

Service Provider Fails to Come Through for Verizon Wireless

Amp'd Mobile ran up more than \$30 million in lease fees that it likely cannot pay

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BASKING RIDGE - When a cellular phone service provider called Amp'd Mobile Inc. pulls the plug on itself this week, Verizon Wireless will likely do little more than shrug. Amp'd Mobile piggybacked on Verizon's system and fell more than \$30 million into debt to the Basking Ridge company. Now, as Los Angeles-based Amp'd goes dark, few assets are left to parcel out.

Verizon had asked the U.S. Bankruptcy Court for the District of Delaware to shut the free rider down, noting that Amp'd had just \$9,000 of cash on hand last week. Even with the expected sale or auction of Amp'd's assets, its more than 200 creditors are unlikely to get much satisfaction.

"Unsecured creditors typically rarely see money," says Donald Campbell, attorney and head of the creditors' rights bankruptcy group at law firm Giordano, Halleran & Ciesla in Red Bank.

Verizon Wireless, a joint venture of New York City's Verizon Communications and Britain's Vodafone Group, generates \$38 billion of revenue from its more than 60 million subscribers. Leasing signal capacity to Amp'd theoretically gave Verizon Wireless a share of the potentially lucrative business of serving young cell phone users, whom Amp'd supplied with content such as videos and music carried by Verizon Wireless.

In court papers, Amp'd said it has more than \$100 million in liabilities, including more than \$33 million owed to Verizon Wireless. At the same time, Amp'd said it had anywhere from \$1 million to \$100 million in assets. But since Amp'd leased rather than owned its network and will no longer operate, it apparently has little more than office equipment to put up for sale.

"Spectrum is the real asset in this business," says Robert Rosenberg, president of telecommunications market research firm Insight Research Corp. in Boonton. "These guys never really owned a network."

Two-year-old Amp'd was a bit player in the mobile phone scene with some 175,000 subscribers in the first quarter of 2007. It tried to attract a hip subscriber base between the ages of 18 and 35 by offering downloadable video content such as the animated "Lil' Bush," a show lampooning President George W. Bush that is now on Comedy Central.

But the Amp'd strategy never generated a profit or even much revenue. When the company entered Chapter 11 bankruptcy proceedings last month, it stated that about 80,000 customers—or nearly half its subscriber base—were nonpayers.

The failure of Amp'd, whose investors included MTV Networks, raises questions about the survivability of similar niche wireless services. Mobile ESPN, launched by cable sports channel ESPN in 2005, attracted just 10,000 subscribers before shutting down at the end of 2006.

Verizon Wireless demanded action from the court as bills to Amp'd continued to pile up with no hope of payment in sight. "After 46 days into the case, the debtor has yet to obtain debtor-in-possession financing through its prepetition lender, Kings Road Investments or any other source," Verizon Wireless said this month in seeking to terminate its agreement with Amp'd.

Verizon Wireless stated that Amp'd had accumulated \$15.6 million of new charges since filing for bankruptcy and would continue to incur \$370,000 of charges per day under its service agreement. Verizon Wireless added that Amp'd could expect little help from its backers since court papers indicated "that the debtor burned through over \$350 million in equity investments in such a fashion that the investors are unwilling to contribute additional capital."

Amp'd had initially attracted deep-pocket supporters such as MTV and Universal Music Group who hoped to reach a young audience with downloadable media through cell phones. According to court papers, Amp'd owed \$10.1 million to Vivendi Universal, the French parent of Universal Music Group, and \$1.4 million to MTV. Motorola Inc., which provided phones to Amp'd customers, was owed \$10.1 million, making it the largest creditor after Verizon.

"You can't get blood from a stone, and essentially what happens sometimes when a Chapter 11 debtor converts into a Chapter 7 is they turn to stone," says attorney Campbell. "There is just nothing you can do about it. Verizon Wireless may very well never see a dime if the company has no assets."

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