Virgin Mobile USA, Inc.
Form 10-Q
November 16, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **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

¨ **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: 001-33735

Virgin Mobile USA, Inc.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**20-8826316** **(I.R.S. Employer** **Identification No.)**
10 Independence Boulevard, Warren, New Jersey	**07059**

(Address of principal executive offices) **(Zip Code)**

(908) 607-4000

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ¨ Yes x No

Indicate by check mark whether the registrant is a large accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes þ No

The number of shares of each of the registrant s classes of common stock outstanding as of November 9, 2007 was as follows:

Class A common stock, par value $0.01 per share	53,146,052
Class B common stock, par value $0.01 per share	1
Class C common stock, par value $0.01 per share	115,062

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Form 10-Q

For the quarterly period ended September 30, 2007

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Virgin Mobile USA, Inc.

Condensed Balance Sheet

(Unaudited)

As of September 30, 2007

Assets		
Current assets:		
Cash and cash equivalents	$	1
Total assets	$	1
Commitments and contingencies		
Stockholder s Equity		
Common Stock; $0.01 par value, 100 shares authorized, 1 share issued and outstanding	$	
Additional paid-in-capital		1
Total stockholder s equity	$	1

The accompanying notes are an integral part of these financial statements.

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Virgin Mobile USA, Inc.

Notes to the Condensed Balance Sheet (Unaudited)

1. Description of Business and Basis of Presentation

Virgin Mobile USA, Inc. (the Company), a Delaware corporation was formed on April 11, 2007 and capitalized on April 17, 2007 in connection with a proposed initial public offering.

Basis of Presentation

The accompanying unaudited balance sheet of the Company has been prepared in accordance with accounting principles generally accepted in the United States of America and Article 10 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, it does not include annual disclosures necessary for a presentation of the Company s financial position in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, the interim financial information provided herein reflects all adjustments (consisting of normal and recurring adjustments) necessary for a fair presentation of the Company s financial position for the interim periods presented on a basis consistent with the Company s historical audited balance sheet and the accompanying notes. This document should be read in conjunction with the financial statements and accompanying notes included in the Company s prospectus dated October 10, 2007 and filed with the SEC on October 11, 2007.

2. Subsequent Events

Reorganization and Initial Public Offering

In connection with its initial public offering (IPO), the Company, Virgin Mobile USA, LLC and Bluebottle USA Investments L.P. and its subsidiaries (Investments) completed a reorganization. As part of the reorganization, Virgin Mobile USA, LLC converted to a limited partnership and changed its name to Virgin Mobile USA, L.P. (the Operating Partnership). Upon completion of the reorganization and the IPO, the equity, on a converted basis, in the Company s business was owned 35.1% by Corvina Holdings Limited and Cortaire Limited, affiliates of Virgin Group Holdings Limited, (the Virgin Group), 18.5% by Sprint Ventures, Inc., an affiliate of Sprint Nextel Corporation together with its affiliated entities (Sprint Nextel), through its ownership in the Operating Partnership, 4.2% by other minority investors and the remaining 42.2% is publicly traded on the New York Stock Exchange.

On October 16, 2007, the Company completed its IPO and the Company and the selling stockholders sold 27,500,000 shares of Class A Common Stock. The Company received net proceeds of $355.4 million, after deducting underwriting commissions and discounts of $23.7 million and estimated offering expenses of $4.6 million. The Company used $136 million of the IPO proceeds to pay Sprint Nextel for a portion of Sprint Nextel s limited liability company interests in Virgin Mobile USA, LLC that the Company purchased in connection with the reorganization and the IPO. The remaining net proceeds of $219.4 million were contributed to the Operating Partnership through Investments and Bluebottle USA Holdings L.P. (Holdings). Holdings used these proceeds to purchase additional limited partnership units in the Operating Partnership. The Operating Partnership used the proceeds to (1) repay $150 million of outstanding borrowings and $0.8 million of accrued interest under the senior secured credit facility and (2) repay $45 million of indebtedness and $0.6 million of accrued interest owed to Sprint Nextel under the subordinated secured revolving credit facility. Subsequent to the IPO, the Operating Partnership used the remaining net proceeds of approximately $23.1 million for general corporate purposes.

Following the reorganization and the IPO, the authorized capital stock of the Company consists of: (i) Class A common stock, entitled to one vote per share on all matters submitted to a vote of stockholders; (ii) one share of Class B common stock (presently held by Sprint Nextel) entitled to a number of votes per share on all matters submitted to a vote of stockholders that is equal to the total number of shares of Class A common stock for which the partnership units that Sprint Nextel holds in the Operating Partnership are exchangeable; (iii) Class C common stock (presently held by the Virgin Group) entitled to one vote per share on all matters submitted to a vote of stockholders and convertible into Class A common stock on a one-for-one basis at any time; and (iv) preferred stock. Sprint Nextel and the Virgin Group, the principal stockholders, are able to exercise control over the Company s management and affairs and all matters requiring stockholder approval as a result of their ownership of 35.1% voting power in Virgin Mobile USA, Inc. (in the form of Class A common stock and Class C common stock) in the case of the Virgin Group and of 18.5% voting power (in the form of Class B common stock) in the case of Sprint Nextel. Immediately following the reorganization and the IPO, the Company had the following classes of capital stock authorized, and issued and outstanding.

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Virgin Mobile USA, Inc.

Notes to the Condensed Balance Sheet (Unaudited)

	Shares Authorized	Shares Issued and Outstanding
Class A	200,000,000	53,022,034
Class B	1	1
Class C	999,999	115,062
Preferred Stock(1)		

(1) The Company s certificate of incorporation authorizes the board of directors to establish one or more series of preferred stock (including convertible preferred stock). No shares of preferred stock were outstanding.

In its December 31, 2007 financial statements, the Company will account for the reorganization transactions, for all periods presented, using a carryover basis, similar to a pooling-of-interest as the reorganization transactions were premised on a non-substantive exchange in order to facilitate the IPO. This is consistent with Financial Accounting Standards Board Technical Bulletin 85-5, Issues Relating to Accounting for Business Combinations, including Costs of Closing Duplicate Facilities of an Acquirer; Stock Transactions between Companies under Common Control; Down-Stream Mergers, Identical Common Shares for a Pooling of Interests; and Pooling of Interests by Mutual and Cooperative Enterprises.

Pro Forma Balance Sheet Information (Unaudited)

The unaudited pro forma balance sheet data below reflects the transactions noted above that occurred subsequent to September 30, 2007. The pro forma balance sheet gives effect to (1) the reorganization transactions, including the consolidation of the Company, Virgin Mobile USA, L.P. and Investments on a carryover basis, (2) receipt of $355.4 million of net proceeds from the IPO, (3) payment of $136 million to Sprint Nextel for limited liability company interests in Virgin Mobile USA, LLC purchased by the Company, (4) repayment of $150 million of outstanding borrowings and $0.8 million of accrued interest under the senior secured credit facility, and (5) repayment of $45 million of indebtedness and $0.6 million of accrued interest owed to Sprint Nextel under the subordinated revolving credit facility, as if these transactions had occurred on September 30, 2007. Sprint Nextel s 18.5% interest in the Operating Partnership is reflected as minority interest in the unaudited pro forma balance sheet.

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Virgin Mobile USA, Inc.

Notes to the Condensed Balance Sheet (Unaudited)

Pro Forma Condensed Consolidated Balance Sheet

(Unaudited)

(In thousands)

		September 30, 2007
Assets		
Current assets:		
Cash and cash equivalents	$	23,106
Other current assets		226,902
Total current assets		250,008
Property and equipment, net		45,321
Other assets		11,285
Total assets	$	306,614
Liabilities and stockholders / members equity		
Current liabilities:		
Current portion of long-term debt	$	31,988
Other current liabilities		378,729
Total current liabilities		410,717
Other liabilities		5,585
Long-term debt		250,762
Related party debt		45,000
Total non-current liabilities		301,347
Minority interest		(115,447)
Total stockholders deficit		(290,003)
Total liabilities and stockholders deficit	$	306,614

The unaudited pro forma balance sheet does not reflect any adjustments relating to tax receivable agreements with Sprint Nextel and the Virgin Group, discussed below, except for adjustments relating to the initial sale of limited liability company interests by Sprint Nextel to the Company as part of the reorganization transactions, since the amount and timing of the utilization of the tax benefits under those agreements is unknown. However, any payments to Sprint Nextel and the Virgin Group pursuant to their respective tax receivable agreements are expected to be accounted for as follows:

the Company will recognize a deferred tax asset relating to the increase in the tax bases of the assets owned, in the case of the tax receivable agreement with Sprint Nextel based on enacted tax rates at the date of the transactions giving rise to the increased tax bases;

the Company will evaluate the likelihood of realizing the benefits of such deferred tax asset and reduce the deferred tax asset with a valuation allowance if there is a more likely than not chance that the deferred tax asset will not be realized; and

the Company will record a liability for the amount expected to be paid under the tax receivable agreement with Sprint Nextel or the tax receivable agreement with the Virgin Group, as the case may be, estimated using assumptions consistent with those used in estimating the Company s ability to realize net deferred tax assets.

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Virgin Mobile USA, Inc.

Notes to the Condensed Balance Sheet (Unaudited)

Pro Forma Earnings Per Share (Unaudited)

The calculation of pro forma basic and diluted earnings/(loss) per share converts the historical weighted average number of units of limited liability company interests in Virgin Mobile USA, LLC outstanding as of September 30, 2007 and 2006 to common stock based on a conversion rate used in the reorganization. New equity issued in the IPO was not outstanding on September 30, 2007 and therefore not included in weighted average shares for any period. The net (loss)/income of Virgin Mobile USA, LLC and Investments is combined and the equity in income/(loss) of investee is eliminated in determining the pro forma net (loss)/income. Pro forma net (loss)/income per share is calculated by dividing the pro forma net (loss)/income per share by the pro forma historical weighted average number of shares of common stock outstanding for each period shown. The Company s pro forma net (loss) for the three months ended September 30, 2007 and 2006, and accordingly the diluted (loss) per share is the same as the basic (loss) per share for that period, as any potentially dilutive securities would reduce the net loss per share.

	Three months ended September 30, 2007		Nine months ended September 30, 2007	
	Basic	Diluted	Basic	Diluted
	(In thousands, except per share amounts) (Unaudited)			
Pro forma weighted average shares outstanding:				
Common stock (i)	49,352	49,352	49,098	49,098
Stock options Class A common stock (ii)				1,004
Restricted stock units Class A common stock (iii)				19
Pro forma weighted average shares outstanding	49,352	49,352	49,098	50,121
Pro forma net (loss)/income:				
Virgin Mobile USA, LLC	$ (7,301)	$ (7,301)	$ 19,215	$ 19,215
Bluebottle USA Investments L.P	(3,523)	(3,523)	8,775	8,775
Virgin Mobile USA, Inc.				
Eliminate equity in loss/(income) of investee (iv)	3,443	3,443	(9,060)	(9,060)
Pro forma net (loss)/income	$ (7,381)	$ (7,381)	$ 18,930	$ 18,930
Pro forma net (loss)/income per common share	$ (0.15)	$ (0.15)	$ 0.39	$ 0.38

	Three months ended September 30, 2006		Nine months ended September 30, 2006	
	Basic	Diluted	Basic	Diluted
	(In thousands, except per share amounts) (Unaudited)			
Pro forma weighted average shares outstanding:				
Common stock (i)	48,413	48,413	48,408	48,408
Stock options Class A common stock (ii)				453
Restricted stock units Class A common stock (iii)				
Pro forma weighted average shares outstanding	48,413	48,413	48,408	48,861
Pro forma net (loss)/income:				
Virgin Mobile USA, LLC	$ (5,062)	$ (5,062)	$ 8,055	$ 8,055

Bluebottle USA Investments L.P	(2,399)	(2,399)	3,711	3,711
Virgin Mobile USA, Inc.				
Eliminate equity in loss/(income) of investee (iv)	2,386	2,386	(3,799)	(3,799)
Pro forma net (loss)/income	$ (5,075)	$ (5,075)	$ 7,967	$ 7,967
Pro forma net (loss)/income per common share	$ (0.10)	$ (0.10)	$ 0.16	$ 0.16

(i) Represents weighted average number of units of limited liability company interests in Virgin Mobile USA, LLC for the period converted to weighted average common shares based on a conversion rate used in the reorganization.

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Virgin Mobile USA, Inc.

Notes to the Condensed Balance Sheet (Unaudited)

(ii) The issuance of options on shares of Class A common stock to holders of awards granted under the 2005 Stock Appreciation Rights Plan and the conversion of units granted under the 2002 and 2006 Stock Appreciation Rights Plans (2002 and 2006 SAR Plans) into options on shares of the Company s Class A common stock has been included in the computation of diluted pro forma earnings per share using the treasury stock method. For the three months ended September 30, 2007 and 2006, approximately 554,000 and approximately 642,000 options were excluded from the calculation of diluted earnings/(loss) per share since the effect was anti-dilutive.

(iii) The Restricted Stock Unit (RSU) Awards granted on February 14, 2007 and May 23, 2007 are included in the computation of diluted pro forma earnings per share using the treasury stock method assuming a conversion to Class A common shares.

(iv) Investments accounts for its share of Virgin Mobile USA, LLC under the equity method of accounting, as it does not control the operations of Virgin Mobile USA, LLC. Under the equity method, Investments adjusts its investment account for its proportionate share of Virgin Mobile USA, LLC s net income or loss in equity in loss/(income) of investee.

Share-Based Awards

On October 10, 2007, the Company s Board of Directors approved the Virgin Mobile USA, Inc. 2007 Omnibus Incentive Compensation Plan (the 2007 Omnibus Share Plan). The 2007 Omnibus Share Plan provides for the grant of equity-based awards, including stock options, restricted stock, performance shares, stock appreciation rights, common stock, performance units or cash based awards, as determined by the Company s Compensation Committee. Up to 7.7 million shares were authorized for issuance under the 2007 Omnibus Share Plan, including shares that underlie awards originally made under the Virgin Mobile USA, LLC equity-based incentive plans.

In connection with the IPO, all awards outstanding under the Virgin Mobile USA, LLC Option Plans and Agreements and the 2002 and 2006 SAR Plans were converted into non-qualified stock options of the Company, exercisable for shares of the Company s Class A common stock. All awards outstanding under the Virgin Mobile USA, LLC 2007 Restricted Stock Unit Plan were converted into shares of the Company s Class A Restricted Stock. All vesting provisions and maximum terms under the various plans were unchanged, and all accrued liabilities were transferred from Virgin Mobile USA, LLC to the Company and recorded in additional paid-in-capital. The following table summarizes the share-based awards converted upon completion of the IPO:

	Operating Partnership Awards Converted to VMU Inc. Awards	
	Number of pre-IPO Awards Outstanding	Number of post-IPO Awards Outstanding
2002 SAR Awards	47	20,244
2006 SAR Awards	1,666	710,925
Non-Qualified Options	6,115	2,609,662
2007 RSU Awards	1,191	508,307
Total	9,019	3,849,138

Under the 2007 Omnibus Share Plan, concurrent with the IPO, the Company issued Restricted Stock Unit (RSU) awards to certain employees of the Operating Partnership, which vest ratably over two years, and non-qualified stock option awards to holders of the Virgin Mobile USA, LLC s 2005 Stock Appreciation Rights Plan awards, which vest ratably over four years. In addition, the Company made its on going long-term incentive awards to eligible employees of the Operating Partnership, in the form of RSU awards and non-qualified stock option awards, all of which vest ratably over approximately 3.75 years. In addition, the Company issued RSU awards to non-employee members of the Board of

Directors, which vest ratably over four years. The exercise price of the stock options issued, as well as the fair value of the RSU awards issued, equals the initial public offering price of $15.00. The fair value of the stock options issued was estimated as of the grant date based on the Black-Scholes option pricing model (the Black-Scholes model) as discussed below.

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The following table summarizes the equity-based awards granted upon IPO:

	Awards Granted at IPO	Fair Value per Award
RSU Awards		
IPO RSU Grant	561,169	$ 15.00
Annual RSU Grant	216,367	15.00
Board of Directors RSU Grant	31,998	15.00
Total RSU Awards	809,534	
Option Awards		
IPO Option Grant	256,284	$ 6.70
Annual Option Grant	1,006,121	6.70
Total Option Awards	1,262,405	
Total Awards	2,071,939	

Immediately following these conversions and new grants, there were approximately 1.8 million shares available for future grants under the 2007 Omnibus Share Plan.

The Company s significant accounting policies related to its Share-Based Award Programs are as follows:

The Company accounts for its share-based awards in accordance with SFAS No. 123R, *Share Based Payment* (SFAS 123R), which requires the Company to recognize expense for the value of its share-based award compensation over the relevant service period, which is generally the vesting period.

The Company s option and RSU awards are classified as equity awards. The Company elected to amortize the fair value of its share-based awards on a straight-line basis over the requisite service period, which is generally the vesting period.

Valuation of Awards

The fair value of RSU awards issued was the fair market value of the Company s Class A common stock on the date of grant. The fair value of option awards issued was estimated as of the grant date based on the Black-Scholes model. The Black-Scholes model takes into account the exercise price and expected life of the award, the current value and expected volatility of the underlying units, expected dividends and the risk-free interest rate for the expected term of the award. Judgment was required in determining certain inputs to the model.

The following assumptions were used for the Black-Scholes model to value the Company s option awards at grant date:

Expected volatility	51.63%
Expected life	4.0 years
Expected dividend yield	0.00%
Risk-free interest rate	4.29%

Expected Life and Volatility

The Company had insufficient historical data to compute either a Company specific expected life or expected volatility for its awards. Therefore, the Company identified a group of similar entities, based on industry, size, and other factors (the Peer Group), to provide comparative data to determine these inputs. The Company elected to utilize the 50th percentile of the Peer Group s expected lives and the average of their implied and median volatilities over the expected life as appropriate inputs to the Black-Scholes model.

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Expected Dividend Yield

The Company used an expected dividend rate of 0%, since under the terms of the Operating Partnership s credit facilities, the Company is not permitted to pay any dividends.

Risk-free Interest Rate

The risk-free interest rate was interpolated based on a weighted average of the implied yield on U.S. Treasury zero-coupon issues commensurate with the estimated expected life in effect at the valuation date.

Tax Receivable Agreements

Sprint Ventures

Sprint Ventures sold a portion of its interest in Virgin Mobile USA, LLC to the Company for $136 million of the net proceeds from the Company s IPO. This consideration was based on the amount Sprint Nextel would have received if it converted such Operating Partnership interests into Class A common stock and sold such shares in the IPO. In addition, from time to time, Sprint Ventures may exchange its partnership units in the Operating Partnership for shares of the Company s Class A common stock on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends and reclassifications. The Operating Partnership intends to make an election under Section 754 of the Internal Revenue Code effective for 2007 and for each taxable year in which an exchange of partnership units for shares occurs. The initial sale and the future exchanges by Sprint Ventures are expected to produce increases to the tax bases of the assets owned by the Operating Partnership at the time of each exchange of partnership units. These anticipated increases in tax basis would be allocated to the Company and may reduce the amount of tax that would otherwise be required to be paid in the future.

The Company entered into a tax receivable agreement with Sprint Ventures that provides for the payment to Sprint Ventures the amount of the cash savings, if any, in U.S. federal, state and local income tax that the Company actually realizes as a result of these increases in tax basis. For purposes of the tax receivable agreement, cash savings in income tax generally will be computed by comparing the Company s income tax liability (assuming no contribution of net operating losses by the Virgin Group) to the amount of such taxes that would have been required to be paid if (i) there had been no increase to the tax basis of the assets of the Operating Partnership allocable to the Company as a result of the initial sale and the future exchanges, (ii) the Company had not entered into the tax receivable agreement and (iii) the Virgin Group had not contributed any net operating losses. This amount will be adjusted under the terms of the tax receivable agreement to the extent that the aggregate hypothetical value of benefits contributed by both Virgin Group and Sprint Ventures exceeds the actual cash savings from such benefits. The tax receivable agreement will remain in effect until all such tax benefits have been utilized or have expired.

Although the Company is not aware of any issue that would cause the IRS to challenge the tax basis increases or other tax benefits arising under the tax receivable agreement, Sprint Ventures will not reimburse the Company for any payments previously made if such basis increases or other benefits were later not allowed, although the amount of any tax savings subsequently disallowed will reduce any future payments otherwise owed to Sprint Ventures. As a result, in such circumstances the Company could make payments to Sprint Ventures under the tax receivable agreement in excess of actual cash tax savings. While the actual amount and timing of any payments under this agreement will vary depending upon a number of factors, including the timing of exchanges, the amount and timing of the taxable income generated by the Company in the future, the use of net operating loss carryovers and the portion of payments under the tax receivable agreement constituting imputed interest and increases in the tax basis of the Company s assets resulting in payments to Sprint Ventures, the Company expects that during the term of the tax receivable agreement, the payments made to Sprint Ventures could be substantial. Assuming no material changes in the relevant tax law and that the Company earns sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, it is expected that future payments to Sprint Ventures in respect of the initial purchase of interests of Virgin Mobile USA, LLC will be significant. Future payments to Sprint Ventures in respect of subsequent exchanges would be in addition to this amount and are expected to be substantial. In addition, the Company will depend on distributions from the Operating Partnership to fund payment obligations under the tax receivable agreement. Under the terms of the limited partnership agreement of the Operating Partnership, all distributions to fund these obligations are made to the partners pro rata in accordance with their respective percentage ownership interests in the Operating Partnership. Accordingly, every time the Company causes the Operating Partnership to make a distribution to fund its payment obligations to Sprint Ventures under the tax receivable agreement, the Operating Partnership will be required to make a corresponding distribution to Sprint Ventures.

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Notes to the Condensed Balance Sheet (Unaudited)

As noted above, in certain circumstances, the hypothetical tax benefits available in a taxable year as a result of both the amortization of the increases in the tax bases of the assets of the Operating Partnership attributable to prior exchanges by Sprint Ventures and the net operating losses contributed by the Virgin Group may exceed the tax benefit that is actually realized for the taxable year. In these circumstances, for purposes of determining the payments due under the tax receivable agreements, each party shall be deemed to have contributed a portion of the realized tax benefit equal to a fraction, the numerator of which is the benefit attributable to that party which would have been realized in such taxable year disregarding the benefits contributed by the other party (the Available Benefit) and the denominator of which is the sum of the Available Benefits for that taxable year.

If the Company undergoes a change in control, as defined, and does not elect to terminate the tax receivable agreement as discussed below, cash savings in income tax will be computed as described above, but with the additional assumption that the Company has sufficient income in each subsequent year to claim all of the tax benefits attributable to the increase to the tax basis of the assets of the Operating Partnership and to utilize any loss carryovers attributable to such increase in basis. Additionally, if the Company or a direct or indirect subsidiary transfers any asset to a corporation with which a consolidated tax return is not filed, the Company will be treated as having sold that asset in a taxable transaction for purposes of determining the cash savings in income tax under the tax receivable agreement.

Prior to agreeing to engage in any business combination, sale or purchase of assets or reorganization outside the ordinary course of its business which would not constitute a change of control for purposes of the tax receivable agreement and which could adversely affect the expected value of the benefits payable to Sprint Nextel under the tax receivable agreement, the Company will be required to obtain the consent of Sprint Nextel, which consent may be conditioned upon an agreement by the Company to make a make-whole payment to Sprint Nextel to compensate Sprint Nextel for such reduction in benefits. Although not assured, the Company expects that the consideration that will be remitted to Sprint Ventures will not exceed the tax liability that otherwise would have been required to be paid absent the contribution by Sprint Ventures of tax attributes as a result of the reorganization transactions and subsequent exchanges.

The tax receivable agreement provides that in the event that the Company breaches any material obligations under the tax receivable agreement, whether as a result of failure to make any payment when due (subject to a specified cure period), failure to honor any other material obligation under the tax receivable agreement or by operation of law as a result of the rejection of the tax receivable agreement in a case commenced under the Bankruptcy Code or otherwise, then all payments and other obligations under the tax receivable agreement will be accelerated and will become due and payable. Such payments could be substantial and could exceed the actual cash tax savings under the tax receivable agreement. Additionally, the Company has the right to terminate the tax receivable agreement with respect to previous exchanges (or, in certain circumstances, including if the Company undergoes a change of control, with respect to all previous and future exchanges). If the Company terminates the tax receivable agreement, the payment and other obligations under the tax receivable agreement will be accelerated and will become due and payable. Such payments could be substantial and could exceed the Company s actual cash tax savings under the tax receivable agreement.

The Virgin Group

The Virgin Group contributed to the Company its interest in Investments, which resulted in the Company receiving approximately $322.4 million of net operating losses accumulated by Investments. If utilized, these net operating losses will reduce the amount of tax that the Company would otherwise be required to pay in the future. In addition, section 382 of the Internal Revenue Code imposes an annual limit on the ability of a corporation that undergoes an ownership change to use its net operating losses to reduce its tax liability.

The Company entered into a tax receivable agreement with the Virgin Group that provides for the payment to the Virgin Group the amount of cash savings, if any, in U.S. federal, state and local income tax that is actually realized as a result of these net operating losses. For purposes of the tax receivable agreement, cash savings in income tax generally will be computed by comparing the Company s income tax liability (assuming no step-up in the basis of the assets attributable to exchanges by Sprint Nextel) to the amount of such taxes that would have been required to be paid had such net operating losses not been available and assuming no step-up in the basis of the assets attributable to exchanges by Sprint Ventures. This amount will be adjusted under the terms of the tax

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Virgin Mobile USA, Inc.

Notes to the Condensed Balance Sheet (Unaudited)

receivable agreement to the extent that the aggregate hypothetical value of benefits contributed by the Virgin Group and Sprint Ventures exceed the actual cash savings from such benefits. The tax receivable agreement will continue until all such tax benefits have been utilized or expired.

While the payments made under the tax receivable agreement will depend upon a number of factors, including the amount and timing of taxable income generated in the future, the use of additional amortization deductions attributable to the Company s acquisition of units of the Operating Partnership from Sprint Nextel and the portion of payments under the tax receivable agreement constituting imputed interest. Assuming no material changes in the relevant tax law and that the Company earns significant taxable income to realize the full tax benefit of the net operating losses contributed by the Virgin Group, it is expected that future payments to the Virgin Group will be significant. In addition, the Company will depend on distributions from the Operating Partnership to fund its cash payment obligations, if any, under the tax receivable agreement. Under the terms of the limited partnership agreement of the Operating Partnership, all distributions to fund such obligations are made to the partners pro rata in accordance with their respective percentage ownership interests in the Operating Partnership. Accordingly, every time the Operating Partnership makes a distribution to fund the Company s cash payment obligations to the Virgin Group under the tax receivable agreement, the Operating Partnership will be required to make a corresponding distribution to Sprint Nextel so long as Sprint Nextel is a limited partner. The payments under the tax receivable agreement are not conditioned upon the Virgin Group s or its affiliates continued ownership of the Company.

As noted above in certain circumstances, the hypothetical tax benefits available in a taxable year as a result of both the amortization of the increases in the tax bases of the assets of the Operating Partnership attributable to prior exchanges by Sprint Nextel and the net operating losses contributed by the Virgin Group may exceed the tax benefit that is actually realized for the taxable year. In these circumstances, for purposes of determining the payments due under the tax receivable agreements each party shall be deemed to have contributed a portion of the realized tax benefit equal to a fraction, the numerator of which is the benefit attributable to that party which would have been realized in such taxable year disregarding the benefits contributed by the other party (the Available Benefit) and the denominator of which is the sum of the Available Benefits for that taxable year.

In addition, although the Company is not aware of any issue that would cause the IRS, to challenge any benefits arising under the tax receivable agreement, the Virgin Group will not reimburse the Company for any payments previously made if such benefits are subsequently disallowed, although the amount of any tax savings subsequently disallowed will reduce any future payments otherwise owed to Virgin Group. As a result, in such circumstances the Company could make payments to the Virgin Group under the tax receivable agreement in excess of actual cash tax savings.

If the Company undergoes a change in control and does not elect to terminate the tax receivable agreement as discussed below, cash savings in income tax will be computed as described above, but with the additional assumption that there will be sufficient income in each subsequent year to utilize all of the remaining net operating losses, subject to any applicable limitations on the use of such net operating losses. Additionally, if the Company or a direct or indirect subsidiary transfers any asset to a corporation with which a consolidated tax return is not filed, the Company will be treated as having sold that asset in a taxable transaction for purposes of determining the cash savings in income tax under the tax receivable agreement.

Prior to agreeing to engage in any business combination, sale or purchase of assets or reorganization outside the ordinary course of its business which would not constitute a change of control for purposes of the tax receivable agreement and which could adversely affect the expected value of the benefits payable to the Virgin Group under the tax receivable agreement, the Company will be required to obtain the consent of the Virgin Group, which consent may be conditioned upon an agreement to make a make-whole payment to the Virgin Group to compensate the Virgin Group for such reduction in benefits. Although not assured, it is expected that the consideration that would be remitted to the Virgin Group would not exceed the tax liability that otherwise would have been required to be paid absent the contribution by the Virgin Group of tax attributes as a result of the reorganization transactions and subsequent exchanges.

The tax receivable agreement provides that in the event that the Company breaches any of material obligations under the tax receivable agreement, whether as a result of a failure to make any payment when due (subject to a specified cure period), failure to honor any other material obligation under the tax receivable agreement or by operation of law as a result of the rejection of the tax receivable agreement in a case commenced under the Bankruptcy Code or otherwise, then all payments and other obligations under the tax receivable agreement will be accelerated and will become due and payable. Such payments could be substantial and could exceed the actual cash tax savings under the tax receivable agreement. Additionally, the Company has the right to terminate the tax

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Virgin Mobile USA, Inc.

Notes to the Condensed Balance Sheet (Unaudited)

receivable agreement, in which case any payments and other obligations under the tax receivable agreement will be accelerated and will become due and payable. Such payments could be substantial and could exceed actual cash tax savings under the tax receivable agreement.

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VIRGIN MOBILE USA, LLC

Condensed Balance Sheets

(Unaudited)

(In thousands)

	September 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$	$
Accounts receivable, less allowances of $414 and $ 471	53,725	70,961
Due from related parties	306	12,301
Other receivables	14,104	15,103
Inventories	133,764	90,815
Prepaid expenses and other current assets	25,661	26,188
Total current assets	227,560	215,368
Property and equipment	145,456	126,324
Accumulated depreciation and amortization	(100,135)	(74,796)
Property and equipment, net	45,321	51,528
Other assets	12,505	10,043
Total assets	$ 285,386	$ 276,939
Liabilities and Members deficit		
Current liabilities:		
Accounts payable	$ 107,298	$ 95,243
Due to related parties	50,321	41,351
Book cash overdraft	22,613	34,769
Accrued expenses	75,123	96,150
Deferred revenue	123,855	127,434
Current portion of long-term debt	46,750	37,000
Total current liabilities	425,960	431,947
Long-term debt	386,000	423,500
Related party debt	90,000	58,000
Other liabilities	5,585	7,417
Total non-current liabilities	481,585	488,917
Commitments and contingencies (see Note 9)		
Members deficit:		
Additional paid-in-capital	53,076	48,825
Accumulated deficit	(675,126)	(694,341)
Accumulated other comprehensive (loss)/income	(109)	1,591
Total members deficit	(622,159)	(643,925)

Total liabilities and members deficit	$ 285,386	$ 276,939

The accompanying notes are an integral part of these financial statements.

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VIRGIN MOBILE USA, LLC

Condensed Statements of Operations and Comprehensive (Loss)/Income

(Unaudited)

(In thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2007	**2006**	**2007**	**2006**
Operating revenue				
Net service revenue	$ 301,414	$ 240,664	$ 933,464	$ 749,009
Net equipment revenue	18,090	30,330	52,942	63,471
Total operating revenue	319,504	270,994	986,406	812,480
Operating expenses				
Cost of service (exclusive of depreciation and amortization)	89,352	68,260	273,331	211,344
Cost of equipment	99,133	91,209	292,157	248,888
Selling, general and administrative (exclusive of depreciation and amortization)	115,450	106,825	334,855	294,190
Litigation (income)/expense		(11,384)		(11,384)
Depreciation and amortization	8,619	7,429	25,350	20,553
Total operating expenses	312,554	262,339	925,693	763,591
Operating income	6,950	8,655	60,713	48,889
Other expense/(income)				
Interest expense-net	14,331	13,318	41,778	38,990
Other expense/(income)	(80)	399	(280)	1,844
Total other expense	14,251	13,717	41,498	40,834
Net (loss)/income	(7,301)	(5,062)	19,215	8,055
Other comprehensive (loss)/income:				
Unrealized (loss)/gain on interest rate swap	(1,848)	(2,768)	(1,700)	988
Total comprehensive (loss)/income	$ (9,149)	$ (7,830)	$ 17,515	$ 9,043

The accompanying notes are an integral part of these financial statements.

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VIRGIN MOBILE USA, LLC

Condensed Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Operating Activities		
Net income	$ 19,215	$ 8,055
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	25,350	20,553
Amortization of deferred financing costs	1,474	2,517
Non-cash charges associated with unit and option grants	3,580	7,156
Non-cash charges associated with barter transactions		(3,440)
Non-cash cost of royalties and services	408	1,635
Changes in assets and liabilities:		
Accounts receivable	17,236	18,820
Due from related parties	11,995	5,272
Other receivables	(851)	2,309
Inventories	(42,949)	(26,560)
Prepaid expenses and other assets	(3,258)	(5,127)
Accounts payable	12,055	8,255
Due to related parties	8,970	(26,687)
Deferred revenue	(3,579)	11,057
Accrued expenses and other liabilities	(22,859)	(35,026)
Net cash provided by/(used in) operating activities	26,787	(11,211)
Investing Activities		
Capital expenditures	(19,144)	(22,407)
Net cash used in investing activities	(19,144)	(22,407)
Financing Activities		
Change in book cash overdraft	(12,156)	
Repayment of long-term debt	(27,750)	(27,750)
Proceeds from related party debt facility	32,000	46,000
Proceeds from issuance of units	263	
Net cash (used in)/provided by financing activities	(7,643)	18,250
Net decrease in cash and cash equivalents		(15,368)
Cash and cash equivalents at beginning of period		18,562
Cash and cash equivalents at end of period	$	$ 3,194
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 41,270	$ 38,796

The accompanying notes are an integral part of these financial statements.

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VIRGIN MOBILE USA, LLC

Notes to Condensed Financial Statements (Unaudited)

1. Description of Business and Liquidity

Description of Business

Virgin Mobile USA, LLC (the Company), a Delaware limited liability company, was formed in October 2001 as a joint venture between Sprint Ventures Inc., a wholly owned subsidiary of Sprint Nextel Corp. (Sprint Nextel), and Bluebottle USA Holdings L.P., an affiliate of Sir Richard Branson s Virgin Group (collectively, with two minority interest holders, the Members) and is governed by the Third Amended & Restated LLC Agreement of the Company, as amended (the LLC Agreement). The Company is a mobile virtual network operator offering prepaid, or pay-as-you-go wireless communication services, including voice, data, and entertainment content services targeted at the youth market. The Company offers products and services on a flat per-minute basis and on a monthly basis for specified quantities, or buckets, of minutes purchased in advance in each case without requiring the Company s customers to enter into long-term contracts or commitments. See Note 10 Subsequent Events, for a discussion on Virgin Mobile USA, Inc. s initial public offering.

Basis of Presentation

The accompanying unaudited financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and Article 10 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, they do not include all annual disclosures necessary for a presentation of the Company s financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, the interim financial information provided herein reflects all adjustments (consisting of normal and recurring adjustments) necessary for a fair presentation of the Company s financial position, results of operations and cash flows for the interim periods presented on a basis consistent with the Company s historical audited financial statements and the accompanying notes for the year ended December 31, 2006. The financial statements for the interim periods are not necessarily indicative of the results to be expected for the full year. This document should be read in conjunction with the annual audited financial statements and accompanying notes included in the Virgin Mobile USA, Inc. s prospectus, dated October 10, 2007 and filed with the SEC on October 11, 2007.

Out-of-Period Adjustments

During the preparation of the Company s financial statements for the six months ended June 30, 2007, management identified errors in the Company s financial statements in the amount of $0.5 million, $(0.3) million, $(0.3) million and $3.8 million to its net income/(loss) for the years ended December 31, 2006, 2005, 2004 and for the three months ended March 31, 2007, respectively. These errors were primarily the result of system interface failures for recovery fees for certain airtime taxes and regulatory charges and accrued revenues, which overstated net service revenue and overstated cost of service in each period, except for the three month period ended March 31, 2007, which understated net service revenue and overstated cost of service. The Company corrected these errors through a restatement of its results for the three month period ended March 31, 2007 and an out-of-period net adjustment amounting to $(0.1) million (comprised of the cumulative effect of the prior year errors in the amount of $0.5 million, $(0.3) million and $(0.3) million for the years ended December 31, 2006, 2005 and 2004, respectively) reflected in its financial statements for the six months ended June 30, 2007. The Company has not restated its financial statements for any period ended on or prior to December 31, 2006, as management does not believe these errors were material to any interim or annual prior period. The impact of the out-of-period adjustments in 2007 are not material to the Company s financial statements for the three month period ended March 31, 2007, the six month period ended June 30, 2007, nine month period ended September 30, 2007, and the Company s projected financial results for the year ending December 31, 2007. Additionally, management plans to restate its interim results previously reported for the three months ended March 31, 2007 when Virgin Mobile USA, Inc. files its quarterly report on Form 10-Q for the period ending March 31, 2008 to reflect those out-of-period charges.

Liquidity

The Company has incurred substantial losses and negative cash flows from operations since inception, and has members deficit of $622.2 million, negative working capital of $198.4 million and outstanding non-current debt, of $476.0 million as of September 30, 2007. The Company makes significant initial cash outlays to acquire new subscribers in the form of handset and other subsidies. Management expects these costs to be funded primarily through service revenue generated from the Company s existing subscriber

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VIRGIN MOBILE USA, LLC

Notes to Condensed Financial Statements (Unaudited)

base and proceeds from a related party subordinated secured revolving credit facility. Based on the Company s expected cash flows from operations and available funds from its related party subordinated secured revolving credit facility, management believes that the Company has the ability to meet its obligations at least through September 30, 2008. If the Company materially underachieves its operating plan and its related party subordinated secured revolving credit facility and cash flow from operations become insufficient to allow the Company to meet its obligations, the Company is committed to taking certain alternative actions that could include curtailing marketing costs, reducing inventory purchases, reducing planned capital expenditures, extending the payment for certain liabilities within contractual terms with vendors and reducing other variable costs. In addition, management may also seek an increase in its borrowing capacity under its related party subordinated secured revolving credit facility. There is no assurance management will be successful in achieving its operating plan or would be able to implement its alternative actions or obtain additional borrowing capacity on acceptable terms.

The Company s senior secured credit facility (Term Loan) and subordinated secured revolving credit facility (Member Revolver) contain financial covenants. If these covenants are not met, the Company s borrowing availability under the credit line could be eliminated and outstanding borrowings under the Term Loan and Member Revolver could become due.

2. Recently Issued Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) ratified the consensus reached on Emerging Issues Task Force Issue No. 06-03, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation)* (EITF 06-03). The EITF reached a consensus that the presentation of taxes on either a gross or net basis is an accounting policy decision that requires disclosure. EITF 06-03 became effective for the Company on January 1, 2007. The Company accounts for taxes collected from customers on a net basis.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 also applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. The provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is evaluating the impact, if any, that the adoption of SFAS 157 may have on its results of operations, cash flows or financial position.

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* (SFAS 159). SFAS 159 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. SFAS 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is evaluating the impact, if any, that the adoption of SFAS 159 may have on its results of operations, cash flows or financial position.

3. Inventories

Inventories consist of the following (in thousands):

	September 30, 2007	December 31, 2006
Handsets and accessories	$ 74,970	$ 61,743
Refurbished handsets	3,819	3,398
Handset inventory on consignment	54,975	25,674
	$ 133,764	$ 90,815

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VIRGIN MOBILE USA, LLC

Notes to Condensed Financial Statements (Unaudited)

4. Debt

As of September 30, 2007, there was $432.8 million outstanding under the Company s $500 million Term Loan due December 14, 2010. During the nine months ended September 30, 2007, the Company made scheduled principal payments of $27.8 million under the Term Loan. The interest rate on the Term Loan was 10.15% as of September 30, 2007.

In September 2007, the Company paid a $1 million nonrefundable consent fee to third party financial institutions to permit the reorganization of the Company and the initial public offering (IPO) of Class A shares of Virgin Mobile USA, Inc. The consent fee was recorded with interest expense in the statement of operations. In July 2006, the Company incurred $0.5 million of expenses to renegotiate the terms of its Term Loan and wrote off unamortized debt financing costs of $1.5 million related to its previous debt agreements, all of which was recorded in other expense/(income) in the statement of operations.

As of September 30, 2007, there was $90 million outstanding under the Company s $100 million Member Revolver. The Company borrowed an additional $32 million under the Member Revolver during the nine months ended September 30, 2007 to fund its current operations. The weighted average annualized interest rate applicable to the outstanding balances under the Member Revolver was 10.15 % as of September 30, 2007.

See Note 10 Subsequent Events, for principal payments under the Term Loan and the Member Revolver after September 30, 2007.

5. Supplemental Financial Information

During the three and nine months ended September 30, 2007, the Company recorded a credit in cost of service in the statement of operations for a refund from the Internal Revenue Service for prior years Federal Excise Tax (FET) payments totaling $5.2 million. During the three months ended September 30, 2006, a credit of $3.5 million was included in cost of service related to the reversal of FET tax expense for certain periods prior to the cessation of the FET in May 2006. During the nine months ended September 30, 2006, the Company recorded a net expense of $6 million related to FET.

6. Members Deficit

The following table details the activity for the nine months ended September 30, 2007 in the members capital accounts (in thousands):

	Nine Months Ended September 30, 2007	
Balance as of December 31, 2006	$	(643,925)
Issuance of units		263
Non-cash capital contributions		408
Amortization of non-cash compensation expense		3,580
Unrealized loss on interest rate swap		(1,700)
Net income		19,215
Balance as of September 30, 2007	$	(622,159)

7. Share-Based Awards

The following table summarizes the activity for the Company s Option and Stock Appreciation Rights (SAR) Awards outstanding for the nine months ended September 30, 2007:

VIRGIN MOBILE USA, LLC

Notes to Condensed Financial Statements (Unaudited)

	Option Awards		SAR Awards	
	Number of Awards	Weighted Average Exercise Price Per Unit	Number of Awards	Weighted Average Exercise Price Per Unit
Outstanding - 12/31/06	7,177	$ 5,555	2,738	$ 7,490
Exercised	(42)	6,300	(383)	7,320
Forfeited	(145)	7,380	(319)	7,602
Expired	(861)	6,058	(1)	6,250
Outstanding - 9/30/07	6,129	5,744	2,035	7,393
Exercisable - 9/30/07	5,191	5,436	456	7,397

As of September 30, 2007, the weighted average remaining contractual life for Option and SAR awards vested and expected to vest was 4.9 years and 4.5 years, respectively and for awards exercisable was 4.4 years and 4.5 years, respectively. The total intrinsic value of Option and SAR awards exercised during the nine months ended September 30, 2007 was $0.2 million and $1.7 million, respectively. Cash proceeds from the option exercises was $0.3 million for the nine months ended September 30, 2007.

In April 2007, the Company modified all of its option awards, potentially entitling option holders to engage in a cash settlement of their vested awards in 2008-2012 (the 2008-2012 Option Liquidity Facility). The Company would be required to make a cash payout to its employees, subject to the attainment of certain performance goals, primarily related to cash flow targets and debt levels, during future predetermined periods in 2008-2012. The Company will recognize charges for this program when it considers it probable that the applicable performance targets would be met. The 2008-2012 Option Liquidity Facility would terminate upon an initial public offering by the Company or its ultimate parent. The Company did not recognize any charges for this program during the three or nine months ended September 30, 2007 as it did not consider it probable that it would meet the future performance goals.

There were no Option or SAR Awards granted during the nine months ended September 30, 2007.

The following table summarized the activity for the Company s Restricted Stock Unit Awards (RSU Awards) for the nine months ended September 30, 2007.

	RSU Awards	
	Number of Awards	Weighted Average Fair Value Per Unit
Granted at fair value in 2007		
February 2007	200	$ 10,380
May 2007	1,001	11,877
Forfeited	(10)	11,877
Outstanding - 9/30/07	1,191	11,626

All RSU Awards were granted at the Company s fair market value on the date of grant. The RSU Awards granted in February 2007 vest 100% in August 2009, and are subject to accelerated vesting in the event certain performance targets are met. The performance targets were not probable of attainment as of September 30, 2007. The RSU Awards granted in May 2007 vest ratably over periods ranging from three to four years. There were no RSU Awards vested as of September 30, 2007.

The Company determined the fair value of its limited liability company interests on a contemporaneous basis for all share-based awards, and granted all awards with an exercise or base price that equaled or exceeded the fair value of its limited liability company interests at the date of grant.

VIRGIN MOBILE USA, LLC

Notes to Condensed Financial Statements (Unaudited)

The Company recognized compensation expense of $0.3 million and $1.1 million for the three months ended September 30, 2007 and 2006, respectively, and $4.8 million and $2.9 million for the nine months ended September 30, 2007 and 2006, respectively, for its Option, SAR and RSU Plans. As of September 30, 2007, there was $18.5 million of total unrecognized compensation cost, net of estimated forfeitures of approximately $8.7 million, related to non-vested share-based compensation arrangements granted under the Company s Option, SAR and RSU Plans. This cost is expected to be recognized over a weighted-average period of 2.4 years, and will be adjusted for subsequent changes in estimated forfeitures.

8. Related Party Transactions

Amounts due from affiliates of Sprint Ventures, Inc. under a distribution agreement were $0.2 million and $12.1 million at September 30, 2007 and December 31, 2006, respectively. Amounts due to affiliates of Sprint Ventures, Inc. were $46.6 million and $40.4 million at September 30, 2007 and December 31, 2006, respectively, primarily for network and telecommunications costs. Amounts due from affiliates of Bluebottle USA Holdings L.P. under its distribution agreement were $0.1 million as of September 30, 2007 and $0.2 million as of December 31, 2006. Amounts due to affiliates of Bluebottle USA Holdings L.P. were $3.7 million and $0.9 million at September 30, 2007 and December 31, 2006, respectively, primarily for royalties and accrued interest on the Member Revolver.

The Company s statements of operations included related party expenses associated with the distribution agreements, PCS services agreement and trademark license agreements as follows:

Sprint Ventures, Inc.

(in thousands)	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Net equipment revenue	$ 77	$ 1,636	$ 123	$ 6,847
Cost of service	78,131	53,176	227,456	153,918
Selling, general and administrative	5,881	5,892	20,746	17,528

Bluebottle USA Holdings L.P.

(in thousands)	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Net equipment revenue	$ 115	$ 108	$ 261	$ 332
Selling, general and administrative	966	724	2,767	2,067

9. Commitments and Contingencies

During the quarter ended September 30, 2007, the Company entered into a long-term purchase commitment with one of its handset vendors for minimum purchases of $56 million through February 2009. As of September 30, 2007, the Company had purchase obligations totaling $72.7 million, of which $50.8 million represented long-term commitments.

The Company is subject to legal proceedings and claims arising in the normal course of business. The Company assesses its potential liability by analyzing litigation and regulatory matters using available information. The Company develops its views on estimated losses in consultation with outside counsel handling its defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. At this time it is not possible to estimate the amount of loss or range of possible loss, if any, that might result from an adverse judgment or a settlement of these matters. Should developments in any of these matters cause a change in the Company s determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, it could have a material adverse effect on the Company s results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

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VIRGIN MOBILE USA, LLC

Notes to Condensed Financial Statements (Unaudited)

10. Subsequent Events

Reorganization and Initial Public Offering

In connection with the initial public offering (IPO) of Virgin Mobile USA, Inc., the Company was part of a reorganization with Virgin Mobile USA, Inc. (VMU) and Bluebottle USA Investments L.P. and its subsidiaries. As part of the reorganization, the Company converted to a limited partnership and changed its name to Virgin Mobile USA, L.P. (the Operating Partnership). Upon completion of the reorganization, the Company was directly and indirectly owned 81.5% by Virgin Mobile USA, Inc. and 18.5% by Sprint Nextel.

The Company s limited partnership agreement provides that VMU GP1, LLC a newly formed general partner, will manage and control the business and affairs of the Company. VMU GP1, LLC is an indirect, wholly-owned subsidiary of Virgin Mobile USA, Inc.

On October 16, 2007, VMU completed its IPO and VMU and the selling stockholders sold 27,500,000 Class A Common Stock. VMU received net proceeds of $355.4 million, after deducting underwriting commissions and discounts of $23.7 million and estimated offering expenses of $4.6 million. VMU used $136 million of IPO proceeds to pay Sprint Nextel for a portion of Sprint Nextel s limited liability company interests in the Company that it purchased in connection with the reorganization and the IPO. The remaining net proceeds of $219.4 million were contributed to the Operating Partnership through Bluebottle USA Investments L.P. and Bluebottle USA Holdings L.P. (Holdings). Holdings used these proceeds to purchase additional limited partnership units in the Operating Partnership. The Operating Partnership used these proceeds (1) to repay $150 million of outstanding borrowings and $0.8 million of accrued interest under the Term Loan and (2) to repay $45 million of outstanding borrowings and $0.6 million of accrued interest owed to Sprint Spectrum under the Member Revolver. Subsequent to the IPO, the Company used the remaining net proceeds of approximately $23.1 million for general corporate purposes.

Virgin Mobile USA, Inc. will account for the reorganization transactions for all periods presented using a carryover basis, similar to a pooling-of-interests, as the reorganization transactions were premised on a non-substantive exchange in order to facilitate the IPO. This is consistent with FASB Technical Bulletin 85-5, Issues Relating to Accounting for Business Combinations, including Costs of Closing Duplicate Facilities of an Acquirer; Stock Transactions between Companies under Common Control; Down-Stream Mergers, Identical Common Shares for a Pooling of Interests; and Pooling of Interests by Mutual and Cooperative Enterprises.

Credit Facilities

Senior Secured Credit Facility

The Company used $150 million of the net proceeds to repay a portion of the Term Loan and paid $0.8 million of accrued interest expense thereon. Also in connection with the IPO, certain provisions of the Term Loan were amended to allow for the reorganization transactions and the IPO, including adding exceptions to the mandatory prepayment requirements, the negative covenants and the change of control provision and permitting the changes to the Member Revolver. The amendment to the Term Loan included (1) additional covenants limiting certain activities of Virgin Mobile USA Inc., including requirements (a) to remain a passive holding company, (b) to contribute proceeds from sales of assets or issuances of stock to the Company and (c) not to take any action that would result in the termination of any tax receivable agreement, and (2) the payment of a 25 basis points fee to consenting lenders, which was paid in September 2007. Following the amendment and the repayment of $150 million, the borrowing capacity of the Term Loan was permanently reduced to $329 million.

Based on the repayment of the $150 million, the installment payments have been reduced proportionally. The new scheduled principal payments by year are as follows:

Term Loan Maturities (in thousands)	
December 2007	$ 6,044
2008	32,669

2009	32,669
2010	211,368
	$ 282,750

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VIRGIN MOBILE USA, LLC

Notes to Condensed Financial Statements (Unaudited)

Subordinated Secured Revolving Credit Facility

The Company used $45 million of the net proceeds from the IPO to repay the indebtedness owed to Sprint Spectrum L.P. (Sprint Spectrum), a subsidiary of Sprint Nextel Corporation, under the Member Revolver and paid an additional $0.6 million of accrued interest expense thereon. Following the repayment, Sprint Spectrum is no longer a lender under the Member Revolver.

Virgin Entertainment Holdings, Inc. remains a lender under the Member Revolver and its commitment was increased to $75 million. Accordingly, the maximum borrowing amount under the Member Revolver was reduced from $100 million to $75 million. Along with the increase in the commitment, Virgin Entertainment Holdings, Inc. will apply a tolling charge to borrowings under the Member Revolver. The charge equal to 1% of the outstanding balance will be calculated based upon the amount drawn on the Member Revolver as of the last day of each quarter, commencing December 31, 2007. Also, the commitment fee on the Member Revolver of 0.5% increased to 1.0% per annum.

At the election of Virgin Entertainment Holdings, Inc. the Company may, on any interest payment date, pay interest through the issuance of a pay-in-kind (PIK), note. The amount of the PIK note is due and payable on the date that each revolving commitment terminates, or can be prepaid as otherwise permitted under the terms of the Member Revolver and the Term Loan. The interest on PIK notes is paid on the interest payment date through the issuance of additional PIK notes. The Company may issue PIK notes to Virgin Entertainment Holdings, Inc. from time to time.

Share-Based Awards

In connection with the IPO, all awards outstanding under the Company s Option Plans and Agreements and the 2002 and 2006 Stock Appreciation Rights Plans were converted into non-qualified stock options of Virgin Mobile USA, Inc., exercisable for shares of Virgin Mobile USA Inc. Class A common stock. All awards outstanding under the Company s 2007 Restricted Stock Unit Plan were converted into shares of Virgin Mobile USA, Inc. Class A Restricted Stock. All vesting provisions and maximum terms under the various plans were unchanged, and all liabilities were transferred from the Company to Virgin Mobile USA, Inc. In addition, the Company s 2008-2012 Option Liquidity Facility was terminated upon completion of the IPO, in accordance with its terms. The following table summarizes the share-based awards converted and transferred to Virgin Mobile USA, Inc. upon completion of the IPO:

	Awards Converted to Virgin Mobile USA, Inc. Awards	
	Number of pre-IPO Awards Outstanding	Number of post-IPO Awards Outstanding
2002 SAR Awards	47	20,244
2006 SAR Awards	1,666	710,925
Non-Qualified Options	6,115	2,609,662
2007 RSU Awards	1,191	508,307
Total	9,019	3,849,138

Future long-term incentive awards for the Company s eligible employees will be exercisable for or issued in Virgin Mobile USA, Inc. Class A common stock. The expense for these awards will continue to be reflected in the Company s statement of operations.

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VIRGIN MOBILE USA, LLC

Notes to Condensed Financial Statements (Unaudited)

Sprint PCS services agreement

In connection with the IPO, the Company amended the PCS services agreement with Sprint Spectrum, under which Sprint Spectrum provides the Company with access to its wireless voice and data services operating on the nationwide Sprint PCS network. The amended agreement will expire in 2027.

Sprint Spectrum bills the Company for each minute, message and megabyte of usage at a price determined in accordance with a cost of services formula and an airtime pricing matrix. The applicable pricing level is based on Sprint Nextel s annual cost of providing these services plus a profit margin, as defined in the agreement. The pricing level is adjusted one month after the end of each calendar quarter based on the Company s performance during that quarter, and the adjusted pricing level remains in place until the next quarterly adjustment. Quarterly, the Company estimates the annual cost of such services and records an adjustment if the estimate is different from the actual costs billed to the Company by Sprint Spectrum. Under the terms of the agreement, Sprint Spectrum is required to provide the Company with a final assessment of its costs annually. Sprint Spectrum provides the Company with monthly invoices of the charges it incurred. Payment of the undisputed portion of each invoice is due within ten business days of the due date. Amounts not paid by the due date accrue interest at the rate of 1% per month.

Purchase Commitment

In October 2007, the Company entered into a long-term purchase commitment for approximately $8.4 million through December 2008 with a handset vendor.

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BLUEBOTTLE USA INVESTMENTS L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands)

	September 30, 2007	December 31, 2006
Assets		
Cash and cash equivalents	$ 8	$ 8
Total assets	$ 8	$ 8
Liabilities		
Accounts payable & accrued expenses	$ 205	$ 315
Loan payable with related party	35	29
Related party payable	607	218
Total current liabilities	847	562
Accumulated losses of unconsolidated companies in excess of investment	421,758	429,944
Total liabilities	422,605	430,506
Commitments and contingencies		
Partners deficit		
Partners deficit	(422,546)	(431,321)
Accumulated other comprehensive income	(51)	823
Total partners capital	(422,597)	(430,498)
Total liabilities and partners deficit	$ 8	$ 8

The accompanying notes are an integral part of these consolidated financial statements

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BLUEBOTTLE USA INVESTMENTS L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS)/INCOME

(Unaudited)

(In thousands)

	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	**$**	**$**	**$**	**$**
Expenses:				
Administrative expense	79	13	277	87
Equity in loss/ income of investee	3,443	2,386	(9,060)	(3,799)
Interest expense (net of interest income)	1		2	1
Other expenses (income)			6	
Net (loss)/income	$ (3,523)	$ (2,399)	$ 8,775	$ 3,711
Other comprehensive (loss)/income:				
Unrealized (loss)/gain on interest rate swap - equity in investee	(944)	(1,305)	(874)	466
Total comprehensive (loss)/income	$ (4,467)	$ (3,704)	$ 7,901	$ 4,177

The accompanying notes are an integral part of these consolidated financial statements

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BLUEBOTTLE USA INVESTMENTS L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended September 30, 2007	2006
Operating Activities		
Net income	$ 8,775	$ 3,711
Adjustments to reconcile net income to net cash provided by (used in)operating activities:		
Equity earnings of investee	(9,060)	(3,799)
Changes in assets and liabilities:		
Accrued interest within loan payable	6	14
Related parties payable	389	
Accounts payable and accrued expenses	(110)	66
Net cash provided by (used in) operating activities		(8)
Net increase (decrease) in cash and cash equivalents		(8)
Cash and cash equivalents at the beginning of the year	8	17
Cash and cash equivalents at the end of the period	$ 8	$ 9

The accompanying notes are an integral part of these consolidated financial statements

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BLUEBOTTLE USA INVESTMENTS L.P. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. The Partnership

Bluebottle USA Investments L.P. (Investments , and together with its subsidiaries, Bluebottle USA Holdings L.P. and Virgin Mobile USA, Inc., collectively the Partnership), a Delaware limited partnership, was formed in October 2001 primarily for the purpose of holding its indirect investment in Virgin Mobile USA, LLC. As of September 30, 2007, the Partnership is owned by and is part of the Virgin Group of companies. Investments has elected to be treated as a corporation for U.S. tax purposes.

Bluebottle USA Holdings L.P. (Holdings), a Delaware limited partnership was formed in October 2001. Holdings is managed by its general partner, Investments, which owns approximately 99% of its equity. There are also two limited partners who together own approximately 1% of equity in Holdings.

Virgin Mobile USA, Inc., subsequently renamed VMUI, Inc., was incorporated in Delaware in June 2000. In 2001, VMUI, Inc. became a 100% owned subsidiary of Investments. VMUI, Inc. which was formed to develop the mobile phone business in the United States, has no ongoing operations and acts as a holding company. VMUI, Inc. is a limited partner in Holdings.

Virgin Group Investments Limited (VGIL) has committed to continue to provide debt or equity capitalization to the Partnership in amounts sufficient, together with other sources of funds available to the Partnership, to pay operational expenses and other current obligations of the Partnership until the earlier of (i) such time that VGIL owns less than 50% of the outstanding partnership interests in Investments or (ii) July 1, 2008. This commitment ceased upon the consummation of Virgin Mobile USA, Inc. s initial public offering on October 16, 2007, as discussed in Note 7 Subsequent Events.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financials statements of the Partnership and its subsidiaries have been prepared on substantially the same basis as its annual consolidated financial statements. These unaudited consolidated financial statements should be read in conjunction with the Partnership s December 31, 2006 financial statements. Certain information and footnote disclosures normally included in consolidated statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. In the opinion of management, these consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of financial statements for the interim periods in accordance with generally accepted accounting principles and in accordance with Article 10 of Regulation S-X. The preparation of condensed consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of Investments, Holdings, and VMUI, Inc. Intercompany transactions and balances have been eliminated.

BLUEBOTTLE USA INVESTMENTS AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Income Taxes

Investments is a limited partnership that is treated as a C Corporation for tax purposes. VMUI, Inc. and Investments, account for income taxes pursuant to SFAS No. 109, *Accounting for Income Taxes* (SFAS 109). SFAS 109 provides for an asset and liability approach to accounting for income taxes under which deferred income taxes are provided based upon currently enacted tax laws and rates. Both Investments and VMUI, Inc. s ability to utilize net operating loss carryforwards in future years may be limited in some circumstances, including significant changes in ownership interests, due to certain provisions of the Internal Revenue Code. A full valuation allowance has been recorded by the Partnership in the accompanying consolidated financial statements to offset the deferred tax assets, as their future realizability is uncertain considering the Partnership s historical losses.

3. Investments

The Partnership, through its subsidiaries, is an equity holder of Virgin Mobile USA, LLC (VMU), a Delaware limited liability company, which was formed in October 2001 as a joint venture between Sprint Ventures Inc., a wholly owned subsidiary of Sprint Nextel Corp. (Sprint Nextel) and Holdings.

The Partnership accounts for its share of VMU under the equity method of accounting, as it does not control the operations of VMU; significant management decisions are jointly made with Sprint Nextel. Under the equity method, an investment is originally recorded at the price paid to acquire the investment. Subsequent to the initial investment, the Partnership adjusts its investment account for its proportionate share of the investee s net income or loss.

The Partnership recognizes its share of VMU s losses, including unrealized gains on interest rate swaps. The Partnership has recognized losses in excess of its investment, as the Partnership intends to and has in the past provided funding to VMU. Accordingly, the Partnership has classified its investment as accumulated losses in excess of its investment in the liability section of the consolidated balance sheets.

The Partnership, through it subsidiaries, held an approximately 47.2% interest in VMU as of September 30, 2007 and December 31, 2006.

4. Recently Issued Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (the FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48).* FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Partnership adopted FIN 48 in the first quarter of 2007. The adoption did not have an impact on the Partnerships consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 also applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. The provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007. The Partnership is evaluating the impact, if any, that the adoption of SFAS 157 may have on its consolidated financial statements.

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* (SFAS 159). SFAS 159 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. SFAS 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Partnership is evaluating the impact, if any, that the adoption of SFAS 159 may have on its consolidated financial statements.

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BLUEBOTTLE USA INVESTMENTS L.P. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

5. Partners Deficit

The following table details the activity for the nine months ended September 30, 2007 in the Partners capital accounts (in thousands):

	Nine Months Ended