usage of such towers. Through December 2005, 160 towers had been sold, generating \$52.3 million in net proceeds. In August 2005, Wireless also terminated a \$113 million purchase agreement in respect of Urban Comm – North Carolina, Inc. See **Exhibit 5**, below, for a summary of Wireless's operating performance.

**Exhibit 5: Historical Operating Performance**

Dollars in Millions	Fiscal Year Ended:		For the Fiscal Quarter Ended:			FYE:	
	12/31/03	12/31/04	3/31/05	6/30/05	9/30/05	12/31/05	12/31/05
Sales	\$810.1	\$818.2	\$204.0	\$212.9	\$214.5	\$194.8	\$826.2
COGS	497.6	540.9	155.7	188.3	199.4	230.5	774.0
Gross Profit	312.5	277.3	48.2	24.6	15.1	(35.7)	52.2
SG&A	264.5	262.4	80.5	93.0	95.3	98.2	366.9
Restructuring and Other Charges	7.1	0.7				52.4	52.4
Operating Income	40.9	14.2	(32.2)	(68.4)	(80.2)	(186.3)	(367.2)
Add back:							
Restructuring Charges	7.1	0.7	-	-	-	52.4	52.4
Pro Forma EBIT	48.1	14.9	(32.2)	(68.4)	(80.2)	(133.9)	(314.8)
Plus Depreciation and Amortization	148.7	173.7	59.4	74.0	84.4	118.9	336.8
Pro Forma EBITDA	196.8	188.5	27.2	5.6	4.2	(15.0)	22.0
Less Capital Spending	145.9	77.8	28.7	14.5	34.9	59.8	138.0
Pro Forma EBITDA - CAPEX	\$50.9	\$110.7	(\$1.5)	(\$8.9)	(\$30.8)	(\$74.8)	(\$116.0)
Other Metrics							
ARPU	55.78	55.35	55.84	56.73	54.6	51.9	54.79
Churn	2.30%	2.80%	2.90%	3.20%	3.80%	2.70%	3.20%
CPGA	437	434	462	427	453	395.0	431
EOP Subscribers	894.7	951.7	961.1	965.1	919.6	965.8	965.8
<b>Growth In:</b>							
Sales	13%	1%	3%	0%	1%	0%	1%
Gross Profit	8%	-11%	-27%	-66%	-79%	-154%	-81%
SG&A	-4%	-1%	17%	41%	60%	44%	40%
EBITDA	35%	-4%	-28%	-89%	-93%	-137%	-88%
<b>Other:</b>							
Gross Margin	38.58%	33.89%	23.64%	11.55%	7.02%	-18.32%	6.31%
SG&A as a percent of Sales	32.65%	32.07%	39.45%	43.69%	44.41%	50.40%	44.41%
EBIT Margin	5.93%	1.82%	-15.81%	-32.14%	-37.40%	-68.72%	-38.10%
EBITDA Margin	24.29%	23.04%	13.34%	2.64%	1.93%	-7.68%	2.66%
EBITDA - Capex Margin	6.28%	13.54%	-0.73%	-4.19%	-14.36%	-38.37%	-14.04%

Source: Public Filings.

## BUY: SunCom Wireless 8.75% Notes

*2005 Performance:* Revenue increased 1% to \$826.2 million in 2005, versus \$818.2 million in 2004. Service revenues increased 5.3% to \$635.0 million, versus \$603.2 million in 2004, due to higher subscriber levels offset somewhat by reduced ARPU. Roaming revenues decreased 29% to \$103.6 million, versus \$146.0 million in 2004, largely due to the reciprocal reduction in roaming rates negotiated between Wireless and Cingular Wireless. Equipment revenue increased 26.8% to \$87.5 million, versus with \$69.0 million in 2004, due to increased gross subscriber additions, greater handset sales to existing customers, and higher handset prices.

Aggregate cost of service increased 43% to \$774.0 million from \$540.9 million. The substantial increase in costs can be classified in several buckets: non-cash, losses on sold handsets, and network costs. Approximately 70%, or \$163 million, of the aggregate \$233.1 million increase is related to increased depreciation, amortization, and asset disposal costs largely due to accelerated depreciation of the TDMA network given its scheduled decommissioning in 2006. Cost of equipment sold increased by \$44.2 million, or 36%, to \$167.1 million; migration costs associated with handsets sold to new customers acquired in the Cingular Wireless transaction represented approximately \$17.5 million of increased equipment costs. Equipment costs were also driven by higher gross subscriber additions and transitioning existing customers from TDMA phones to GSM/GPRS phones. Finally, network and interconnection costs increased by \$25.7 million, or 10.5%, due in part to Wireless's operation of two fully deployed networks (TDMA and GSM/GPRS) over a larger, non-contiguous market area.

Selling, general and administrative expenses increased 40% to \$366.9 million in 2005 versus \$262.4 million in 2004. Certain expenses increased as direct result of Wireless's transition activities and seem unlikely to recur in the future; in particular, marketing expenses increased by \$29.6 million for the SunCom brand re-launch, customer care expenses increased by \$18.1 million for customer migration related to the new service areas acquired in the Cingular exchange agreement. In addition, management identified \$8.4 million in increased in bad debt expense related to new customers acquired in the Cingular exchange agreement. Other expenses, such as \$12.8 million in other increased customer care costs, \$7.6 million in increased distribution costs, and \$6.8 million in increased headcount do not appear to be one-time in nature.

EBITDA decreased by \$166.5 million, or 88%, to \$22.0 million in 2005, versus \$188.5 million in 2004. By our count, Wireless linked approximately \$73.6 million, or roughly 44%, of the total reduction in EBITDA to transition efforts presumably completed by the end of 2005. Other drivers of increased costs and/or expenses, such as the transition of existing customers to GSM/GPRS technology and the costs of simultaneously deploying two networks, are also likely to be taken out of the equation as Wireless decommissions its TDMA network in the first six months of 2006. Of course, other factors behind the decline in EBITDA, such as increased distribution costs, increased customer care expense, and increased headcount levels, relate more to Wireless's current market profile (serving two non-contiguous market areas), and thus are likely to be permanent.

***Transition costs (equipment, customer care, re-branding, and bad debt) are estimated at roughly \$74 million in 2005***

***Prospects: Improvement, but Not Enough to Avert Change-of-Control or Restructuring Transaction***

Wireless has announced that it will no longer provide income statement guidance, given the uncertainties facing it in the next year. It has provided capital spending guidance for 2006, in the range of \$75 million to \$90 million. Given the lack of income statement guidance and the numerous one-time costs that were incurred in 2005, there is little visibility regarding 2006 performance.

Our projections for Wireless contemplate 1% revenue growth in 2006, as we expect that increased service revenues, driven by reduced churn and increased subscriber levels, are largely offset by reduced roaming fees. We expect EBITDA of \$100 million to \$120 million, based upon 2005 EBITDA of \$22 million, elimination of \$74 million in transition-related expenses, and between \$4 million and \$24 million in cost reductions driven by network efficiencies and various cost-savings initiatives.

From a short-form free cash flow perspective, our estimated 2006 EBITDA of \$100 million to \$120 million must cover \$75 million to \$90 million of capital spending and approximately \$150 million in interest, implying a pro forma cash burn of \$105 million to \$140 million for 2006, before adjustments for non-cash compensation costs and debt amortization requirements, which might reduce cash burn by \$5 million in both cases. Therefore, our projections contemplate short-form cash burn of \$100 million to \$135 million. In comparison, Wireless had approximately \$155.1 million in available cash and short-term investments as of December 31, 2005.

***We expect Wireless to exhaust much of its remaining liquidity reserves in 2006 in the absence of a restructuring or other major transaction***

***Credit Analysis: Existing Capital Structure is Not Supportable***

Wireless's credit statistics have declined substantially since its exclusive regional association with AT&T was terminated; despite projected operating improvements in 2006, our projections contemplate short-form cash burn of \$100 million to \$135 million. In comparison, Wireless had approximately \$155.1 million in available cash and short-term investments as of December 31, 2005. As a result, we expect some form of restructuring, change-of-control transaction, or material asset sale to be initiated in the next twelve months. In the absence of a "Hail Mary" change-of-control transaction or material asset sale, we expect scheduled coupon payments will eventually cease, although our instinct tells us that at least some of the next series of interest payments on public debt (May 15 for the 8.75% Senior Subordinated Notes, June 1 for the 8.5% Senior Notes, and August 1 for the 9.375% Senior Subordinated Notes) will be made, although we are far less optimistic regarding the next series of interest payments, which commences with the November 15 scheduled interest payment on the 8.75% Senior Subordinated Notes.

*Summary of Obligations:* As of December 31, 2005, Wireless has approximately \$1,717.7 million in aggregate debt, consisting of (i) \$248.7 million in aggregate secured debt, (ii) \$725 million in senior unsecured debt, and (iii) \$744 million in senior subordinated debt. Wireless's secured debt consists of \$247.5 million of obligations under the Company's Senior Secured Term Loan (the "Senior Secured Term Loan") and \$1.2 million in capital lease obligations. Please see **Exhibit 6** for certain summary terms of the Senior Secured Term Loan.

## BUY: SunCom Wireless 8.75% Notes

**Exhibit 6: Certain Summary Terms of the Senior Secured Term Loan**

<b>Lenders:</b>	Lehman Commercial Paper Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated
<b>Borrower:</b>	SunCom Wireless Inc.
<b>Guarantors:</b>	Substantially all domestic subsidiaries of Wireless, excluding the entities that hold Wireless's real estate interests and FCC licenses.
<b>Security:</b>	(i) Liens and security interests in substantially all personal property of guarantors; (ii) a pledge of Wireless common stock; and (iii) a pledge of the common stock and/or membership interests of all Wireless's domestic subsidiaries (including non-guarantor subsidiaries).
<b>Interest Rate:</b>	Obligations under this facility bear interest at LIBOR plus 350 basis points of an alternate base rate plus 225 basis points, at Wireless's option.
<b>Amortization:</b>	Scheduled quarterly amortization payments of \$625,000 commencing on March 31, 2006 and concluding on September 30, 2009, with a \$239.1 million bullet payment due at maturity on November 18, 2009. Any principal prepaid prior to November 18, 2006 is subject to a 2% prepayment premium.
<b>Covenants:</b>	No financial covenants, but customary negative covenants restricting Wireless's ability to incur additional indebtedness, grant liens, sell assets, and pay dividends, among other requirements.

Source: Public Filings.

Given its term, relatively low amortization requirements, and lack of financial covenants, the Senior Secured Term Loan is unlikely to create material operating hurdles for Wireless in the near term.

*Credit Statistics:* Wireless's credit statistics have declined substantially since its exclusive regional association with AT&T was terminated. EBITDA interest coverage has declined from 1.4x in 2003 to 0.1x in 2005. EBITDA-less-capital-spending interest coverage was negative for 2005. Cash flow (deficit) from operations has declined from \$136.8 million, or 17% of revenues, in 2003 to \$(73.3) million in 2005, or (9)% of revenues. Leverage metrics, which were mediocre in the best of times, have deteriorated substantially in the past year. When short-term investments not available to Wireless are excluded, liquidity relative to annual interest expense has also declined meaningfully over the past year. See **Exhibit 7**, below.

**Coverage, leverage and cash flow deteriorated substantially in 2005**

**Exhibit 7: Certain Credit Statistics**

	For the LTM Period Ended:					
	12/31/03	12/31/04	3/31/05	6/30/05	9/30/05	12/31/05
EBITDA / LTM Interest	1.4x	1.5x	1.3x	0.9x	0.5x	0.1x
LTM EBITDA less Capital Spending / LTM Interest	0.4x	0.9x	0.7x	0.4x	-0.2x	-0.8x
Unrestricted Cash / LTM Interest	0.8x	3.9x	3.6x	3.2x	3.0x	2.4x
Liquidity / LTM Interest	1.5x	2.5x	2.3x	1.9x	1.7x	1.0x
CFO	136.8	85.2	56.2	25.2	(26.1)	(73.3)
CFO/Revenues	17%	10%	7%	3%	-3%	-9%
Net Debt / LTM EBITDA	6.7x	7.3x	7.8x	10.8x	18.8x	69.9x
Net Debt / LTM EBITDA - Capital Spending	26.0x	12.4x	15.6x	27.6x	-64.8x	-13.3x

Source: Public Filings.

## BUY: SunCom Wireless 8.75% Notes

*Liquidity Outlook:* We do not believe that the existing capital structure is supportable and expect some form of restructuring, change-of-control transaction, or material asset is needed to resolve this situation. Our projections contemplate short-form cash burn of \$100 million to \$135 million in 2006. In comparison, Wireless had approximately \$155.1 million in available cash and short-term investments as of December 31, 2005. In confirmation, the Company's public disclosure indicates that cash flows will be insufficient to fund debt service and capital requirements by early 2007. The Company has also engaged a restructuring advisor (Lazard Freres & Co.) and restructuring counsel (Weil, Gotshal & Manges) to evaluate various alternatives.

*Restructuring Outlook:* Our instinct tells us that at least some of the next series of interest payments on public debt (May 15 for the 8.75% Senior Subordinated Notes, June 1 for the 8.5% Senior Notes, and August 1 for the 9.375% Senior Subordinated Notes) will be made, although given Wireless's financial condition there are no guaranties. We base our view upon the expectation that the Company and its advisors will explore potential sale transactions and/or material asset sale transactions outside of Chapter 11 for some period of time. Efforts to negotiate a standalone restructuring solution with existing stakeholders will likely proceed concurrently. Given Wireless's existing cash reserves, such efforts can continue past the August 1 interest payment on the 9.375% Senior Subordinated Notes.

***All scheduled interest payments are at risk, though we believe default risk increases in the fall***

We are far less optimistic regarding the second set of bond interest payments, commencing with the November 15 scheduled interest payment on the 8.75% Senior Subordinated Notes. In our view, if either a strategic transaction or a restructuring solution has not been negotiated by that time (almost ten months after advisors were engaged), Wireless may well elect to conserve resources and file for Chapter 11 rather than continue to service the existing capital structure.

Assuming Wireless is unable to consummate a change-of-control transaction or material asset sale in or out of court, how much debt can a reorganized, standalone Wireless feasibly support? Secured obligations, which account for approximately \$20 million in annual interest payments at current interest rates, will likely be unimpaired. Wireless's senior subordinated debt issues, which account for approximately \$67 million in annual interest payments, would surely be compromised in this scenario. The 8.5% Senior Notes, however, are more interesting.

If Wireless commences an in-court restructuring, interest payments in the 8.5% Senior Notes, approximately \$62 million per annum, would be halted for the duration of the case. Looking ahead to a reorganized standalone Wireless, we believe that operations would have to improve substantially (i.e. beyond the operating performance contemplated in our 2006 projections) to justify reinstatement in full of the 8.5% Senior Notes. In this hypothetical, holders of 8.5% Senior Notes may receive some amount of new debt and some equity in a restructuring, and may even control the reorganized entity.

**Valuation Views: Per Subscriber Values Support Bond Prices**

We have developed views regarding Wireless's value using several approaches, including a review of current trading values relative to prospective and LTM operating statistics and a review of certain merger market transactions. We have developed an enterprise value range for Wireless of \$1,500 million to \$1,700 million. Given Wireless's obligations as of December 31, 2005 (reduced by our average 2006 cash burn estimate), our valuation range implies a value cover of (i) 172% to 199% for the 8.5% Senior Notes, versus a recent price of 96 and (ii) 76% to 103% for the senior subordinated note issues, versus prices of 75 for the 9.375% Senior Subordinated Notes and 74 for the 8.75% Senior Subordinated Notes.

**Wireless lags the Comparison Group in profitability and growth metrics**

*Relative Trading Valuation:* We have developed a small group of companies comparable, in certain respects, to Wireless (collectively, the "Comparison Group"). The Comparison Group includes [Centennial], [iPCS], and [Leap Wireless]. Review of the Comparison Group indicates that Wireless trails the Comparison Group in terms of profitability metrics, even if prospective 2006 performance is incorporated. Wireless is comparable in terms of ARPU and POPS, but lags the Comparison Group in terms of growth and leverage. See **Exhibit 8**, below.

**Exhibit 8: Certain Operating Metrics**

	LTM Operating Statistics					2003 - 05 Revenue CAGR	MRQ vs. SQPY Revenue Growth	Net Debt / EBITDA	
	EBITDA Margin	EBIT Margin	EBITDA - CAPEX		POPS <sup>2</sup>				
			Margin	Margin					
CENTENNIAL	37.0%	18.7%	19.5%	\$61.00	19.8	12.1%	8.1%	5.9x	
iPCS <sup>1</sup>	13.5%	-11.0%	7.3%	\$51.27	11.4	20.1%	95.6%	4.9x	
LEAP WIRELESS	28.7%	7.4%	5.9%	\$39.56	27.1	10.3%	10.8%	1.1x	
	Average	26.4%	5.0%	10.9%	\$50.61	19.4	14.2%	38.2%	4.0x
	Median	28.7%	7.4%	7.3%	\$51.27	19.8	12.1%	10.8%	4.9x
WIRELESS LTM	2.7%	-38.1%	-14.0%	\$54.79	18.9	1.0%	-0.3%	69.9x	
WIRELESS Projected 2006 (Average)	13.2%	-7.6%	3.3%	\$53.84	18.9	1.0%	NA	13.1x	

<sup>1</sup> iPCS merged with Horizon PCS on July 1, 2005.

<sup>2</sup> Wireless's POPS held constant from 2005 to 2006. (Each POP represents one million people.)

Source: Public Filings.

We have developed a series of valuation metrics for members of the Comparison Group based upon recent market prices for debt and equity and incorporating off-balance-sheet financing arrangements as part of enterprise value on an apples-to-apples basis where applicable. See **Exhibit 9**.

**Exhibit 9: Certain Valuation Metrics**

	LTM Valuation Metrics					TEV / POP	TEV / Subs	FY 2006 Est. IBES Earnings	FY 2007 Est. IBES Earnings
	Sales	EBITDA		Earnings	less CAPEX				
		EBIT	EBIT						
CENTENNIAL	3.1x	8.3x	16.4x	15.7x	237.5x	\$145	\$2,048	16.9x	10.8x
iPCS	3.1x	22.7x	NMx	41.9x	NMx	\$90	\$2,065	NMx	NMx
LEAP WIRELESS	3.5x	12.1x	47.2x	58.8x	95.8x	\$117	\$1,902	NMx	NMx
Mean	3.2x	14.4x	31.8x	38.8x	166.6x	\$117	\$2,005	16.9x	10.8x
Median	3.1x	12.1x	31.8x	41.9x	166.6x	\$117	\$2,048	16.9x	10.8x
WIRELESS LTM	1.6x	61.1x	NMx	NMx	NMx	\$71	\$1,391	NMx	NMx
WIRELESS Projected 2006 (Average)	1.6x	12.2x	NMx	48.9x	NMx	\$71	\$1,371	NMx	NMx

Sources: Factset, Public Filings, Trace.

We have also considered certain relevant merger and acquisition transaction, found below in **Exhibit 10**.

**Exhibit 10: Certain Merger and Acquisition Metrics**

Date	Acquirer	Target	Consideration (Dollars in Millions)	TEV / POP	TEV / Subscriber	POPs in Millions	Subs in Millions
Feb-05	Alamosa	Airgate	\$ 785	\$123	\$1,892	6.4	0.4
May-05	iPCS	Horizon	\$ 375	\$69	\$2,049	5.4	0.2
Aug-05	Sprint	US Unwired	\$ 1,300	\$115	\$2,519	11.3	0.5
Feb-06	Sprint	Alamosa	\$ 4,300	\$216	\$2,867	19.9	1.5
Pending	Sprint	Ubiquitel	\$ 1,300	\$157	\$2,902	8.3	0.4
		Mean		\$136	\$2,446		
		Median		\$123	\$2,519		

Sources: Factset, Public Filings, Trace.

**Price per subscriber data supports the thesis that Wireless's asset value can provide adequate cover to investors**

*Valuation Conclusions:* Wireless has posted extremely poor performance since the end of its exclusive regional association with AT&T Wireless in the fourth quarter of 2004, due to several factors. First, Wireless has incurred substantial transition costs to migrate new customers to Wireless's network and billing systems and, to a lesser extent, existing customers to its GSM/GPRS network before decommissioning its TDMA network. In addition, Wireless now serves non-contiguous markets, which leads to certain cost inefficiencies. Furthermore, increased competition and pricing pressures have led to reduced ARPU, which is likely to continue in the future. Although these factors have led to reduced visibility, we do expect Wireless to post substantially improved results in 2006 versus 2005, as transition spending is largely complete.

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*Even at a discount to prevailing subscriber prices, adequate value cover exists for investors*

Regardless, Wireless's excessive leverage and declining liquidity will likely require a restructuring, material asset sale, or change-of-control transaction in the near term. Although both public market trading data and merger and acquisition transactions support the case for a value in excess of \$2,000 per subscriber, we have applied a judgmental discount to prevailing prices to reflect financial distress and the relatively weaker performance of Wireless's properties. Given the foregoing, we have developed an enterprise value range for Wireless of \$1,500 million to \$1,700 million. This range reflects an LTM sales multiple of 1.8x to 2.1x, a 13.6x to 15.5x multiple of the midpoint of our 2006 EBITDA estimate, and a range of \$79 to \$90 per POP, and a range of \$1,553 to \$1,760 per subscriber. This analysis does not incorporate any adjustment in the event that Holdings is required to return all or part of the \$189 million dividend received from Wireless in November 2004.

***Return Analysis of Potential Trades***

Applying our valuation range to the Wireless's obligations as of December 31, 2005, as reduced by our average 2006 cash burn estimate, equates to a value cover of (i) 172% to 199% for the 8.5% Senior Notes, versus a recent price of 96 and (ii) 76% to 103% for Wireless's senior subordinated notes, versus recent prices of 75 for the 9.375% Senior Subordinated Notes and 74 for the 8.75% Senior Subordinated Notes.

We would tend to avoid the 8.5% Senior Notes, as there appears to be more downside risk than upside gain at current price levels; on the other hand, we expect that underlying asset values and relative seniority limits potential for a profitable short position. In contrast, the 8.75% Senior Subordinated Notes offer more upside than the 8.5% Senior Notes and are ahead of the pari passu 9.375% Senior Subordinated Notes in the interest payment cycle. We have considered three different two-year return scenarios for this instrument, including (i) one coupon payment received, followed by a lengthy restructuring process in which holders receive equity in reorganized Wireless, (ii) two coupon payments received, followed by a lengthy restructuring process in which holders receive equity in reorganized Wireless, and (iii) no coupon default, which contemplates that a change-of-control transaction or material asset sale is consummated that eliminates the prospective cash crisis. Please see **Exhibit 11** for a summary of prospective returns for a two-year position under these assumptions.

## Exhibit 11: Analysis of Potential Returns on Proposed Position

	At Various Selling Prices								
	One Coupon Payment Made			Two Coupon Payments Made			No Coupon Default		
	\$75.0	\$85.0	\$95.0	\$75.0	\$85.0	\$95.0	\$75.0	\$85.0	\$95.0
Purchase Price	74	74	74	74	74	74	74	74	74
Bond Coupon	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%
Bond Collateral Pct	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Borrowing Rate	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Collateral Required	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0
One-Year Coupon	4.4	4.4	4.4	8.8	8.8	8.8	8.8	8.8	8.8
Years	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Cash Flows									
Year Zero	(37.0)	(37.0)	(37.0)	(37.0)	(37.0)	(37.0)	(37.0)	(37.0)	(37.0)
Year One	2.2	2.2	2.2	6.5	6.5	6.5	6.5	6.5	6.5
Year Two	35.8	45.8	55.8	35.8	45.8	55.8	44.5	54.5	64.5
IRR (Levered Return)	1.3%	14.2%	25.7%	7.6%	20.4%	31.9%	18.9%	30.5%	41.2%
Unlevered Annual Return	3.7%	10.2%	16.3%	6.8%	13.3%	19.4%	12.5%	18.6%	24.5%

***If a change-of-control transaction or material asset sale can be consummated without interruption of interest payments, unlevered returns could reach 12.5% to 24.5% from a two-year position***

In our return analysis, we have assumed a broad range of selling prices that contemplate consistent with our valuation range. Assuming one interest payment made before default, levered returns range from 1.3% to 25.7% and unlevered returns range from 3.7% to 16.3%. Assuming two interest payments made before default, levered returns range from 7.6% to 31.9% and unlevered returns range from 6.8% to 19.4%. Assuming no coupon, levered returns range from 18.9% to 41.2% and unlevered returns range from 12.5% to 24.5%.

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## Recommendation Update: Icon Health & Fitness, Inc.

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In the January 19<sup>th</sup> edition of *Distressed Debt Investor*, we recommended a short position in the 11.25% Senior Subordinated Notes due 2012 of Icon Health & Fitness, Inc. (“Icon” or the “Company”). In our view, commodity cost inflation and competitive pricing dynamics had impaired Icon’s operating profitability and were unlikely to abate. Although Icon’s operating profitability in its just-released second quarter (the 13 weeks ended December 3, 2005) had improved versus the same period of the prior year, we considered this a triumph of cost cutting over weak sales and product margins. We were also concerned about weak holiday performance. Well, the market disagreed with us – and quite strongly. The 11.25% Senior Subordinated Notes, which had closed at [84.50] on January 19, ran up in price, eventually reaching a high of 105.125. Recent trades have been executed around 100.

Icon’s third-quarter results were released on April 18, and were somewhat better than we had anticipated, although not enough, in our view, to justify current pricing on the senior subordinated notes. The Company posted a smaller-than-expected decline in sales and improved gross margin, but much higher operating expenses (driven by increased bad debt expense) than we expected. In aggregate, Icon posted quarterly EBITDA of \$27.7 million, slightly above our estimate of \$24.7 million.

Given the seasonal weakness of fourth-quarter results, we expect the Company to post roughly breakeven fiscal 2006 EBITDA-less-capital interest coverage – which we believe is relatively weak for current price levels. Icon currently believes that existing cash and credit facilities at March 4, 2006 are adequate to fund its operations through the third quarter of fiscal 2007. Although Icon is entering a seasonally weak quarter, a catalyst event may well be further away than previously hoped. As a result, we recommend that investors close out any remaining short positions.

## New York Society of Security Analysts 16<sup>th</sup> Annual High Yield Bond Conference

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**June 13, 2006 ~ 8:00 a.m.-3:45 p.m. ~ Bloomberg ~ NY, NY**

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**Discuss these issues and more...**

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B. Daniel Evans, Merrill Lynch Investment Managers  
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Sharon F. Manewitz, TIAA-CREF  
Steven Miller, Standard & Poor's  
Margaret Patel, Pioneer Investment Management  
Michael Taylor, Bear Stearns  
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