Virgin Mobile USA, Inc. Form 10-Q August 14, 2008 Table of Contents

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 June 30, 2008

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)

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Delaware (State or other jurisdiction of

incorporation or organization)

10 Independence Boulevard, Warren, New Jersey (Address of principal executive offices)

(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. x Yes " No

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

Large accelerated filer " A	elerated filer "	Non-accelerated filer x	Smaller reporting of	company "
		(Do not check if a smaller		
		reporting company)		
dicate by check mark whether the regis	nt is a shell company (as de	efined in Rule 12b-2 of the Exchan	nge Act). "Yes	þ No
dicate by check mark whether the regis	nt is a shell company (as d		ige Act). "Y	'es

The number of shares of each of the registrant s classes of common stock outstanding as of July 31, 2008 was as follows:

Class A common stock, par value \$0.01 per share	53,233,237
Class B common stock, par value \$0.01 per share	1
Class C common stock, par value \$0.01 per share	115,062

20-8826316 (I.R.S. Employer

Identification No.)

07059 (Zip Code)

Virgin Mobile USA, Inc.

Form 10-Q

For the quarterly period ended June 30, 2008

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Virgin Mobile USA, Inc.

Condensed Consolidated Balance Sheets

(In thousands, except share amounts)

(Unaudited)

	June 30, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,559	\$ 19
Accounts receivable, less allowances of \$711 at June 30, 2008 and \$610 at December 31, 2007	45,843	57,956
Due from related parties	2,225	321
Other receivables	6,858	14,613
Inventories	128,740	137,364
Prepaid expenses and other current assets	23,376	19,722
Total current assets	212,601	229,995
Property and equipment	163,296	154,162
Accumulated depreciation and amortization	(125,771)	(108,249)
Property and equipment, net	37,525	45,913
Other assets	5,033	6,131
Total assets	\$ 255,159	\$ 282,039
Liabilities, Minority interest and Stockholders deficit		
Current liabilities:		
Accounts payable	\$ 85,760	\$ 111,753
Due to related parties	66,283	56,486
Book cash overdraft		2,045
Accrued expenses	66,542	73,142
Deferred revenue	125,093	128,125
Current portion of long-term debt	32,669	32,669
Total current liabilities	376,347	404,220
Non-current liabilities:		
Long-term debt	227,703	244,037
Related party debt	40,000	45,000
Due to related parties	8,116	- ,
Other liabilities	2,000	3,981
Total non-current liabilities	277,819	293,018
Commitments and contingencies (See Note 7)		
Minority interest in consolidated subsidiaries	1,960	
Stockholders deficit:	1,200	
Common stock:		
	532	532

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Class A common stock, par value \$0.01 per share - 200,000,000 shares authorized and 53,134,233 shares issued and outstanding, net of 30,837 treasury shares at June 30, 2008 and 53,136,839 shares issued and outstanding, net of 13,231 treasury shares at December 31, 2007		
Class C common stock, par value \$0.01 per share - 999,999 shares authorized and 115,062 shares issued and		
outstanding at June 30, 2008 and December 31, 2007	1	1
Class B common stock, par value \$0.01 per share - 1 share authorized, issued and outstanding at June 30, 2008 and December 31, 2007		
Additional paid-in-capital	346,853	340,382
Accumulated deficit	(746,565)	(754,860)
Accumulated other comprehensive loss	(1,788)	(1,254)
Total stockholders deficit	(400,967)	(415,199)
Total liabilities, minority interest and stockholders deficit	\$ 255,159	\$ 282,039

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

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Virgin Mobile USA, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Income

(In thousands, except per share amounts)

(Unaudited)

Net service revenue \$ 291,364 \$ 309,713 \$ 595,128 \$ 632,050 Net equipment revenue 317,404 327,588 644,195 666,900 Operating greenue 317,404 327,588 644,195 666,900 Cost of service 82,407 90,001 165,899 183,975 Cost of service 997,55 98,376 204,773 193,022 Selling, general and administrative 997,55 98,376 204,773 193,022 Cost of equipment 997,55 98,376 204,773 193,022 Selling, general and administrative 997,55 98,376 204,773 193,022 Cost of equipment 109,555 219,417 219,600 105,555 219,417 219,600 Depreciation and amortization 8,844 8,650 17,522 16,731 Total operating income 19,981 21,006 36,584 53,566 Other expense (income) 16,10 7 8,190 (192 Total other expense 14,043 13,866 25,462 27,253 Income before income tax expense and minority interest		Th	ree months 2008	ende	ed June 30, 2007	Six months 2008	ended	l June 30, 2007
Net equipment revenue 26,040 17,875 49,067 34,855 Total operating revenue 317,404 327,588 644,195 666,903 Operating expenses 99,755 98,376 204,773 193,025 Cost of service (exclusive of depreciation and amortization) 82,407 90,001 165,899 183,975 Cost of guipment 99,755 98,376 204,773 193,025 Selling, general and administrative 99,755 219,417 219,602 Depreciation and amortization 8,844 8,650 17,522 16,731 Total operating expenses 297,423 306,582 607,611 613,337 Operating income 19,981 21,006 36,584 53,565 Other expense (income) 6,110 7 8,190 (192 Total other expense 14,043 13,866 25,462 27,255 Income tax expense and minority interest 5,938 7,140 11,122 26,312 Income tax expense 1,960 11,025 26,312 26,312 Minority interest 5,938 7,140 11,225 <t< th=""><th>Operating revenue</th><th></th><th></th><th></th><th></th><th></th><th></th><th></th></t<>	Operating revenue							
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Cost of service (exclusive of depreciation and amortization) $82,407$ $90,001$ $165,897$ $284,773$ $193,025$ Selling, general and administrative (exclusive of depreciation and amortization) $106,417$ $109,555$ $219,417$ $219,603$ Depreciation and amortization $8,844$ $8,650$ $17,522$ $163,337$ Total operating expenses $297,423$ $306,582$ $607,611$ $613,337$ Operating income $19,981$ $21,006$ $36,584$ $53,565$ Other expense (income) $115,859$ $17,272$ $27,448$ Other expense (income) $6,110$ 7 $8,190$ (192) Total other expense (income) $6,110$ 7 $8,190$ (192) Total other expense (income) $4,043$ $13,866$ $25,462$ $27,252$ Income before income tax expense and minority interest $5,938$ $7,140$ $11,122$ $26,312$ Income before minority interest $5,506$ $7,140$ $10,255$ $26,312$ Income before minority interest $1,960$ $1,960$ $1,960$ $1,960$ Net income $3,54$	Total operating revenue		317,404		327,588	644,195		666,902
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Depreciation and amortization $8,844$ $8,650$ $17,522$ $16,731$ Total operating expenses $297,423$ $306,582$ $607,611$ $613,337$ Operating income $19,981$ $21,006$ $36,584$ $53,565$ Other expense (income) $11,7272$ $27,448$ Other expense (income) $6,110$ 7 $8,190$ (192) Total other expense (income) $6,110$ 7 $8,190$ (192) Total other expense $14,043$ $13,866$ $25,462$ $27,252$ Income before income tax expense and minority interest $5,938$ $7,140$ $11,122$ $26,317$ Income before minority interest $5,506$ $7,140$ $10,255$ $26,317$ Minority interest $1,960$ $1,960$ 1.960 1.960 Net income $3,546$ $7,140$ $8,295$ $26,317$ Other comprehensive income (loss): 1.729 811 (534) 148 Total comprehensive income \$ 5,275 \$ 7,951 \$ 0,761 \$ 26,460 Basic and diluted earnings per share information: <t< td=""><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></t<>								
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Operating income 19,981 21,006 36,584 53,565 Other expense (income) 11,122 27,448 Other expense (income) 6,110 7 8,190 (195) Total other expense 14,043 13,866 25,462 27,255 Income before income tax expense and minority interest 5,938 7,140 11,122 26,312 Income before minority interest 5,506 7,140 10,255 26,312 Income before minority interest 1,960 1,960 1,960 Net income 3,546 7,140 8,295 26,312 Other comprehensive income (loss): 1,729 811 (534) 14 Total comprehensive income \$ 5,275 7,951 \$ 7,761 \$ 26,460 Basic and diluted earnings per share information: \$ 0.07 \$ 0.14 \$ 0.16 \$ 1.05 Earnings per common share - basic \$ 0.07 \$ 0.14 \$ 0.16 \$ 0.05 Weighted average common share - basic \$ 0.07 \$ 0.14	Depreciation and amortization		8,844		8,650	17,522		16,731
Other expense (income) Interest expense - net $7,933$ $13,859$ $17,272$ $27,448$ Other expense (income) $6,110$ 7 $8,190$ (192) Total other expense $14,043$ $13,866$ $25,462$ $27,252$ Income before income tax expense and minority interest $5,938$ $7,140$ $11,122$ $26,312$ Income before minority interest $5,506$ $7,140$ $10,255$ $26,312$ Income before minority interest $5,506$ $7,140$ $10,255$ $26,312$ Minority interest $1,960$ $1,960$ $1,960$ 1.960 Net income $3,546$ $7,140$ $8,295$ $26,312$ Unrealized income (loss): $1,729$ 811 (534) 148 Total comprehensive income \$ 5,275 \$ 7,951 \$ 7,761 \$ 26,460 Basic and diluted earnings per share information: S 0.07 \$ 0.28 \$ 0.16 \$ 1.02 Earnings per common share - basic \$ 0.07 \$ 0.14 \$ 0.16 \$ 0.55 Weighted average common shares outstanding - basic	Total operating expenses		297,423		306,582	607,611		613,337
Interest expense - net7,93313,85917,27227,448Other expense (income) $6,110$ 7 $8,190$ (195)Total other expense14,04313,86625,46227,253Income before income tax expense and minority interest $5,938$ $7,140$ $11,122$ $26,312$ Income before minority interest $5,506$ $7,140$ $10,255$ $26,312$ Income before minority interest $5,506$ $7,140$ $10,255$ $26,312$ Minority interest $1,960$ $1,960$ $1,960$ $1,960$ Net income $3,546$ $7,140$ $8,295$ $26,312$ Unrealized income (loss) on interest rate swap $1,729$ 811 (534) 148 Total comprehensive income\$ $5,275$ $7,951$ \$ $7,761$ \$ $26,460$ Basic and diluted earnings per share information:Earnings per common share - basic\$ 0.07 \$ 0.28 \$ 0.16 \$ 1.02 Earnings per common share - basic\$ 0.07 \$ 0.14 \$ 0.16 \$ 1.02 Weighted average common share soutstanding - basic $52,787$ $25,803$ $52,772$ $25,803$	Operating income		19,981		21,006	36,584		53,565
Interest expense - net7,93313,85917,27227,448Other expense (income) $6,110$ 7 $8,190$ (195)Total other expense14,04313,86625,46227,253Income before income tax expense and minority interest $5,938$ $7,140$ $11,122$ $26,312$ Income before minority interest $5,506$ $7,140$ $10,255$ $26,312$ Income before minority interest $5,506$ $7,140$ $10,255$ $26,312$ Minority interest $1,960$ $1,960$ $1,960$ $1,960$ Net income $3,546$ $7,140$ $8,295$ $26,312$ Unrealized income (loss) on interest rate swap $1,729$ 811 (534) 148 Total comprehensive income\$ $5,275$ $7,951$ \$ $7,761$ \$ $26,460$ Basic and diluted earnings per share information:Earnings per common share - basic\$ 0.07 \$ 0.28 \$ 0.16 \$ 1.02 Earnings per common share - basic\$ 0.07 \$ 0.14 \$ 0.16 \$ 1.02 Weighted average common share soutstanding - basic $52,787$ $25,803$ $52,772$ $25,803$								
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Total other expense14,04313,866 $25,462$ $27,253$ Income before income tax expense and minority interest $5,938$ $7,140$ $11,122$ $26,312$ Income tax expense 432 867 $26,312$ Income before minority interest $5,506$ $7,140$ $10,255$ $26,312$ Minority interest $1,960$ $1,960$ $1,960$ Net income $3,546$ $7,140$ $8,295$ $26,312$ Other comprehensive income (loss): $1,729$ 811 (534) 148 Total comprehensive income $\$$ $5,275$ $7,951$ $\$$ $7,761$ $\$$ $26,460$ Basic and diluted earnings per share information: Earnings per common share - basic $\$$ 0.07 $\$$ 0.28 $\$$ 0.16 $\$$ 1.02 Weighted average common shares outstanding - basic $\$$ 0.07 $\$$ 0.28 $\$$ 0.16 $\$$ 0.05								
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Income tax expense 432 867 Income before minority interest $5,506$ $7,140$ $10,255$ $26,312$ Minority interest $1,960$ $1,960$ $1,960$ $1,960$ Net income $3,546$ $7,140$ $8,295$ $26,312$ Other comprehensive income (loss): $1,729$ 811 (534) 148 Total comprehensive income \$ $5,275$ $7,951$ \$ $7,761$ \$ $26,460$ Basic and diluted earnings per share information: Earnings per common share - basic \$ 0.07 0.28 \$ 0.16 \$ 1.02 Earnings per common share - diluted \$ 0.07 0.14 \$ 0.16 \$ 1.02 Weighted average common shares outstanding - basic $52,787$ $25,803$ $52,772$ $25,800$	Total other expense		14,043		13,866	25,462		27,253
Income tax expense 432 867 Income before minority interest $5,506$ $7,140$ $10,255$ $26,312$ Minority interest $1,960$ $1,960$ $1,960$ $1,960$ Net income $3,546$ $7,140$ $8,295$ $26,312$ Other comprehensive income (loss): $1,729$ 811 (534) 148 Total comprehensive income \$ $5,275$ $7,951$ \$ $7,761$ \$ $26,460$ Basic and diluted earnings per share information: Earnings per common share - basic \$ 0.07 0.28 \$ 0.16 \$ 1.02 Earnings per common share - diluted \$ 0.07 0.14 \$ 0.16 \$ 1.02 Weighted average common shares outstanding - basic $52,787$ $25,803$ $52,772$ $25,800$	Income before income tax expense and minority interest		5.938		7.140	11.122		26.312
Minority interest 1,960 1,960 Net income 3,546 7,140 8,295 26,312 Other comprehensive income (loss): 0 1,729 811 (534) 148 Total comprehensive income \$ 5,275 \$ 7,951 \$ 7,761 \$ 26,460 Basic and diluted earnings per share information: \$ 0.07 \$ 0.28 \$ 0.16 \$ 1.02 Earnings per common share - basic \$ 0.07 \$ 0.14 \$ 0.16 \$ 0.53 Weighted average common shares outstanding - basic 52,787 25,803 52,772 25,800	Income tax expense				.,			
Minority interest 1,960 1,960 Net income 3,546 7,140 8,295 26,312 Other comprehensive income (loss): 0 1,729 811 (534) 148 Total comprehensive income \$ 5,275 \$ 7,951 \$ 7,761 \$ 26,460 Basic and diluted earnings per share information: \$ 0.07 \$ 0.28 \$ 0.16 \$ 1.02 Earnings per common share - basic \$ 0.07 \$ 0.14 \$ 0.16 \$ 0.53 Weighted average common shares outstanding - basic 52,787 25,803 52,772 25,800	Income before minority interest		5 506		7 140	10 255		26 312
Other comprehensive income (loss):Unrealized income (loss) on interest rate swap1,729811(534)148Total comprehensive income\$ 5,275\$ 7,951\$ 7,761\$ 26,460Basic and diluted earnings per share information: Earnings per common share - basic\$ 0.07\$ 0.28\$ 0.16\$ 1.02Earnings per common share - diluted\$ 0.07\$ 0.14\$ 0.16\$ 1.02Weighted average common shares outstanding - basic52,78725,80352,77225,800	Minority interest				7,140			20,312
Other comprehensive income (loss):Unrealized income (loss) on interest rate swap1,729811(534)148Total comprehensive income\$ 5,275\$ 7,951\$ 7,761\$ 26,460Basic and diluted earnings per share information: Earnings per common share - basic\$ 0.07\$ 0.28\$ 0.16\$ 1.02Earnings per common share - diluted\$ 0.07\$ 0.14\$ 0.16\$ 1.02Weighted average common shares outstanding - basic52,78725,80352,77225,800	N_4 in some		2546		7 1 4 0	8 205		26 212
Unrealized income (loss) on interest rate swap 1,729 811 (534) 148 Total comprehensive income \$ 5,275 \$ 7,951 \$ 7,761 \$ 26,460 Basic and diluted earnings per share information: Earnings per common share - basic \$ 0.07 \$ 0.28 \$ 0.16 \$ 1.02 Earnings per common share - diluted \$ 0.07 \$ 0.14 \$ 0.16 \$ 0.53 Weighted average common shares outstanding - basic 52,787 25,803 52,772 25,800			3,340		7,140	8,295		20,312
Total comprehensive income\$ 5,275\$ 7,951\$ 7,761\$ 26,460Basic and diluted earnings per share information: Earnings per common share - basic\$ 0.07\$ 0.28\$ 0.16\$ 1.02Earnings per common share - diluted\$ 0.07\$ 0.14\$ 0.16\$ 1.02Weighted average common shares outstanding - basic52,78725,80352,77225,800	•		1 720		011	(52)	`	140
Basic and diluted earnings per share information:Earnings per common share - basic\$ 0.07 \$ 0.28 \$ 0.16 \$ 1.02Earnings per common share - diluted\$ 0.07 \$ 0.14 \$ 0.16 \$ 0.53Weighted average common shares outstanding - basic52,787 25,803 52,772 25,800	Unrealized lifeome (loss) on interest rate swap		1,729		011	(334)	140
Earnings per common share - basic \$ 0.07 \$ 0.28 \$ 0.16 \$ 1.02 Earnings per common share - diluted \$ 0.07 \$ 0.14 \$ 0.16 \$ 0.53 Weighted average common shares outstanding - basic 52,787 25,803 52,772 25,800	Total comprehensive income	\$	5,275	\$	7,951	\$ 7,761	\$	26,460
Earnings per common share - basic \$ 0.07 \$ 0.28 \$ 0.16 \$ 1.02 Earnings per common share - diluted \$ 0.07 \$ 0.14 \$ 0.16 \$ 0.53 Weighted average common shares outstanding - basic 52,787 25,803 52,772 25,800	Basic and diluted earnings per share information:							
Weighted average common shares outstanding - basic52,78725,80352,77225,800	Earnings per common share - basic	\$	0.07	\$	0.28	\$ 0.16	\$	1.02
	Earnings per common share - diluted	\$	0.07	\$	0.14	\$ 0.16	\$	0.53
Weighted average common shares outstanding - diluted52,78750,02452,84150,057	Weighted average common shares outstanding - basic		52,787		25,803	52,772		25,800
	Weighted average common shares outstanding - diluted		52,787		50,024	52,841		50,057

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

Virgin Mobile USA, Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six months en 2008	ded June 30, 2007
Operating activities		
Net income	\$ 8,295	\$ 26,312
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,522	16,731
Amortization of deferred financing costs	588	987
Non-cash charges for stock-based compensation	6,761	2,190
Non-cash cost of royalties and services		408
Write-offs of fixed assets	230	
Minority interest	1,960	
Changes in assets and liabilities:		
Accounts receivable	12,113	11,684
Due from related parties	(1,904)	4,013
Other receivables	7,755	9,773
Inventories	8,624	(7,306)
Prepaid expenses and other assets	(3,144)	(1,870)
Accounts payable	(25,993)	677
Due to related parties	17,913	(3,778)
Deferred revenue	(3,032)	3,127
Accrued expenses and other liabilities	(9,115)	(38,404)
Net cash provided by operating activities	38,573	24,544
Investing activities		
Capital expenditures	(9,364)	(12,691)
Net cash used in investing activities	(9,364)	(12,691)
Financing activities		
Net change in book cash overdraft	(2,045)	(15,603)
Repayment of long-term debt	(16,334)	(18,500)
Net change in related party debt	(5,000)	22,000
Other	(290)	250
Net cash used in financing activities	(23,669)	(11,853)
Net increase in cash and cash equivalents	5,540	
Cash and cash equivalents at beginning of year	19	8
Cash and cash equivalents at end of period	\$ 5,559	\$ 8

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

Virgin Mobile USA, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)