

Virgin Mobile USA, Inc.
Form 10-Q
August 14, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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)

20-8826316
(I.R.S. Employer
Identification No.)

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

07059
(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 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 Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

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

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Table of Contents**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:		
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.

Table of Contents**Virgin Mobile USA, Inc.****Condensed Consolidated Statements of Operations and Comprehensive Income****(In thousands, except per share amounts)****(Unaudited)**

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Operating revenue				
Net service revenue	\$ 291,364	\$ 309,713	\$ 595,128	\$ 632,050
Net equipment revenue	26,040	17,875	49,067	34,852
Total operating revenue	317,404	327,588	644,195	666,902
Operating expenses				
Cost of service (exclusive of depreciation and amortization)	82,407	90,001	165,899	183,979
Cost of equipment	99,755	98,376	204,773	193,024
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	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)				
Interest expense - net	7,933	13,859	17,272	27,448
Other expense (income)	6,110	7	8,190	(195)
Total other expense	14,043	13,866	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	
Income before minority interest	5,506	7,140	10,255	26,312
Minority interest	1,960		1,960	
Net income	3,546	7,140	8,295	26,312
Other comprehensive income (loss):				
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
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.

Table of Contents**Virgin Mobile USA, Inc.****Condensed Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

	Six months ended June 30,	
	2008	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.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)