# VIRGIN MOBILE USA

NOVEMBER 13,
2007

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# VIRGIN MOBILE USA

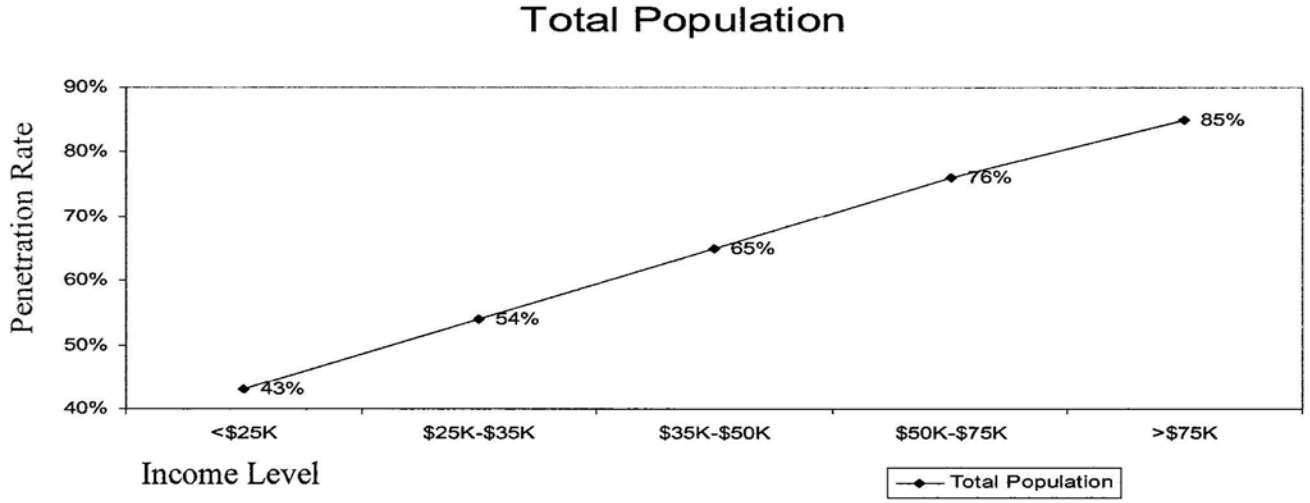
- Began operations as a joint venture of Sprint Nextel and Sir Richard Branson's Virgin Group (50/50 relationship).
- Pioneered the mobile virtual network operator model in the U.S.
- Since commencing service in July 2002, Virgin Mobile USA ("VMU") has become the seventh largest wireless carrier in the U.S. with nearly five million customers and revenues in excess of $1 billion.
  - Many VMU customers are from lower-income households that previously lacked any access to an attractive wireless service.
  - Many VMU customers are lower-usage customers.
    - Average VMU customer ARPU = approx $21/month.
    - Average postpaid carrier ARPU = approx. $50/month.
  - VMU customers also are more diverse than other national carriers' subscribers.
- Leading provider of pay as you go ("PAYG") wireless services to the youth market.
- Offered 27.5 million shares in initial public offering, which concluded on October 11, 2007.

# SIGNIFICANT ACHIEVEMENTS

- Nearly five million customers.
- Solid financial performance, with over $1 billion in revenues.
- Recognized by J.D. Power and Telephia for outstanding service, customer satisfaction and customer care.
  - In 2006 and 2007, VMU was the sole recipient of the J.D. Power and Associates award for Wireless Prepaid Customer Satisfaction.
  - 92% customer satisfaction rate.
  - 91% of customers would recommend VMU's service to a friend.
  - PC Magazine awarded VMU its highest rating in 2007.
- Over 35,000 distribution points and 130,000 Top-Up locations, including Best Buy, Wal-Mart, Target and Radio Shack.
  - Named Wal-Mart Supplier of the Year.

# PAY AS YOU GO MARKET IS MORE DIVERSE

- Most wireless operators focus on high-income subscribers because subscription to wireless services is highly dependent on income level.




- Many PAYG customers are lower-usage, lower-income consumers.
- Lower-income consumers gain access to wireless services and receive advantages from VMU's PAYG service, including a good value for voice and text services without long distance or roaming charges, a range of attractive, competitively priced and subsidized handsets, range of mobile access to emergency services on wireless devices and information and entertainment services, including music, games and social networking.
- 35% of VMU's customer base has a household income below $35,000.

# THE PAY AS YOU GO MARKET PROVIDES SIGNIFICANT COMPETITION

- Pay-as-you-go (prepaid) carriers and service plans are a critical source of increasing competition and growth in the wireless market, especially for customers who have not previously accessed wireless service.
  - One-half of VMU's customers were new to wireless service prior to receiving service from VMU.
- Many analysts have determined that a significant portion of the future growth in the wireless market will come from prepaid services.
- The FCC's Eleventh Annual Report on the status of competition in the wireless market noted that the recent surge in subscriber growth can be attributed to "innovative service models such as prepaid…plans…."

THE RE*GENERATION

PRO-SOCIAL PROGRAM
LOST YOUTH FOUND

- VMU, together with the Virgin Group's charitable arm, Virgin Unite, is helping a generation to help its own: The RE*Generation is a movement to connect at-risk youth with young people who want to make a difference through a partnership with innovative not-for-profit organizations, including Stand Up For Kids and YouthNoise.
- VMU donated over $350,000 in 2006 and plans to give $3 million over the next three years to these groups.
  - VMU invested over $1.5 million in 2006 and plans to invest over $9 million over the next 3 years.
- VMU lobbied Congress to name November as National Homeless Youth Awareness Month, and the company has actively supported this campaign and directly addressed this critical social issue.
- Four ways customers participate:
  - Downloading certain ringtones; VMU donates 100% of the profits directly to RE*Generation partners.
  - Downloading any mobile content; VMU donates at least 5% of the profits to charitable partners.
  - Donating $1 from the customer's account balance by sending a text message to a short code; VMU matches donation.
  - Volunteering.

# USF OVERVIEW

- Virgin Mobile supports USF reform to decrease USF contribution obligations from all carriers—while preserving the viability of this important program.
- Connection-based solutions discriminate against providers of prepaid wireless services.
- Connection-based USF reform proposals would constitute a regressive regime that disproportionately harms lower-income, lower-usage prepaid customers.

# IMPACT OF USF OBLIGATIONS ON LOWER-INCOME & LOWER-USAGE CUSTOMERS

- Unlike local telecommunications services, demand for wireless services, especially prepaid services, is highly elastic: as prices increase, demand falls.
- Lower-income, prepaid customers are particularly sensitive to the adverse impact of higher USF contribution obligations.
  - Increased USF contribution rates may cause lower-income, prepaid customers to drop their wireless phone service altogether.
- Regulatory policies should spur increased wireless usage rates among lower-income consumers to drive overall wireless penetration higher.

# EFFECT OF USF REFORM PROPOSALS ON LOWER-INCOME & LOWER-USAGE CUSTOMERS

- A numbers-based USF approach would adversely affect lower-usage prepaid customers, who would pay a disproportionate amount.
  - Average postpaid subscriber with $50 ARPU: $1 USF fee/month = 2.0 % of monthly bill.
  - Average VMU customer with $21 ARPU: $1 USF fee/month = 4.8% of monthly bill.
- A connections-based approach also would require lower-income, prepaid customers to pay into the USF even if they had no interstate usage in a given month.
- A numbers-based approach would be a regressive tax that would force lower-income, prepaid customers to subsidize higher-income, higher-volume users.

# EFFECT OF USF REFORM PROPOSALS ON LOWER-INCOME & LOWER-USAGE CUSTOMERS (cont'd)

- Alternative approaches for USF obligations of prepaid carriers have broad political and industry support.
  - Pending USF reform legislation, S.101 and S.711, requires the FCC to adjust its USF contribution mechanism for low-volume customers.
  - The wireless industry, including CTIA and Verizon Wireless, support adjustment for low-call customers.
- The FCC currently waives the Subscriber Line Charge for low-income customers.

# USF ADJUSTMENT FOR PREPAID CUSTOMERS

- VMU recommends one of two approaches to eliminate the regressive nature of any USF reform proposals for prepaid customers:
  - "Active Prepaid Handset" Proposal:
    - USF contributions assessed per number, but a reduced numbers-based fee for prepaid users with less than $25 in monthly voice revenue (one-half the postpaid average).
    - In addition, VMU recommends an exemption from USF obligations for those customers who spend less than $5/month on wireless services.
  - "By the Minute" Proposal:
    - USF contributions based on the minutes that a prepaid wireless customer actually uses, multiplied by a predetermined per-minute contribution fee based on average wireless customer usage.
    - Supported by AT&T, Verizon Wireless, and Tracfone.

# DESIGNATION OF VMU AS AN ETC

- VMU intends to seek designation as an ETC solely for the purpose of participating in the USF's Lifeline program.
- In its 2004 Order granting Tracfone's request for forbearance from the facilities-based requirement contained in Section 214(e) of the Act, the Commission noted the positive benefits that prepaid wireless services can have for lower-income Lifeline customers:
  - "The prepaid feature may be an attractive alternative for such consumers who need the mobility, security, and convenience of a wireless phone but who are concerned about usage charges or long-term contracts."

# DESIGNATION OF VMU AS AN ETC (cont'd)

- VMU's participation in the Lifeline program would serve the interests of its lower-income customers—the same customers that the USF program was designed to benefit.
  - 39 percent of VMU's customers have annual household incomes below $35,000, and a recent aggregate survey of calls indicated that state and city welfare agencies are among the most frequently contacted.
- Designation of VMU and other prepaid wireless providers as ETCs solely for the purposes of participation in the Lifeline program would enable prepaid wireless providers to better serve their lower-income customers and drive wireless penetration rates higher in this underserved consumer segment.
- Designation of ETC status to prepaid wireless providers should have minimal impact on USF expenditures and does not infringe on the Joint Board's recommendation to cap high-cost universal service support to wireless ETCs.