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 March 31, 2021

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 No. 001-38202

Virgin Galactic Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**85-3608069**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
166 North Roadrunner Parkway, Suite 1C Las Cruces, New Mexico	**88011**
(Address of Principal Executive Offices)	(Zip Code)

(575) 424-2100
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $0.0001 par value per share	SPCE	New York Stock Exchange

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of May 5, 2021, there were 240,712,527 shares of the Company's common stock, par value $0.0001, issued and outstanding.

VIRGIN GALACTIC HOLDINGS, INC.

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PART I. FINANCIAL INFORMATION

Each of the terms the "Company," "Virgin Galactic," "we," "our," "us" and similar terms used herein refer collectively to Virgin Galactic Holdings, Inc., a Delaware corporation, and its consolidated subsidiaries, unless otherwise stated.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements (including within the meaning of the Private Securities Litigation Reform Act of 1995) concerning us and other matters. These statements may discuss goals, intentions and expectations as to future plans, trends, events, results of operations or financial condition, or otherwise, based on current beliefs of management, as well as assumptions made by, and information currently available to management. Forward-looking statements may be accompanied by words such as "aim," "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "future," "intend," "may," "outlook," "plan," "possible," "potential," "predict," "project," "should," "target," "will," "would" or similar words, phrases or expressions. These forward-looking statements are subject to various risks and uncertainties, many of which are outside our control. Therefore, you should not place undue reliance on such statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, the following:

- our ability to achieve or maintain profitability;
- our ability to effectively market and sell human spaceflights;
- the development of the markets for commercial human spaceflight and commercial research and development payloads;
- any delay in completing the flight test program and final development of our spaceflight system, which is comprised of our SpaceShipTwo Spaceship, VSS Unity, and our mothership carrier aircraft, VMS Eve;
- our ability to operate our spaceflight system after commercial launch;
- the impact of the COVID-19 pandemic on us, our operations, our future financial or operational results, and our access to additional financing;
- the safety of our spaceflight systems;
- our ability to convert our backlog or inbound inquiries into revenue;
- our ability to conduct test flights;
- our anticipated full passenger capacity;
- delay in development or the manufacture of spaceflight systems;
- our ability to supply our technology to additional market opportunities;
- our expected capital requirements and the availability of additional financing;
- our ability to attract or retain highly qualified personnel, including in accounting and finance roles;
- extensive and evolving government regulation that impact the way we operate;
- risks associated with international expansion;
- our ability to timely and effectively remediate material weaknesses and maintain effective internal control over financial reporting and disclosure and procedures; and
- our ability to continue to use, maintain, enforce, protect and defend our owned and licensed intellectual property, including the Virgin brand.

Additional factors that may cause actual results to differ materially from current expectations include, among other things, those set forth in Part I, Item 1.“Business,” Part I, Item 1A. “Risk Factors,” and Part I, Item 2. “Management's Discussion and Analysis of Financial Condition and Results of Operations" of Amendment No. 2 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (the “Amended Annual Report on Form 10-K/A”) and in Part I, Item 2. “Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report on Form 10-Q. Although we believe that the expectations reflected in the forward-looking statements are reasonable, our information may be incomplete or limited, and we cannot guarantee future results. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future.

VIRGIN GALACTIC HOLDINGS, INC.
Condensed Consolidated Balance Sheets
(In thousands, except share data)

	March 31, 2021	December 31, 2020
	(Unaudited)	(As Restated)
Assets		
Current assets		
Cash and cash equivalents	$ 616,625	$ 665,924
Restricted cash	13,031	13,031
Inventories	30,187	30,483
Prepaid expenses and other current assets	14,486	18,489
Total current assets	674,329	727,927
Property, plant, and equipment, net	50,936	53,148
Other non-current assets	22,762	22,915
Total assets	$ 748,027	$ 803,990
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 3,738	$ 5,998
Accrued liabilities	28,351	22,982
Customer deposits	83,015	83,211
Other current liabilities	2,981	2,830
Total current liabilities	118,085	115,021
Non-current liabilities:		
Warrant liability	184,159	135,440
Other long-term liabilities	25,939	26,451
Total liabilities	$ 328,183	$ 276,912
Commitments and contingencies (Note 16)		
Stockholders' Equity		
Preferred stock, $0.0001 par value; 10,000,000 authorized; none issued and outstanding	$ —	—
Common stock, $0.0001 par value; 700,000,000 shares authorized; 237,274,430 and 236,123,659 shares issued and outstanding as of March 31, 2021 and December 31, 2020, respectively	23	23
Additional paid-in capital	1,320,228	1,297,794
Accumulated deficit	(900,438)	(770,744)
Accumulated other comprehensive income	31	5
Total stockholders' equity	419,844	527,078
Total liabilities and stockholders' equity	$ 748,027	$ 803,990

See accompanying notes to condensed consolidated financial statements.

VIRGIN GALACTIC HOLDINGS, INC.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(In thousands except for per share data)
(Unaudited)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020 (As restated)
Revenue	$ —	$ 238
Cost of revenue	—	173
Gross profit	—	65
Selling, general, and administrative expenses	44,914	26,755
Research and development expenses	36,363	34,282
Operating loss	(81,277)	(60,972)
Change in fair value of warrants	(48,719)	(316,896)
Interest income (expense), net	318	1,168
Other income (expense), net	27	(172)
Loss before income taxes	(129,651)	(376,872)
Income tax benefit (expense)	(43)	46
Net loss	(129,694)	(376,826)
Other comprehensive loss:		
Foreign currency translation adjustment	27	(54)
Total comprehensive loss	$ (129,667)	$ (376,880)
Net loss per share:		
Basic and diluted	$ (0.55)	$ (1.86)
Weighted-average shares outstanding:		
Basic and diluted	234,191,636	202,409,552

See accompanying notes to condensed consolidated financial statements.

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VIRGIN GALACTIC HOLDINGS, INC.
Condensed Consolidated Statements of Equity
(In thousands except for per unit and share data)
(Unaudited)
(As restated for the period ended March 31, 2020)

		Member's Equity		Preferred Stock		Common Stock					
	Net Parent Investment	**Units**	**Member's Capital**	**# of Shares**	**Par Value**	**# of Shares**	**Par Value**	**Additional paid-in capital**	**Accumulated Deficit**	**Accumulated Other Comprehensive Income (Loss)**	**Total**
Balance as of December 31, 2019	**$ —**	**—**	**$ —**	**—**	**$ —**	**196,001,038**	**$ 20**	**$ 469,008**	**$ (125,857)**	**$ 59**	**$ 343,230**
Net loss	—	—	—	—	—	—	—	—	(376,826)	—	(376,826)
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	—	(54)	(54)
Common stock issued related to warrants exercised	—	—	—	—	—	13,239,934	1	341,000	—	—	341,001
Stock-based compensation	—	—	—	—	—	—	—	4,425	—	—	4,425
Balance as of March 31, 2020	**—**	**—**	**—**	**—**	**—**	**209,240,972**	**21**	**814,433**	**(502,683)**	**5**	**311,776**

		Member's Equity		Preferred Stock		Common Stock					
	Net Parent Investment	**Units**	**Member's Capital**	**# of Shares**	**Par Value**	**# of Shares**	**Par Value**	**Additional paid-in capital**	**Accumulated Deficit**	**Accumulated Other Comprehensive Income (Loss)**	**Total**
Balance as of December 31, 2020	**$ —**	**—**	**$ —**	**—**	**$ —**	**236,123,659**	**$ 23**	**$ 1,297,794**	**$ (770,744)**	**$ 5**	**$ 527,078**
Net loss	—	—	—	—	—	—	—	—	(129,694)	—	(129,694)
Other comprehensive loss	—	—	—	—	—	—	—	—	—	26	26
Stock-based compensation	—	—	—	—	—	—	—	22,111	—	—	22,111
Issuance of common stock pursuant to stock-based compensation, net of withholding taxes	—	—	—	—	—	1,150,771	—	323	—	—	323
Balance as of March 31, 2021	**—**	**—**	**—**	**—**	**—**	**237,274,430**	**23**	**1,320,228**	**(900,438)**	**31**	**419,844**

See accompanying notes to condensed consolidated financial statements.

VIRGIN GALACTIC HOLDINGS, INC.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2021	2020
		(As restated)
Cash flows from operating activities		
Net loss	$ (129,694)	$ (376,826)
Stock-based compensation	22,111	4,425
Depreciation and amortization	2,869	2,105
Change in fair value of warrant liability	48,719	316,896
Other operating activities, net	10	1
Change in assets and liabilities		
Inventories	296	(1,980)
Other current and non-current assets	3,692	2,142
Accounts payable and accrued liabilities	3,322	(2,978)
Customer deposits	(196)	(98)
Other current and non-current liabilities	102	—
Net cash used in operating activities	(48,769)	(56,313)
Cash flows from investing activity		
Capital expenditures	(819)	(4,036)
Cash used in investing activity	(819)	(4,036)
Cash flows from financing activities		
Payments of finance lease obligations	(34)	(23)
Proceeds from issuance of common stock pursuant to stock options exercised	10,837	—
Transaction costs	—	(697)
Withholding taxes paid on behalf of employees on net settled stock-based awards	(10,514)	—
Net cash provided by (used in) financing activities	289	(720)
Net decrease in cash and cash equivalents	(49,299)	(61,069)
Cash, cash equivalents and restricted cash at beginning of period	678,955	492,721
Cash, cash equivalents and restricted cash at end of period	$ 629,656	$ 431,652
Cash and cash equivalents	$ 616,625	$ 419,374
Restricted cash	13,031	12,278
Cash, cash equivalents and restricted cash	$ 629,656	$ 431,652

See accompanying notes to condensed consolidated financial statements.

(1) Organization and its wholly owned subsidiaries ("VGH, Inc.")

Virgin Galactic Holdings, Inc. and its wholly owned subsidiaries ("VGH, Inc.") are focused on the development, manufacture and operations of spaceships and related technologies for the purpose of conducting commercial human spaceflight and flying commercial research and development payloads into space. The development and manufacturing activities are located in Mojave, California with plans to operate the commercial spaceflights out of Spaceport America located in New Mexico.

VGH, Inc. was originally formed as a Cayman Islands exempted company on May 5, 2017 under the name Social Capital Hedosophia Holdings Corp. (“SCH”). SCH was a public investment vehicle incorporated as a blank check company for the purpose of effecting a merger, share exchange, asset acquisition, share purchase, reorganization or similar business combination with one or more businesses. On October 25, 2019, VGH, Inc. domesticated as a Delaware corporation and consummated the merger transactions contemplated by the Agreement and Plan of Merger, dated as of July 29, 2019, as amended on October 2, 2019, by and among VGH, Inc., Vieco USA, Inc. (“Vieco US”), Vieco 10 Limited (“Vieco 10”), TSC Vehicle Holdings, Inc., (“TSCV”), Virgin Galactic Vehicle Holdings, Inc., (“VGVH”), Virgin Galactic Holdings, LLC (“VGH LLC” and, collectively with TSCV and VGVH, the “VG Companies”), and the other parties thereto (the “Virgin Galactic Business Combination”). The closing of the Virgin Galactic Business Combination occurred on October 25, 2019 and, in connection with the closing, SCH re-domiciled as a Delaware corporation under the name Virgin Galactic Holdings, Inc. Upon closing, the entities comprising the VG Companies became wholly owned subsidiaries of VGH, Inc. and in exchange the VGH, Inc. common stock due to Vieco 10 as consideration was received and directly held by Vieco US.

Throughout the notes to the condensed consolidated financial statements, unless otherwise noted, “we,” “us,” “our,” the "Company" and similar terms refer to the VG Companies prior to the consummation of the Virgin Galactic Business Combination, and VGH, Inc. and its subsidiaries after the Virgin Galactic Business Combination. Prior to the Virgin Galactic Business Combination and prior to the series of Vieco 10 reorganizational steps, Galactic Ventures, LLC ("GV"), a wholly-owned subsidiary of Vieco 10, was the direct parent of VG Companies.

Global Pandemic

On March 11, 2020, the World Health Organization characterized the outbreak of COVID-19 as a global pandemic and recommended containment and mitigation measures. Since then, extraordinary actions have been taken by international, federal, state, and local public health and governmental authorities to contain and combat the outbreak and spread of COVID-19 in regions throughout the world. These actions include travel bans, quarantines, “stay-at-home” orders, and similar mandates for many individuals to substantially restrict daily activities and for many businesses to curtail or cease normal operations.

Consistent with the actions taken by governmental authorities, including California, New Mexico and the United Kingdom, where most of our workforce is located, we have taken appropriately cautious steps to protect our workforce and support community efforts. As part of these efforts, and in accordance with applicable government directives, we initially reduced and then temporarily suspended on-site operations at our facilities in Mojave, California and Spaceport America, New Mexico in late March 2020. Starting late March 2020, approximately two-thirds of our employees and contractors were able to complete their duties from home, which enabled much critical work to continue, including engineering analysis and drawing releases for VSS Unity, VMS Eve and the second SpaceShipTwo vehicle, process documentation updates, as well as workforce training and education. The remaining one-third of our workforce was unable to perform their normal duties from home. In April 2020, in accordance with our classification within the critical infrastructure designation, we resumed limited operations under revised operational and manufacturing plans that conform to the latest COVID-19 health precautions. This includes universal facial covering requirements, rearranging facilities to follow social distancing protocols, conducting active daily temperature checks and undertaking regular and thorough disinfecting of surfaces and tools. We are also testing employees and contractors for COVID-19 on a regular basis. However, the COVID-19 pandemic and the continued precautionary actions taken related to COVID-19 have adversely impacted, and are expected to continue to adversely impact, our operations, including the completion of the development of our spaceflight systems and our scheduled spaceflight test programs.

As of the date of this quarterly report on Form 10-Q, all our employees whose work requires them to be in our facilities are now back on-site, but we have experienced, and expect to continue to experience, reductions in operational efficiency due to illness from COVID-19 and precautionary actions taken related to COVID-19. For the time being, we are encouraging those employees who are able to work from home to continue doing so.

The COVID-19 pandemic and the protocols and procedures we have implemented in response to the pandemic have caused some delays in operational and maintenance activities, including delays in our test flight program. The full impact of the COVID-19 pandemic on our business and results of operations subsequent to March 31, 2021 will depend on future developments, such as the ultimate duration and scope of the outbreak and its impact on our operations necessary to complete the development of our spaceflight systems, our scheduled spaceflight test programs and commencement of our commercial flights. In addition to existing travel restrictions, countries may continue to maintain or reimpose closed borders, impose prolonged quarantines, or further restrict travel. We believe our cash and cash equivalents on hand at March 31, 2021 and management's operating plan, will provide sufficient liquidity to fund our operations for at least the next twelve months from the issuance of these financial statements.

Restatement of Previously Issued Financial Statements

As previously disclosed in Amendment No. 2 to our Annual Report on Form 10-K/A for the year ended December 31, 2020, the Company has restated its financial statements as of December 31, 2020 and 2019, for the years ended December 31, 2020 and 2019, as well as the unaudited condensed financial statements for the three month period ended March 31, 2020, to correct misstatements in those prior periods related to the accounting for warrants, under the guidance of Accounting Standards Codification (“ASC”) 815-40, Contracts in Entity’s Own Equity. The following tables represent the estimated fair value of the Company’s public and private warrant liabilities recorded on our balance sheet along with changes in fair value which are recorded as other income and expense on our statement of operations and the fair value of common stock issued on the date of exercise, which were recorded as additional paid in capital.

	Public Warrants	**Private Placement Warrants**	**Total**
		(In thousands)	
Warrant Liability at December 31, 2019	$ 77,050	$ 47,280	$ 124,330
Redemption/Exercises of Warrants	(341,001)	—	(341,001)
Change in Fair Value	283,296	33,600	316,896
Total liability at fair value as of March 31, 2020	$ 19,345	$ 80,880	$ 100,225

	Public Warrants	**Private Placement Warrants**	**Total**
		(In thousands)	
Warrant Liability at December 31, 2020	$ —	$ 135,440	$ 135,440
Change in Fair Value	—	48,719	48,719
Total liability at fair value as of March 31, 2021	$ —	$ 184,159	$ 184,159

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

These condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). All intercompany transactions and balances between the various legal entities comprising the Company have been eliminated in consolidation. Certain information or footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted, pursuant to the rules and regulations of the SEC for interim financial reporting. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position, results of operations, or cash flows. In the opinion of management, the accompanying unaudited condensed financial statements include all adjustments, consisting of a normal recurring nature, which are necessary for a fair presentation of the financial position, operating results and cash flows for the periods presented.

(b) Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP required us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base these estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates. Significant estimates inherent in the preparation of the consolidated financial statements include, but are not limited to, accounting for cost of revenue, useful lives of property, plant and equipment, net, accrued liabilities, income taxes including deferred tax assets and liabilities and impairment valuation, warrants, stock-based awards and contingencies.

(c) Other Summary of Significant Accounting Policies

There have been no significant changes from the significant accounting policies disclosed in Note 2 of the "Notes to Consolidated Financial Statements" included in the Company's Amendment No. 2 to its Annual Report on Form 10-K/A.

The interim financial information is unaudited, but reflects all normal recurring adjustments that are, in the opinion of management, necessary to fairly present the information set forth herein. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Amendment No. 2 to its Annual Report on Form 10-K/A for the year ended December 31, 2020. Interim results are not necessarily indicative of the results for a full year.

(3) Recent Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of Accounting Standards Updates ("ASU").

The Company considers the applicability and impact of all ASUs and continues to monitor new accounting pronouncements issued by the FASB. We do not believe any accounting pronouncements issued through the date of this report will have a material impact to the Company's condensed consolidated financial statements.

(4) Related Party Transactions

The Company licenses its brand name from certain entities affiliated with Virgin Enterprises Limited ("VEL"), a company incorporated in England. VEL is an affiliate of the Company. Under the trademark license, the Company has the exclusive right to operate under the brand name "Virgin Galactic" worldwide. Royalty payables, excluding sponsorship royalties, for the use of license are the greater of 1% of revenue or $0.04 million per quarter, prior to the commercial launch date. Sponsorship royalties payable are 25% of sponsorship revenue. We paid license and royalty fees of $0.04 million and $0.06 million for the three months ended March 31, 2021 and 2020, respectively.

The Company has a Transition Services Agreement ("TSA") with Virgin Orbit, LLC ("VO") based on an allocation methodology that considers our headcount, unless directly attributable to the business. The Company is allocated operating expense from VO Holdings, Inc. and its subsidiaries ("VOH"), a majority owned company of GV for operations-related functions based on an allocation methodology that considers our headcount, unless directly attributable to the business. Operating expense allocations include use of machinery and equipment, pilot services, and other general administrative expenses. We were allocated $0.04 million and $0.14 million of operating expenses, net, from VOH for the three months ended March 31, 2021 and 2020, respectively. The Company has a receivable (payable) to VOH of $— million and $(0.8) million as of March 31, 2021 and December 31, 2020, respectively.

(5) Inventory

As of March 31, 2021 and December 31, 2020, inventory is comprised of the following:

	As of	
	March 31, 2021	December 31, 2020
	(Unaudited)	
	(In thousands)	
Raw Materials	$ 22,514	$ 22,963
Spare parts	7,673	7,520
Total inventory	$ 30,187	$ 30,483

For the three months ended March 31, 2021 and March 31, 2020, we wrote off $0.1 million and $1.1 million of inventory due to excess and obsolescence, respectively.

(6) Property, Plant, and Equipment, net

As of March 31, 2021 and December 31, 2020, property, plant, and equipment, net consists of the following:

	As of	
	March 31, 2021	December 31, 2020
	(Unaudited)	
	(In thousands)	
Buildings	$ 9,118	$ 9,142
Leasehold improvements	28,808	28,744
Aircraft	195	195
Machinery and equipment	35,287	34,330
IT software and equipment	22,446	22,042
Construction in progress	977	1,780
	96,831	96,233
Less accumulated depreciation and amortization	(45,895)	(43,085)
Property, plant, and equipment, net	$ 50,936	$ 53,148

Total depreciation and amortization for the three months ended March 31, 2021 and 2020 was $2.9 million and $2.1 million, respectively, of which $1.3 million and $0.9 million was recorded in research and development expense, respectively.

(7) Leases

The Company's leases are more fully described in Note 8 of the "Notes to Consolidated Financial Statements" to its Annual Report on Form 10-K/A Amendment No. 2.

The components of lease expense related to leases for the periods presented below are as follows:

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
	(Unaudited and in thousands)	
Lease Cost:		
Operating lease expense	$ 1,260	$ 1,152
Short-term lease expense	12	97
Finance Lease Cost:		
Amortization of right-of-use assets	34	27
Interest on lease liabilities	7	9
Total finance lease cost	41	36
Variable lease cost	1,338	348
Total lease cost	$ 2,651	$ 1,633

VIRGIN GALACTIC HOLDINGS, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The components of supplemental cash flow information related to leases for the period are as follows:

	Three Months Ended March 31,	
	2021	2020
	(In thousands, except term and rate data)	
Cash flow information:		
Operating cash flows for operating leases	$ 1,310	$ 1,312
Operating cash flows for finance leases	$ 7	$ 9
Financing cash flows for finance leases	$ 34	$ 23
Non-cash activity:		
Right-of-use assets obtained in exchange for lease obligations		
Operating leases	$ 180	$ 1,658
Finance Leases	$ —	$ 23
Other Information:		
Weighted average remaining lease term:		
Operating leases (in years)	12.53	12.75
Finance leases (in years)	2.66	3.71
Weighted average discount rates:		
Operating leases	11.68 %	11.65 %
Finance leases	8.40 %	9.11 %

The supplemental balance sheet information related to leases for the period is as follows:

	As of	
	March 31, 2021	December 31, 2020
	(Unaudited)	
	(In thousands)	
Operating leases		
Long-term right-of-use assets	$ 19,240	$ 19,555
Short-term operating lease liabilities	$ 2,461	$ 2,384
Long-term operating lease liabilities	23,713	24,148
Total operating lease liabilities	$ 26,174	$ 26,532

Commitments

The Company has certain non-cancelable operating leases primarily for its premises. These leases generally contain renewal options for periods ranging from 3 to 20 years and require the Company to pay all executory costs, such as maintenance and insurance. Certain lease arrangements have rent free periods or escalating payment provisions, and we recognize rent expense of such arrangements on a straight line basis.

VIRGIN GALACTIC HOLDINGS, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum finance lease payments as of March 31, 2021 are as follows:

	Operating Leases	Finance Leases
	(In thousands)	
2021 (for the remaining period)	$ 5,331	$ 157
2022	3,880	121
2023	3,836	91
2024	3,833	7
2025	3,833	—
Thereafter	29,894	—
Total lease payments	$ 50,607	$ 376
Less:		
Imputed interest/present value discount	(24,434)	$ (37)
Present value of lease liabilities	$ 26,173	$ 339

(8) Other Current and Non-current Assets

A summary of the components of other assets are as follows:

	As of	
	March 31, 2021	December 31, 2020
	(Unaudited)	
	(In thousands)	
Prepaid expense	$ 13,657	$ 17,949
Accounts receivable	829	470
Other current assets	—	70
Total other current assets	$ 14,486	$ 18,489
Right-of-use assets	$ 19,565	$ 19,914
Other non-current assets	3,197	3,001
Total other non-current assets	$ 22,762	$ 22,915

(9) Accrued Expenses

A summary of the components of accrued liabilities are as follows:

	As of	
	March 31, 2021	**December 31, 2020**
	(Unaudited)	
	(In thousands)	
Accrued payroll	$ 7,082	$ 4,060
Accrued vacation	5,000	4,624
Accrued bonus	9,646	6,892
Accrued inventory	436	950
Other accrued expenses	6,187	6,456
Total accrued expenses	$ 28,351	$ 22,982

(10) Long-term Debt

	As of	
	March 31, 2021	**December 31, 2020**
	(Unaudited)	
	(In thousands)	
Commercial loan	$ 620	$ 620
	620	620
Less: Current portion	(310)	(310)
Non-current portion	$ 310	$ 310

Aggregate maturities of long-term debt as of March 31, 2021 are as follows:

	(In thousands)
2021 (for the remaining period)	310
2022	310
	$ 620

On June 18, 2020, we financed the purchase of software licenses through a loan totaling approximately $0.9 million. The loan amortized in three equal annual installment of approximately $0.3 million with the final payment due on October 1, 2022 with 0% interest rate. The loan is secured by a standby letter of credit issued from our financial institution and restricted cash has been recorded for the corresponding outstanding balance.

The imputed interest of this loan was immaterial.

(11) Income Taxes

Income tax expense (benefit) was $(0.04) million and 0.05 million for the three months ended March 31, 2021 and 2020, respectively. The effective income tax rate was nil for three months ended March 31, 2021 and 2020. Our effective tax rate differs from the U.S. statutory rate primarily due to a substantially full valuation allowance against our net deferred tax assets where it is more likely than not that some or all of the deferred tax assets will not be realized.

(12) Stockholders' Equity

There have been no significant changes from the Stockholders' Equity disclosed in Note 11 of the “Stockholders Equity” included in the Amendment No. 2 to our Annual Report on Form 10-K/A other than the issuance of common stock and redemption of warrants as noted below.

Issuance of Common Stock

In August 2020, the Company sold 23,600,000 shares of common stock at a public offering price of $19.50 per share for gross proceeds, before deducting underwriting discounts and commissions and other expenses payable by the Company, of $460.2 million. The Company incurred $20.9 million of transaction costs, including underwriting discounts and commissions.

Stockholders' Agreement

In connection with the closing of the Virgin Galactic Business Combination, the Company entered into a stockholders’ agreement with certain of the Company’s investors. Pursuant to the terms of the Stockholders’ Agreement, as long as Virgin Investments Limited (VIL) is entitled to designate two directors to the Company’s Board of Directors, the Company must obtain VIL’s prior written consent to engage in certain corporate transactions and management functions such as business combinations, disposals, acquisitions, incurring indebtedness, and engagement of professional advisors, among others.

Warrants and Warrant Redemption

Public warrants were initially issued as part of SCH's initial public offering in 2017 and assumed upon the consummation of the Business Combination. As of March 31, 2021, and December 31, 2020, there were no public warrants outstanding. As of both March 31, 2021 and December 31, 2020, there were 8,000,000 warrants outstanding that were issued in a private placement simultaneously with the Company’s initial public offering (the “private placement warrants”).

Under the terms of the warrant agreement (the “Warrant Agreement”) between us and Continental Stock Transfer & Trust Company, as warrant agent, the public warrants became exercisable on a cashless basis on January 27, 2020, based on the exchange ratio as calculated under the Warrant Agreement at the time of the exercise. On March 13, 2020 and pursuant to the terms of the Warrant Agreement, we announced that all public warrants that remained unexercised immediately after 5:00 p.m. New York City time on April 13, 2020 (the “Redemption Date”) would be redeemed for $0.01 per warrant. Warrant holders could exercise their public warrants at any time from March 13, 2020 and prior to the Redemption Date on a cashless basis, and receive 0.5073 shares of common stock per public warrant surrendered for exercise. Immediately after the Redemption Date, 295,305 public warrants remained unexercised and were redeemed at a redemption price of $0.01 per public warrant in accordance with the terms of the Warrant Agreement. The private placement warrants were not subject to the redemption and remain outstanding as of March 31, 2021.

The Company determined that both the public warrants and the private placement warrants (the "Warrants") should be classified as a liability in accordance with ASC 480. The Company remeasures the fair value of the Warrants at each reporting date with changes recorded in earnings. In connection with the Company's remeasurement of the Warrants to fair value, the Company recorded income (expense) of approximately $(48.7) million and (316.9) million for the three months ended March 31, 2021 and 2020, respectively. The fair value of the warrant liability is approximately $184.2 million and $135.4 million as of March 31, 2021 and December 31, 2020, respectively. The private placement warrants are classified as Level 3 financial instruments. See Note 15. Fair Value Measurements.

(13) Earnings per Share

The following table presents net loss per share and related information:

	Three Months Ended March 31,			
	2021		2020	
			(As Restated)	
	(In thousands, except for share and per share data)			
Basic and diluted:				
Net loss	$	(129,694)	$	(376,826)
Weighted average shares of common stock outstanding		234,191,636		202,409,552
Basic and diluted net loss per share	$	(0.55)	$	(1.86)

As of March 31, 2021 and March 31, 2020, the Company has excluded the potential effect of warrants to purchase shares of common stock totaling 8,000,000 and 10,419,699, respectively, shares and the dilutive effect of outstanding stock options and unvested restricted stock units, as described in Note 12 of the “Notes to Consolidated Financial Statements” included in the 2020 Amendment No. 2 to our Annual Report on Form 10-K/A, in the calculation of diluted loss per share, as the effect would be anti-dilutive due to losses incurred.

(14) Stock-Based Compensation

The Company's 2019 Incentive Award Plan ("2019 Plan") is more fully described in Note 13 of the "Notes to Consolidated Financial Statements" in the 2019 Annual Report on Form 10-K. Under the 2019 Plan, the Company has the ability to grant incentive stock options, non-qualified stock options and RSUs to employees, directors and other service providers. Twenty five percent of such stock options cliff vest at the grant dates first anniversary and will ratably vest monthly over the next three years, subject to continued employment on each vesting date. Vested options will be exercisable at any time until ten years from the grant date, subject to earlier expiration under certain terminations of service and other conditions. The stock options granted have an exercise price equal to the closing stock price of our common stock on the grant date.

VIRGIN GALACTIC HOLDINGS, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The following table sets forth the summary of options activity under the 2019 Plan (dollars in thousands except per share data):

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value[1]
Options outstanding at December 31, 2020	6,796,045	$ 13.59	8.64	68,888
Granted	—	—		
Exercised	(832,880)	13.01		
Forfeited options	(532,866)	13.93		
Options outstanding at March 31, 2021	5,430,299	$ 13.65	8.88	92,212
Options exercisable at March 31, 2021	1,811,328	$ 13.47	7.41	31,082

[1] Aggregate intrinsic value is calculated based on the difference between our closing stock price at period end and the exercise price, multiplied by the number of in-the-money options and represents the pre-tax amount that would have been received by the option holders, had they all exercised all their options on the period end date.

Restricted Stock Units

The RSUs vest over four years with 25% cliff vest at the first year anniversary of the grant date and ratably over the next three years.

RSU activity during the year ended December 31, 2020 was as follows:

The following table sets forth the summary of RSUs activity under the 2019 Plan (dollars in thousands except per share data):

	Shares	Weighted Average Fair Value
Outstanding at December 31, 2020	4,760,784	$ 19.63
Granted	567,255	41.74
Vested	(570,936)	16.72
Forfeited	(598,982)	16.42
Outstanding at March 31, 2021	4,158,121	$ 23.51

Stock options and RSUs expenses are included in selling, general and administrative and research and development expense in the condensed consolidated statements of operations and comprehensive loss, related to stock options and RSUs is as follows:

	Three Months Ended March 31,	
	2021	2020
Stock option expense		
Selling, General & Administrative	8,986	2,064
Research & Development	843	1,040
Total stock option expense	9,829	3,104
RSU expense		
Selling, General & Administrative	9,052	806
Research & Development	3,230	515
Total RSU expense	12,282	1,321
Total stock-based compensation expense	$ 22,111	$ 4,425

As of March 31, 2021, the unrecognized stock-based compensation related to these options was $32.0 million and is expected to be recognized over a weighted-average period of 3.1 years. At March 31, 2021, the unrecognized stock-based compensation related to RSUs was $106.6 million and is expected to be recognized over a weighted-average period of 3.3 years.

(15) Fair Value Measurements

We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. We estimate fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which is categorized in one of the following levels:

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date;
- Level 2 inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability; and
- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The fair value of the warrant liability was determined using the Black-Scholes valuation methodology and the quoted price of the Company's common stock in an active market, a Level 3 measurement. Volatility was based on the actual market activity of the Company's peer group as well as the Company's historical volatility since the Virgin Galactic Business Combination. The expected life was based on the remaining contractual term of the warrants, and the risk free interest rate was based on the implied yield available on U.S. Treasury Securities with a maturity equivalent to the warrants' expected life.

The Company calculated the estimated fair value of warrants using the following assumptions:

	As of March 31, 2021
Risk-free interest rate	0.51%
Contractual term	3.58 years
Expected volatility	80%

	As of December 31, 2020
Risk-free interest rate	0.25%
Contractual term	3.82 years
Expected volatility	80%

The carrying amounts included in the condensed consolidated balance sheets under current assets and current liabilities approximate fair value because of the short maturity of these instruments. The following tables summarize the fair value of assets that are recorded in the Company's condensed consolidated balance sheets as of March 31, 2021 and December 31, 2020 at fair value on a recurring basis:

Fair Value Measurements as of March 31, 2021

	Level 1		Level 2		Level 3	
			(In thousands)			
Assets:						
Money Market	$	306,704	**$**	—	**$**	—
Certificate of Deposit		91,838		—		—
Cash Equivalents		200,364		—		—
Total assets at fair value	$	598,906	$	—	$	—
Liabilities:						
Warrant Liability	$	—	$	—	$	184,159
Total Liabilities	$	—	$	—	$	184,159

Fair Value Measurements as of December 31, 2020

	Level 1		Level 2		Level 3	
			(In thousands)			
Assets						
Money Market	$	357,463	$	—	$	—
Certificate of Deposit		93,802		—		—
Cash Equivalents		200,364		—		—
Total asset at fair value	$	651,629	$	—	$	—
Liabilities:						
Warrant Liability	$	—	$	—	$	135,440
Total Liabilities	$	—	$	—	$	135,440

(16) Commitments and Contingencies

Legal Proceedings

From time to time, the Company is a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. The Company applies accounting for contingencies to determine when and how much to accrue for and disclose related to legal and other contingencies. Accordingly, the Company discloses contingencies deemed to be reasonably possible and accrues loss contingencies when, in consultation with legal advisors, it is concluded that a loss is probable and reasonably estimable. Although the ultimate aggregate amount of monetary liability or financial impact with respect to these matters is subject to many uncertainties and is therefore not predictable with assurance, management believes that any monetary liability or financial impact to the Company from these matters, individually and in the aggregate, beyond that provided at March 31, 2021, would not be material to the Company's financial position, results of operations or cash flows. However, there can be no assurance with respect to such result, and monetary liability or financial impact to the Company from legal proceedings, lawsuits and other claims could differ materially from those projected.

In September 2018, a former contractor employed through a third party staffing agency, alleged on behalf of himself and other aggrieved employees that the Company and the staffing agency, purportedly violated California state wage and hour laws. In March 2020, the Company agreed to settle this matter for $1.9 million. As of March 31, 2021, the Company has an outstanding $1.9 million payable pending final court motions that has been delayed due to COVID-19.

(17) Employee Benefit Plan

The Company has defined contribution plans, under which the Company pays fixed contributions into a separate entity, and additional contributions to the plans are based upon a percentage of the employees' elected contributions. The Company will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized within selling, general, and administrative expenses and research and development in the condensed consolidated statements of operations and comprehensive loss, as incurred. Defined contributions were $1.1 million and $1.0 million for the three months ended March 31, 2021 and 2020, respectively.

(18) Supplemental Cash Flow Information

	Three Months Ended March 30,	
	2021	2020 (As Restated)
	(in thousands)	
Supplemental disclosure		
Cash payments for:		
Income tax paid	$ (52)	$ (46)
	$ (52)	$ (46)
Schedule for noncash investing activities		
Unpaid property, plant, and equipment received	$ 186	$ 1,091
	$ 186	$ 1,091
Schedule for noncash financing activities		
Issuance of common stock through "cashless" warrants exercised	$ —	$ 341,001
Issuance of common stock through restricted stock units vested	22,825	—
	$ 22,825	$ 341,001

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless the context otherwise requires, all references in this section to the "Company," "we," "us," or "our" refer to the business of the Virgin Galactic Companies and their subsidiaries prior to the consummation of the Virgin Galactic Business Combination and Virgin Galactic Holdings, Inc. and its subsidiaries after consummation of the Virgin Galactic Business Combination. Prior to the Virgin Galactic Business Combination and prior to the series of Vieco 10 reorganization steps, Galactic Ventures, LLC ("GV"), a wholly-owned subsidiary of Vieco 10, was the direct parent of the Virgin Galactic Companies.

You should read the following discussion and analysis of our financial condition and results of operations together with the condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q, as well as the audited financial statements and the related notes thereto, and the discussion under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" included in Amended Annual Report on Form 10-K/A. This discussion contains forward-looking statements that reflect our plans, estimates, and beliefs that involve risks and uncertainties. As a result of many factors, such as those set forth under the "Risk Factors" section of our Amended Annual Report on Form 10-K/A and under the "Cautionary Note Regarding Forward-Looking Statements" section and elsewhere in this Quarterly Report on Form 10-Q, our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

We are at the vanguard of a new industry, pioneering the commercial exploration of space with reusable spaceflight systems. We believe the commercial exploration of space represents one of the most exciting and important technology initiatives of our time. This industry has begun growing dramatically due to new products, new sources of private and government funding, and new technologies. Demand is emerging from new sectors and demographics. As government space agencies have retired or reduced their own capacity to send humans into space, private companies are beginning to make crucial inroads into the fields of human space exploration. We have embarked into this commercial exploration journey with a mission to put humans into space and return them safely to Earth on a routine and consistent basis. We believe the success of this mission will provide the foundation for a myriad of exciting new industries.

We are a vertically integrated aerospace company pioneering human spaceflight for private individuals and researchers. Our spaceship operations consist of commercial human spaceflight and flying commercial research and development payloads into space. Our operations also include the design and development, manufacturing, ground and flight testing, and post-flight maintenance of our spaceflight vehicles. We focus our efforts in spaceflights using our reusable technology for human tourism and for research and education. We intend to offer our customers, a unique, multi-day experience culminating in a spaceflight that includes several minutes of weightlessness and views of Earth from space. As part of our commercial operations, we have exclusive access to the Gateway to Space facility at Spaceport America located in New Mexico. Spaceport America is the world's first purpose built commercial spaceport and will be the site of our initial commercial spaceflight operations. We believe the site provides us with a competitive advantage when creating our spaceflight plans as it not only has a desert climate with relatively predictable weather conditions preferable to support our spaceflights, it also has airspace that is restricted for surrounding commercial air traffic that facilitates frequent and consistent flight scheduling.

Our primary mission is to launch the first commercial program for human spaceflight. In December 2018, we made history by flying our groundbreaking spaceship, VSS Unity, to space. This represented the first flight of a spaceflight system built for commercial service to take humans into space. Shortly thereafter, we flew our second spaceflight in VSS Unity in February 2019, and, in addition to the two pilots, carried a crew member in the cabin. We have received reservations for approximately 600 spaceflight tickets and collected more than $80.0 million in future astronaut deposits as of March 31, 2021. Additionally, in February 2020, we launched our One Small Step campaign which allows interested individuals to place a $1,000 refundable registration deposit towards the cost of a future ticket once we reopen ticket sales and, as of March 31, 2021, there were approximately 1,000 participants in our One Small Step program from 66 countries. We retired the "One Small Step" program on December 31, 2020, but plan on reopening ticket sales following Sir Richard Branson's flight expected in 2021. With each ticket purchased, future astronauts will experience a multi-day journey that includes a tour of the spaceport, flight suit fitting, spaceflight training and culminating with a trip to space on the final day.

We have also developed an extensive set of vertically integrated aerospace development capabilities encompassing preliminary vehicle design and analysis, detail design, manufacturing, ground testing, flight testing, and maintenance of our spaceflight system. Our spaceflight system consists of three primary components: our carrier aircraft, the mothership; our spaceship, SpaceShipTwo; and our hybrid rocket motor.

SpaceShip is a spaceship with the capacity to carry pilots and future astronauts, or commercial research and development payloads, into space and return them safely to Earth. Fundamentally, SpaceShip is a rocket-powered aerospace vehicle that operates more like a plane than a traditional rocket. SpaceShip is powered by a hybrid rocket propulsion system, which we refer to as "RocketMotor", which propels the spaceship on a trajectory into space. SpaceShip's cabin has been designed to maximize the future astronaut's safety, experience and comfort. A dozen windows line the sides and ceiling of the spaceship, offering the future astronauts the ability to view the blackness of space as well as stunning views of the Earth below. Our mothership is a twin-fuselage, custom-built aircraft designed to carry SpaceShip up to an altitude of approximately 45,000 feet where the spaceship is released for its flight into space. Using the mothership's air launch capability, rather than a standard ground-launch, reduces the energy requirements of our spaceflight system as SpaceShip does not have to rocket its way through the higher density atmosphere closest to the Earth's surface.

Our team is currently in various stages of designing, testing and manufacturing additional spaceships and rocket motors in order to meet the expected demand for human spaceflight experiences. Concurrently, we are researching and developing new products and technologies to grow our company.

Our operations also include efforts in spaceflight opportunities for research and education. For example, researchers have utilized parabolic aircraft and drop towers to create moments of microgravity and conduct significant research activities. In most cases, these solutions offer only seconds of microgravity per flight and do not offer access to the upper atmosphere or space. Other researchers have conducted experiments on sounding rockets or satellites. These opportunities are expensive, infrequent and may impose highly limiting operational constraints. We believe that research experiments will benefit from prolonged exposure to space conditions and yield better results aboard SpaceShip due to the large cabin, gentler loading during flight, relatively low cost, advantageous operational parameters, and frequent flights. As such, researchers and educators are able to conduct critical experiments and obtain important data without having to sacrifice time and resources. Our commitment to advancing research and science was present in our December 2018 and February 2019 spaceflights as we transported payloads into space for research purposes under a NASA flight contract.

We have also leveraged our knowledge and expertise in manufacturing spaceships to occasionally perform engineering services for future astronauts, such as research, design, development, manufacturing and integration of advanced technology systems.

Factors Affecting Our Performance

We believe that our performance and future success depend on a number of factors that present significant opportunities for us but also pose risks and challenges, including those discussed below and in the section of our Amended Annual Report on 10-K/A titled "Risk Factors."

Commercial Launch of Our Human Spaceflight Program

We are in the final phases of developing our commercial spaceflight program. Prior to commercialization, we must complete our test flight program, which includes a rigorous series of ground and flight tests, including our baseline spaceflight metrics, flight paths and safety protocol that will be used throughout our spaceflight program. The final portion of the test flight program includes submission of verification reports to the FAA for their review, which will then allow us to carry paying customers on spaceflights under our existing commercial spaceflight license. However, the timing of the submission may be delayed by multiple factors, some of which are outside of our control, including the current, and uncertain future impact of the COVID-19 outbreak on our business. Any delays in successful completion of our test flight program, whether due to the impact of COVID-19 or otherwise, will impact our ability to generate human spaceflight revenue.

Customer Demand

While not yet in commercial service for human spaceflight, we have already received significant interest from potential future astronauts. Going forward, we expect the size of our backlog and the number of future astronauts that have flown to space on our spaceflight system to be an important indicator of our future performance. As of March 31, 2021, we had reservations for SpaceShip flights for approximately 600 future astronauts. In February 2020, we launched our One Small Step campaign which allows interested individuals to place a $1,000 refundable registration deposit towards the cost of a future ticket once we reopen ticket sales and, as of December 31, 2020, we had received approximately 1,000 One Small Step deposits from 66 countries. We retired the "One Small Step" program on December 31, 2020, but plan on reopening ticket sales following Sir Richard Branson's flight expected in 2021.

Available Capacity and Annual Flight Rate

We face constraints of resources and competing demand for our human spaceflights. We expect to commence commercial operations with a single SpaceShip, VSS Unity, and a single mothership carrier aircraft, VMS Eve, which together comprise our only spaceflight system. As a result, our annual flight rate will be constrained by the availability and capacity of this spaceflight system. To reduce this constraint, we are in various stages of designing, testing and manufacturing two additional SpaceShip vehicles. We believe that expanding the fleet will allow us to increase our annual flight rate once commercialization is achieved.

Safety Performance of Our Spaceflight Systems

Our spaceflight systems are highly specialized with sophisticated and complex technology. We have built operational processes to ensure that the design, manufacture, performance and servicing of our spaceflight systems meet rigorous quality standards. However, our spaceflight systems are still subject to operational and process problems, such as manufacturing and design issues, pilot errors, or cyber-attacks. Any actual or perceived safety issues may result in significant reputational harm to our business and our ability to generate human spaceflight revenue.

Impact of COVID-19

On March 11, 2020, the World Health Organization characterized the outbreak of COVID-19 as a global pandemic and recommended containment and mitigation measures. Since then, extraordinary actions have been taken by international, federal, state, and local public health and governmental authorities to contain and combat the outbreak and spread of COVID-19 in regions throughout the world. These actions have included travel bans, quarantines, "stay-at-home" orders, and similar mandates for many individuals to substantially restrict daily activities and for many businesses to curtail or cease normal operations.

Consistent with the actions taken by governmental authorities, including California, New Mexico and the United Kingdom, where most of our workforce is located, we have taken appropriately cautious steps to protect our workforce and support community efforts. As part of these efforts, and in accordance with applicable government directives, we initially reduced and then temporarily suspended on-site operations at our facilities in Mojave, California and Spaceport America, New Mexico and in our London office location in late March 2020. Starting late March 2020, approximately two-thirds of our employees and contractors were able to complete their duties from home, which enabled much critical work to continue, including engineering analysis and drawing releases for VSS Unity, VMS Eve and the second SpaceShip vehicle, process documentation updates, as well as workforce training and education. The remaining one-third of our workforce was unable to perform their normal duties from home. In April 2020, in accordance with our classification within the critical infrastructure designation, we resumed limited operations and under revised operational and manufacturing plans that conform to the latest COVID-19 health precautions. Such actions included, although were not limited to universal facial covering requirements, rearranging facilities to follow social distancing protocols, conducting active daily temperature checks and undertaking regular and thorough disinfecting of work surfaces, tools and equipment. We offered testing to employees and contractors for COVID-19 on a regular basis. However, the COVID-19 pandemic and the continued precautionary actions taken throughout 2020 and thus far during 2021 related to COVID-19 have adversely impacted, and are expected to continue to adversely impact, our operations, including the completion of the development of our spaceflight systems and our scheduled spaceflight test programs.

Beginning in the summer of 2020, all of our employees whose work requires them to be in our facilities returned back on-site, and we continue with our implemented and established strict protocols to ensure employee safety, including enforcing staggered shifts to lower on-site density and re-working communications processes with engineers who are primarily working from home. We have, however, experienced, and expect to continue to experience, reductions in operational efficiency due to illness from COVID-19 and precautionary actions taken related to COVID-19. For the time being, we are encouraging those employees who are able to work from home to continue doing so until case levels are lowered and vaccinations are more readily available.

The COVID-19 pandemic and the protocols and procedures we have implemented in response to the pandemic have caused and continue to cause delays to our business and operations, which has led to accumulated impacts to both schedule and cost efficiency and some delays in operational and maintenance activities, including delays in our test flight program. We expect this to continue through well into 2021. The full impact of the COVID-19 pandemic on our business and results of our future operations will depend on future developments, such as the ultimate duration and scope of the outbreak and its impact on our operations necessary to complete the development of our spaceflight systems, our scheduled spaceflight test programs and commencement of our commercial flights. In addition to existing travel restrictions, countries may continue to maintain or reimpose closed borders, impose prolonged quarantines, and/or further restrict travel. We believe our cash and cash equivalents on hand at March 31, 2021 and management's operating plan, will provide sufficient liquidity to fund our operations for at least the next twelve months from the issuance of the financial statements included in this Quarterly Report on Form 10-Q. If we experience a significant delay due to our workforce getting ill or if the pandemic worsens, we may take additional actions, such as further reducing costs.

Component of Results of Operations

Revenue

To date, we have primarily generated revenue by transporting scientific commercial research and development payloads using our spaceflight systems and by providing engineering services as a subcontractor to the primary contractor of a long-term contract with the U.S. government. We also have generated revenues from a sponsorship arrangement.

Following the commercial launch of our human spaceflight services, we expect the significant majority of our revenue to be derived from sales of tickets to fly to space. We also expect that we will continue to receive a small portion of our revenue by providing services relating to the research, design, development, manufacture and integration of advanced technology systems.

Cost of Revenue

Costs of revenue related to spaceflights include costs related to the consumption of a rocket motor, fuel, payroll and benefits for our pilots and ground crew, and maintenance. Cost of revenue related to the engineering services consist of expenses related to materials and human capital, such as payroll and benefits. Once we have completed our test flight program and commenced commercial operations, we will capitalize the cost to construct any additional SpaceShip vehicles. Cost of revenue will include vehicle depreciation once those spaceships are placed into service. We have not capitalized any spaceship development costs to date.

Gross Profit and Gross Margin

Gross profit is calculated based on the difference between our revenue and cost of revenue. Gross margin is the percentage obtained by dividing gross profit by our revenue. Our gross profit and gross margin has varied historically based on the mix of revenue-generating spaceflights and engineering services. As we approach the commercialization of our spaceflights, we expect our gross profit and gross margin may continue to vary as we scale our fleet of spaceflight systems.

Selling, General and Administrative

Selling, general and administrative expenses consist of human capital related expenses for employees involved in general corporate functions, including executive management and administration, accounting, finance, tax, legal, information technology, marketing and commercial, and human resources; depreciation expense and rent relating to facilities, including a portion of the lease with Spaceport America, and equipment; professional fees; and other general corporate costs. Human capital expenses primarily include salaries, cash bonuses and benefits. As we continue to grow as a company, we expect that our selling, general and administrative costs will increase on an absolute dollar basis.

We also expect to incur additional expenses as a result of operating as a public company, including expenses necessary to comply with the rules and regulations applicable to companies listed on a national securities exchange and related to compliance and reporting obligations pursuant to the rules and regulations of the SEC, as well as higher expenses for general and director and officer insurance, investor relations, and professional services.

Research and Development

Research and development expense represents costs incurred to support activities that advance our human spaceflight towards commercialization, including basic research, applied research, concept formulation studies, design, development, and related testing activities. Research and development costs consist primarily of the following costs for developing our spaceflight systems:

- flight testing programs, including rocket motors, fuel, and payroll and benefits for pilots and ground crew performing test flights;

- equipment, material, and labor hours (including from third party contractors) for developing the spaceflight system’s structure, spaceflight propulsion system, and flight profiles; and
- rent, maintenance, and depreciation of facilities and equipment and other overhead expenses allocated to the research and development departments.

As of March 31, 2021, our current primary research and development objectives focus on the development of our SpaceShip vehicles for commercial spaceflights and developing our RocketMotor, a hybrid rocket propulsion system that will be used to propel our SpaceShip vehicles into space. The successful development of SpaceShip and RocketMotor involves many uncertainties, including:

- timing in finalizing spaceflight systems design and specifications;
- successful completion of flight test programs, including flight safety tests;
- our ability to obtain additional applicable approvals, licenses or certifications from regulatory agencies, if required, and maintaining current approvals, licenses or certifications;
- performance of our manufacturing facilities despite risks that disrupt productions, such as natural disasters and hazardous materials;
- performance of a limited number of suppliers for certain raw materials and components;
- performance of our third-party contractors that support our research and development activities;
- our ability to maintain rights from third parties for intellectual properties critical to research and development activities;
- our ability to continue funding and maintain our current research and development activities; and
- the impact of the ongoing global COVID-19 pandemic.

A change in the outcome of any of these variables could delay the development of SpaceShip and RocketMotor, which in turn could impact when we are able to commence our human spaceflights.

As we are currently still in our final development and testing stage of our spaceflight system, we have expensed all research and development costs associated with developing and building our spaceflight system. We expect that our research and development expenses will decrease once technological feasibility is reached for our spaceflight systems as the costs incurred to manufacture additional SpaceShip vehicles, built by leveraging the invested research and development, will no longer qualify as research and development activities.

Change in Fair Value of Warrants

Change in fair value of warrants reflects the non-cash change in the fair value of warrants. Certain warrants issued as part of the Company's initial public offering in 2017 and assumed upon the consummation of the Business Combination were recorded at their fair value on the date of the Business Combination and are remeasured as of any warrant exercise date and at the end of each reporting period.

Interest Income, net

Interest income, net consists primarily of interest earned on cash and cash equivalents held by us in interest bearing demand deposit accounts and cash equivalents, as well as interest expense related to our finance lease obligations.

Other Income

Other income consists of miscellaneous non-operating items, such as gains on marketable securities and handling fees related to customer refunds.

Income Tax Provision

We are subject to income taxes in the United States and the United Kingdom. Our income tax provision consists of an estimate of federal, state, and foreign income taxes based on enacted federal, state, and foreign tax rates, as adjusted for allowable credits, deductions, uncertain tax positions, changes in the valuation of our deferred tax assets and liabilities, and changes in tax laws.

Results of Consolidated Operations

The following tables set forth our results of operations for the periods presented and expresses the relationship of certain line items as a percentage of revenue for those periods. The period-to-period comparisons of financial results is not necessarily indicative of future results.

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
	(In thousands)	
Revenue	$ —	$ 238
Cost of revenue	—	173
Gross profit	—	65
Operating expenses:		
Selling, general and administrative expenses	44,914	26,755
Research and development expenses	36,363	34,282
Operating loss	(81,277)	(60,972)
Change in fair value of warrants	(48,719)	(316,896)
Interest income, net	318	1,168
Other income	27	(172)
Loss before income taxes	(129,651)	(376,872)
Income tax benefit (expense)	(43)	46
Net loss	$ (129,694)	$ (376,826)

For the Three Months Ended March 31, 2021 Compared to the Three Months Ended March 31, 2020

Revenue

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	$ Change	% Change
	(In thousands, except %)			
Revenue	$ —	$ 238	$ (238)	(100)%

We did not record any revenue for the three months ended March 31, 2021, compared to $0.2 million of revenue for the three months ended March 31, 2020. This revenue recorded for the three months ended March 31, 2020 was attributable to engineering services provided under long-term U.S. government contracts that ended in early 2020.

Cost of Revenue and Gross Profit

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	$ Change	% Change
	(In thousands, except %)			
Cost of revenue	$ —	$ 173	$ (173)	(100)%
Gross profit	—	65	$ (65)	(100)%
Gross margin	— %	27 %		

We did not record any cost of revenue in the three months ended March 31, 2021, as we did not record any revenue in the period. Cost of revenue was $0.2 million for the three months ended March 31, 2020. The labor costs associated with providing engineering services under long-term U.S. government contracts decreased proportionally with the billings.

Gross profit decreased by $0.1 million, or (100)%, for the three months ended March 31, 2021, compared to the three months ended March 31, 2020. Gross margin for the three months ended March 31, 2021 decreased 27% compared to the three months ended March 31, 2020. The decrease in gross profit and gross margin was primarily driven by completion of the aforementioned long-term U.S. government contracts.

Selling, General and Administrative Expenses

	Three Months Ended March 31,			
	2021	2020	$ Change	% Change
	(In thousands, except %)			
Selling, general and administrative expenses	$ 44,914	$ 26,755	$ 18,159	68 %

Selling, general and administrative expenses increased by $18.2 million, or 68%, to $44.9 million for the three months ended March 31, 2021 from $26.8 million for the three months ended March 31, 2020. This increase was primarily due to $6.0 million of salary and other benefits and $15.2 million of stock-based compensation. These increases were partially offset with decreases of $2.0 million of professional and legal fees and $1.3 million in facilities costs.

Research and Development Expenses

	Three Months Ended March 31,			
	2021	2020	$ Change	% Change
	(In thousands, except %)			
Research and development expenses	$ 36,363	$ 34,282	$ 2,081	6 %

Research and development expenses increased by $2.1 million, or 6%, to $36.4 million for the three months ended March 31, 2021 from $34.3 million for the three months ended March 31, 2020. The increase was primarily due to costs associated with developing our spaceflight system, including increases of $3.9 million of salary and other benefits, $2.5 million of stock-based compensation, $1.5 million of facilities costs, and $0.6 million of insurance costs. These increases were partially offset with a decrease of $6.5 million of materials and equipment lease costs.

Change in the Fair Value of Warrants

	Three Months Ended March 31,			
	2021	2020	$ Change	% Change
	(In thousands, except %)			
Change in fair value of warrants	$ (48,719)	$ (316,896)	$ 268,177	(85) %

Change in fair value of warrants reflects the non-cash change in the fair value of warrants. Certain warrants issued as part of the Company's initial public offering in 2017 and assumed upon the consummation of the Business Combination were recorded at their fair value on the date of the Business Combination and are remeasured as of any warrant exercise date and at the end of each reporting period. The decrease was primarily due to the increase in market volatility and price of our shares during the three months ended March 31, 2020, which caused a significant change in fair value during the period.

Interest Income, net

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	$ Change	% Change
	(In thousands, except %)			
Interest income, net	$ 318	$ 1,168	$ (850)	(73) %

Interest income, net decreased by $0.9 million, or 73%, to $0.3 million for the three months ended March 31, 2021 from $1.2 million for the three months ended March 31, 2020. The decrease was primarily due to significant reductions in interest rates offered for cash, cash equivalents and restricted cash being held in an interest-bearing accounts.

Other Income, net

The decrease in other income, net for the three months ended March 31, 2021 from the three months ended March 31, 2020 was not material and was primarily attributable to the net unrealized losses on marketable securities.

Income Tax (Benefit) Expense

Income tax expense was immaterial for the three months ended March 31, 2021 and 2020. We have accumulated net operating losses at the federal and state level as we have not yet started commercial operations. We maintain a substantially full valuation allowance against our net U.S. federal and state deferred tax assets. The income tax expenses shown above are primarily related to minimum state filing fees in the states where we have operations as well as corporate income taxes for our operations in the United Kingdom, which operates on a cost-plus arrangement.

Liquidity and Capital Resources

Prior to the consummation of the Virgin Galactic Business Combination, our operations historically participated in cash management and funding arrangements managed by Vieco 10 and GV. Only cash and cash equivalents held in bank accounts legally owned by entities dedicated to us are reflected in the condensed consolidated balance sheets. Cash and cash equivalents held in bank accounts legally owned by Vieco 10 and GV were not directly attributable to us for any of the periods presented. Transfers of cash, both to and from Vieco 10 and GV by us have been reflected as a component of net parent investment and membership equity in the condensed consolidated balance sheets and as a financing activity on the accompanying condensed consolidated statements of cash flows.

As of March 31, 2021, we had cash, cash equivalents and restricted cash of $630 million. From the time of our inception to the consummation of the Virgin Galactic Business Combination, we financed our operations and capital expenditures through cash flows financed by Vieco 10 and GV. Our principal sources of liquidity following the Virgin Galactic Business Combination have been from the October 2019 investment by an entity affiliated with the Boeing Company and our August 2020 sale of common stock.

Historical Cash Flows

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
	(In thousands)	
Net cash (used in) provided by		
Operating activities	(48,769)	$ (56,313)
Investing activities	(819)	(4,036)
Financing activities	289	(720)
Net change in cash and cash equivalents and restricted cash	$ (49,299)	$ (61,069)

Operating Activities

Net cash used in operating activities was $48.8 million for the three months ended March 31, 2021, primarily consisting of $129.7 million of net losses, adjusted for non-cash items, which primarily included depreciation and amortization expense of

$2.9 million, stock based compensation expense of $22.1 million, and change in fair value of warrants of $48.7 million, as well as $7.2 million of cash consumed by working capital.

Net cash used in operating activities was $56.3 million for the three months ended March 31, 2020, primarily consisting of $376.8 million of net losses, adjusted for non-cash items, which primarily included depreciation and amortization expense of $2.1 million, stock based compensation expense of $4.4 million, and change in fair value of warrants of $316.9 million, as well as a $2.9 million increase in cash consumed by working capital as compared to the three months ended March 31, 2019. The increase in cash consumed by working capital was primarily driven by a decrease in accounts payable and accrued liabilities and customer deposits.

Investing Activities

Net cash used in investing activities was $0.8 million for the three months ended March 31, 2021, primarily consisting of the completion of construction activities at the Gateway to Space facility and less purchases of IT infrastructure and tooling and manufacturing equipment.

Net cash used in investing activities was $4.0 million for the three months ended March 31, 2020, primarily consisting of purchases of manufacturing equipment, leasehold improvements at the Mojave Air and Space Port facility, purchases of furniture and fixtures, IT infrastructure upgrades, and spare parts as well as construction activities at the Gateway to Space facility and at spaceflight systems fueling facilities.

Financing Activities

Net cash used in financing activities was $0.3 million for the three months ended March 31, 2021, consisting primarily of net cash proceeds from issuance of common stock, offset by tax withholdings for stock options exercised.

Net cash used in financing activities was $0.7 million for the three months ended March 31, 2020, consisting primarily of transaction costs.

Funding Requirements

We expect our expenses to increase substantially in connection with our ongoing activities, particularly as we continue to advance the development of our spaceflight system and the commercialization of our human spaceflight operations. In addition, we expect cost of revenue to increase significantly as we commence commercial operations and add additional spaceships to our operating fleet.

Specifically, our operating expenses will increase as we:

- scale up our manufacturing processes and capabilities to support expanding our fleet with additional spaceships, carrier aircraft and rocket motors upon commercialization;
- pursue further research and development on our future human spaceflights, including those related to our research and education efforts, supersonic and hypersonic point-to-point travel;
- hire additional personnel in research and development, manufacturing operations, testing programs, and maintenance as we increase the volume of our spaceflights upon commercialization;
- seek regulatory approval for any changes, upgrades or improvements to our spaceflight technologies and operations in the future, especially upon commercialization;
- maintain, expand and protect our intellectual property portfolio; and
- hire additional personnel in management to support the expansion of our operational, financial, information technology, and other areas to support our operations as a public company.

Although we believe that our current capital is adequate to sustain our operations for a period of time, changing circumstances may cause us to consume capital significantly faster than we currently anticipate, and we may need to spend more money than currently expected because of circumstances beyond our control. Additionally, we are in the final phases of developing our commercial spaceflight program. While we anticipate initial commercial launch with a single SpaceShip, we currently have two additional SpaceShip vehicles under construction and expect the direct costs to complete these two vehicles to be in the range of $35 million to $55 million. We anticipate the costs to manufacture additional vehicles will begin to decrease as we continue to scale up our manufacturing processes and capabilities. Until we have achieved technological feasibility with our spaceflight systems, we will not capitalize expenditures incurred to construct any additional components of our spaceflight systems and continue to expense these costs as incurred to research and development.

The commercial launch of our human spaceflight program and the anticipated expansion of our fleet have unpredictable costs and are subject to significant risks, uncertainties and contingencies, many of which are beyond our control, that may affect the timing and magnitude of these anticipated expenditures.

Contractual Obligations and Commitments

Except as set forth in Note 16, Commitments and Contingencies, of the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q, there have been no material changes outside the ordinary course of business to our contractual obligations and commitments as described in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" in our Amendment No. 2 to our Annual Report on Form 10-K/A for the year ended December 31, 2020, filed with the SEC on March 1, 2021.

Off-Balance Sheet Arrangements

We do not engage in any off-balance sheet activities or have any arrangements or relationships with unconsolidated entities, such as variable interest, special purpose, and structured finance entities.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of our condensed consolidated financial statements and related disclosures requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements and, therefore, we consider these to be our critical accounting policies. Accordingly, we evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions and conditions. Please refer to Note 2 in our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for information about these critical accounting policies, as well as a description of our other significant accounting policies.

Revenue Recognition

We have yet to undertake our first commercial spaceflight for paying private individuals and consequently have not generated any human spaceflight revenue. In December 2018 and February 2019, we successfully carried payloads into space and accordingly recognized revenue related to these spaceflights. Additionally, we have one fixed-price contract with NASA to carry payloads into space.

For the three months ended March 31, 2021 and 2020, we recognized revenue when delivery of our obligations to our customer has occurred, the collection of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable. Revenue is measured at the fair value of the consideration received excluding discounts, rebates, value added tax, and other sales taxes or duty. Cash payments for spaceflights are classified as customer deposits until persuasive evidence of an arrangement exists. Revenues from spaceflight is recognized when spaceflight service has been delivered. Revenue from engineering services is recognized on a time-and-materials basis for direct labor hours incurred at fixed hourly rates.

Inventories

Inventories consist of raw materials expected to be used for the development of the human spaceflight program and customer specific contracts. Inventories are stated at the lower of cost or net realizable value. At the end of each period we evaluate whether the utility of our inventories have diminished through damage, deterioration, obsolescence, changes in price or other causes, and if so, a loss is recognized in the period in which it occurs. In addition, we capitalize costs incurred to fulfill a contract in inventories in advance of contract award as work-in-process if we determine that contract award is probable. We determine the costs of other product and supply inventories by using the first-in first-out or average cost methods. Our status of pre-technical feasibility means that material issued from inventory into production of our vehicles, labor charges and overhead charges are charted to R&D expense.

Research and Development

We conduct research and development activities to develop existing and future technologies that advance our spaceflight system towards commercialization. Research and development activities include basic research, applied research, concept formulation studies, design, development, and related test program activities. Costs incurred for developing our spaceflight system and flight profiles primarily include equipment, material, and labor hours. Costs incurred for performing test flights primarily include rocket motors, fuel, and payroll and benefits for pilots and ground crew. Research and development costs also include rent, maintenance, and depreciation of facilities and equipment and other allocated overhead expenses. We expense all research and development costs as incurred. Once we have achieved technological feasibility, we will capitalize the costs to construct any additional components of our spaceflight systems.

Income Taxes

We record income tax expense for the anticipated tax consequences of the reported results of operations using the asset and liability method. Under this method, we recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, as well as for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. We record valuation allowances to reduce our deferred tax assets to the net amount that we believe is more likely than not to be realized. Our assessment considers the recognition of deferred tax assets on a jurisdictional basis. Accordingly, in assessing its future taxable income on a jurisdictional basis, we consider the effect of our transfer pricing policies on that income. We have placed a valuation allowance against U.S. federal and state deferred tax assets since the recovery of the assets is uncertain.

We recognize tax benefits from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. As we grow, we will face increased complexity in determining the appropriate tax jurisdictions for revenue and expense items. We adjust these reserves when facts and circumstances change, such as the closing of a tax audit or refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the income tax expense in the period in which such determination is made and could have a material impact on our financial condition and operating results. The income tax expense includes the effects of any accruals that we believe are appropriate, as well as the related net interest and penalties.

We have not yet started commercial operations and as such we are accumulating net operating losses at the federal and state levels, which are reflected in the income tax provision section of the balance sheet. The presented income tax expenses in these statements are primarily related to minimum state filing fees in the states where we have operations as well as corporate income taxes for our operations in the United Kingdom, which operates on a cost-plus arrangement and therefore incurs income tax expenses.

Stock-Based Compensation

In December 2019, our board of directors and stockholders adopted the 2019 Incentive Award Plan (the "2019 Plan"). Pursuant to the 2019 Plan, up to 21,208,755 shares of common stock have been reserved for issuance to employees, consultants and directors. Please refer to Note 14 in our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further information regarding stock-based compensation.

Cash Incentive Plan

Some of our employees participate in a multiyear cash incentive plan (the “Cash Incentive Plan”) to provide cash bonuses based on the attainment of three qualifying milestones with defined target dates. The maximum aggregate amount of cash awards under the Cash Incentive Plan is $30.0 million. Compensation cost is recognized if it is probable that a milestone will be achieved.

On October 25, 2019, the second qualifying milestone under the VG Companies' multiyear cash incentive plan was amended such that the participants who remained continuously employed by us are entitled to receive 100% of the bonus that such participant would have otherwise received upon the achievement of the original second qualifying milestone. We recognized the $9.9 million in compensation costs owed to participants for the second qualifying milestone and such amount was paid on November 8, 2019.

Recent Accounting Pronouncements

Please refer to Note 3 in our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for a description of recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted as of the date of this report.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We have operations within the United States and the United Kingdom and as such we are exposed to market risks in the ordinary course of our business, including the effects of interest rate changes and fluctuations in foreign currency exchange rates. We are also exposed to market risk from changes in our stock prices, which impact the fair value of our warrant liability. Information relating to quantitative and qualitative disclosures about these market risks is set forth below.

Interest Rate Risk

Cash, cash equivalents and restricted cash consist solely of cash held in depository accounts and as such are not affected by either an increase or decrease in interest rates. We consider all highly liquid investments with a maturity of three months or less as cash equivalents. As of March 31, 2021, we had $630 million deposits held primarily in cash, cash equivalents and restricted cash, which includes $598.9 million in cash equivalents. Cash equivalents are short term investments and would not be significantly impacted by changes in the interest rates. We believe that a 10% increase or decrease in interest rates would not have a material effect on our interest income or expense.

Foreign Currency Risk

The functional currency of our operations in the United Kingdom is the local currency. We translate the financial statements of the operations in the United Kingdom to United States Dollars and as such we are exposed to foreign currency risk. Currently, we do not use foreign currency forward contracts to manage exchange rate risk, as the amount subject to foreign currency risk is not material to our overall operations and results.

Item 4. Controls and Procedures

Material Weakness in Internal Control

As previously reported, the Company identified a material weaknesses in the operation of the Company's internal control over financial reporting related to accounting for warrants related to the Virgin Galactic Business Combination. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness is related to an incorrect accounting of the warrants related to the Virgin Galactic Business Combination for which we did not identify and evaluate the appropriate accounting technical pronouncements and other literature for this significant transaction. We are improving these processes to ensure that the nuances of such significant or unusual transactions are effectively evaluated in the context of the increasingly complex accounting standards. This material weaknesses resulted in adjustments to liability, equity and changes in fair value related to warrants through other income (expense), net..

While these actions, and others, are subject to ongoing management evaluation, including the validation and testing of internal controls over a sustained period of financial reporting cycles, we are committed to remediating internal controls deficiencies as they are identified and committed to the continuous improvement of our overall controls environment.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of March 31, 2021, our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weakness described above.

However, after giving full consideration to the material weakness referenced above, and the additional analyses and other procedures that we performed to ensure that our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q were prepared in accordance with U.S. GAAP, our management has concluded that our condensed consolidated financial statements present fairly, in all material respects, our financial position, results of operations and cash flows for the periods disclosed in conformity with U.S. GAAP.

Changes in Internal Control Over Financial Reporting

Other than described above in this Item 4, there has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are from time to time subject to various claims, lawsuits and other legal and administrative proceedings arising in the ordinary course of business. Some of these claims, lawsuits and other proceedings may involve highly complex issues that are subject to substantial uncertainties, and could result in damages, fines, penalties, non-monetary sanctions or relief. However, we do not consider any such claims, lawsuits or proceedings that are currently pending, individually or in the aggregate, to be material to our business or likely to result in a material adverse effect on our future operating results, financial condition or cash flows.

Item 1A. Risk Factors

For a discussion of our potential risks and uncertainties, see the risk factors previously disclosed in Part I, Item 1A. "Risk Factors" of our Amended Annual Report on Form 10-K/A, which risk factor section is incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following documents are filed as part of this report:

(1) Exhibits. The following exhibits are filed, furnished or incorporated by reference as part of this Quarterly Report on Form 10-Q.

		Incorporated by Reference				
Exhibit No.	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed/Furnished Herewith
2.1[(1)]	Agreement and Plan of Merger, dated July 9, 2019, by and among the Registrant, Vieco 10 Limited, Foundation Sub 1, Inc., Foundation Sub 2, Inc., Foundation Sub LLC, TSC Vehicle Holdings, Inc., Virgin Galactic Vehicle Holdings, Inc. and Virgin Galactic Holdings, LLC	8-K/A	001-38202	2.1	07/11/2019	
2.1(a)[(1)]	Amendment No. 1 to Agreement and Plan of Merger, dated October 2, 2019, by and among the Registrant, Vieco 10 Limited, Foundation Sub 1, Inc., Foundation Sub 2, Inc., Foundation Sub LLC, TSC Vehicle Holdings, Inc., Virgin Galactic Vehicle Holdings, Inc., Virgin Galactic Holdings, LLC and Vieco USA, Inc.	S-4	333-233098	2.1(a)	10/03/2019	
3.1	Certificate of Incorporation of the Registrant	8-K	001-38202	3.1	10/29/2019	
3.2	By-Laws of the Registrant	8-K	001-38202	3.2	10/29/2019	
4.1	Specimen Common Stock Certificate of the Registrant	8-K	001-38202	4.2	10/29/2019	
10.1	Amended Non-Employee Director Compensation Program	10-K	001-38202	10.3	03/01/2021	

		Incorporated by Reference				
Exhibit No.	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed/Furnished Herewith
10.2	Amended No. 2 Non-Employee Director Compensation Program					*
10.3	Employment Agreement, dated February 22, 2021, by and among the Registrant, Virgin Galactic, LLC and Doug Ahrens	10-K	001-38202	10.11	03/01/2021	
10.4	Form of Director Restricted Stock Unit Award (Annual Award)					*
10.5	Letter Agreement to Amend Facilities Lease, dated December 21, 2018, by and between Virgin Galactic, LLC and New Mexico Spaceport Authority.					*
31.1	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					*
31.2	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					*
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					**
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					**
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					*
101.SCH	Inline XBRL Taxonomy Extension Schema Document					*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					*
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document					*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					*

* Filed herewith.

** Furnished herewith.

(1) Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant agrees to furnish supplementally a copy of any omitted schedule or exhibit to the SEC upon request.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Virgin Galactic Holdings, Inc.

Date: May 11, 2021		/s/ Michael Colglazier
	Name:	Michael Colglazier
	Title:	Chief Executive Officer (Principal Executive Officer)
Date: May 11, 2021		/s/ Douglas Ahrens
	Name:	Douglas Ahrens
	Title:	Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 10.2

VIRGIN GALACTIC HOLDINGS, INC.

NON-EMPLOYEE DIRECTOR COMPENSATION PROGRAM

(EFFECTIVE APRIL 1, 2021)

Eligible Directors (as defined below) on the board of directors (the "***Board***") of Virgin Galactic Holdings, Inc. (the "***Company***") shall be eligible to receive cash and equity compensation as set forth in this Non-Employee Director Compensation Program (this "***Program***"). The cash and equity compensation described in this Program shall be paid or be made, as applicable, automatically as set forth herein and without further action of the Board, to each member of the Board who is not an employee of the Company or any of its parents, affiliates or subsidiaries, and who is determined by the Board to be eligible to receive compensation under this Program (each, an "***Eligible Director***"), who may be eligible to receive such cash or equity compensation, unless such Eligible Director declines the receipt of such cash or equity compensation by written notice to the Company. The Eligible Directors are set forth on Schedule A attached hereto, as may be amended from time to time.

This Program shall become effective upon the Effective Date, and shall remain in effect until it is revised or rescinded by further action of the Board. This Program may be amended, modified or terminated by the Board at any time in its sole discretion. No Eligible Director shall have any rights hereunder, except with respect to equity awards granted pursuant to Section 2 of this Program.

1. Cash Compensation.

a. Annual Retainers. Each Eligible Director shall be eligible to receive an annual cash retainer of $125,000 for service on the Board.

b. Additional Annual Retainers. An Eligible Director shall be eligible to receive the following additional annual retainers, as applicable:

(i) Audit Committee. An Eligible Director serving as Chairperson of the Audit Committee shall be eligible to receive an additional annual retainer of $25,000 for such service. An Eligible Director serving as a member of the Audit Committee (other than the Chairperson) shall be eligible to receive an additional annual retainer of $10,000 for such service.

(ii) Compensation Committee. An Eligible Director serving as Chairperson of the Compensation Committee shall be eligible to receive an additional annual retainer of $15,000 for such service. An Eligible Director serving as a member of the Compensation Committee (other than the Chairperson) shall be eligible to receive an additional annual retainer of $7,500 for such service.

(iii) Nominating and Corporate Governance Committee. An Eligible Director serving as Chairperson of the Nominating and Corporate Governance Committee shall be eligible to receive an additional annual retainer of $15,000 for such service. An Eligible Director serving as a member of the Nominating and Corporate Governance Committee (other than the Chairperson) shall be eligible to receive an additional annual retainer of $7,500 for such service.

(iv) Safety Committee. An Eligible Director serving as Chairperson of the Safety Committee shall be eligible to receive an additional annual retainer of $15,000 for such service. An Eligible

Director serving as a member of the Safety Committee (other than the Chairperson) shall be eligible to receive an additional annual retainer of $7,500 for such service.

c. Payment of Retainers. The annual cash retainers described in Sections 1(a) and 1(b) shall be earned on a quarterly basis based on a calendar quarter and shall be paid by the Company in arrears not later than 30 days following the end of each calendar quarter. Annual cash retainers will be pro-rated for any partial calendar quarter of service.

2. Equity Compensation.

a. General. Eligible Directors shall be granted the equity awards described below. The awards described below shall be granted under and shall be subject to the terms and provisions of the Company's 2019 Incentive Award Plan or any other applicable Company equity incentive plan then-maintained by the Company (such plan, as may be amended from time to time, the "***Equity Plan***") and may be granted subject to the execution and delivery of award agreements, including attached exhibits, in substantially the forms approved by the Board prior to or in connection with such grants. All applicable terms of the Equity Plan apply to this Program as if fully set forth herein, and all grants of equity awards hereby are subject in all respects to the terms of the Equity Plan. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Equity Plan.

b. Existing Director Awards. Each Eligible Director serving on the Board as of October 25, 2019 previously was granted a Restricted Stock Unit award covering a number of Restricted Stock Units equal to $300,000 divided by the closing price of the Company's common stock on October 25, 2019 (the "***Existing Director Award***"), subject to continued service through the grant date. The Existing Director Award shall vest with respect to one-third of the Restricted Stock Units subject to the Existing Director Award on each of the first three anniversaries of October 25, 2019, subject to continued service through the applicable vesting date.

c. Initial Awards. Each Eligible Director who is initially elected or appointed to serve on the Board automatically shall be granted a Restricted Stock Unit award with a value of $150,000 (the "***Initial Award***"). The Initial RSU Award shall be granted on the date on which such Eligible Director is initially elected or appointed to serve on the Board (the "***Election Date***"). The Initial Award may be pro-rated to reflect any partial year of service, as determined by the Board in its sole discretion prior to the grant date. The Initial Award shall cover a number of Restricted Stock Units equal to $150,000 divided by the closing price of the Company's common stock on the grant date, and shall vest with respect to one-third of the Restricted Stock Units subject to the Initial Award on each of the first three anniversaries of the applicable grant date, subject to continued service through the applicable vesting date.

d. Annual Awards. An Eligible Director who is serving on the Board as of the date of the annual meeting of the Company's stockholders ("***Annual Meeting***") each calendar year beginning with calendar year 2020 shall be granted a Restricted Stock Unit Award with a value of $125,000 (the "***Annual Award***"). Each Annual Award shall be granted on the date of the applicable Annual Meeting, shall cover a number of Restricted Stock Units equal to $125,000 divided by the closing price of the Company's common stock on the grant date, and shall vest in full on the earlier to occur of (i) the one-year anniversary of the applicable grant date and (ii) the date of the next Annual Meeting following the grant date, subject to continued service through the applicable vesting date.

e. Accelerated Vesting Events. Notwithstanding the foregoing, an Eligible Director's Existing Director Award, Initial Award and Annual Award(s) shall vest in full immediately prior to the occurrence of a Change in Control, in each case, to the extent outstanding and unvested at such time. In addition, unless otherwise determined by the Board in its sole discretion, if an Eligible Director resigns from the Board, then such Eligible Director's outstanding Annual Award granted after the Effective Date shall vest on a pro-rated basis with respect to a portion of such award based on dividing (i) the number of days such Eligible Director remained in service from (and including) the award's grant date by (ii) 365.

3. Compensation Limits. Notwithstanding anything to the contrary in this Program, all compensation payable under this Program will be subject to any limits on the maximum amount of non-employee Director compensation set forth in the Equity Plan, as in effect from time to time.

SCHEDULE A

ELIGIBLE DIRECTORS

Wanda Austin

Craig Kreeger

George Mattson

W. Gilbert West

Exhibit 10.4

VIRGIN GALACTIC HOLDINGS, INC.

2019 INCENTIVE AWARD PLAN

RESTRICTED STOCK UNIT GRANT NOTICE (DIRECTOR ANNUAL AWARDS)

Virgin Galactic Holdings, Inc., a Delaware corporation (the "***Company***"), has granted to the participant listed below ("***Participant***") the Restricted Stock Units (the "***RSUs***") described in this Restricted Stock Unit Grant Notice (this "***Grant Notice***"), subject to the terms and conditions of the Virgin Galactic Holdings, Inc. 2019 Incentive Award Plan (as amended from time to time, the "***Plan***") and the Restricted Stock Unit Agreement attached hereto as **Exhibit A** (the "***Agreement***"), both of which are incorporated into this Grant Notice by reference. Capitalized terms not specifically defined in this Grant Notice or the Agreement have the meanings given to them in the Plan.

Participant:	
Grant Date:	
Number of RSUs:	
Vesting Commencement Date:	
Vesting Schedule:	The RSUs will vest in full on the earlier to occur of (i) the one-year anniversary of the Grant Date and (ii) the date of the next annual meeting of the Company's stockholders following the Grant Date, subject to continued service through the applicable vesting date (such earlier date, the "***Vesting Date***").

By accepting (whether in writing, electronically or otherwise) the RSUs, Participant agrees to be bound by the terms of this Grant Notice, the Plan and the Agreement. Participant has reviewed the Plan, this Grant Notice and the Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of the Plan, this Grant Notice and the Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan, this Grant Notice or the Agreement.

VIRGIN GALACTIC HOLDINGS, INC.	**PARTICIPANT**
By:	
Name:	[Participant Name]
Title:	

RESTRICTED STOCK UNIT AGREEMENT

Capitalized terms not specifically defined in this Restricted Stock Unit Agreement (this "***Agreement***") have the meanings specified in the Grant Notice or, if not defined in the Grant Notice, in the Plan.

ARTICLE I.
GENERAL

1.1 Award of RSUs. The Company has granted the RSUs to Participant effective as of the Grant Date set forth in the Grant Notice (the "Grant Date"). Each RSU represents the right to receive one Share as set forth in this Agreement. Participant will have no right to the distribution of any Shares until the time (if ever) the RSUs have vested.

1.2 Incorporation of Terms of Plan. The RSUs are subject to the terms and conditions set forth in this Agreement and the Plan, which is incorporated herein by reference. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan will control.

1.3 Unsecured Promise. The RSUs will at all times prior to settlement represent an unsecured Company obligation payable only from the Company's general assets.

ARTICLE II.
VESTING; FORFEITURE AND SETTLEMENT

2.1 Vesting; Forfeiture.

(a) The RSUs will vest according to the vesting schedule in the Grant Notice except that any fraction of an RSU that would otherwise be vested will be accumulated and will vest only when a whole RSU has accumulated. In addition, the RSUs will be subject to any accelerated vesting set forth in the Company's Non-Employee Director Compensation Program, as it may be in effect from time to time.

(b) In the event of Participant's Termination of Service, all then-unvested RSUs automatically will be forfeited and terminated without consideration therefor (after taking into account any accelerating vesting that may occur in connection with such termination).

2.2 Settlement.

(a) The RSUs will be paid in Shares, to the extent vested, within 15 days following the earliest to occur of (i) the applicable Vesting Date, (ii) the date of Participant's "separation from service" from the Company (within the meaning of Section 409A) and (iii) the date of the occurrence of Change in Control that constitutes a "change of control event" (within the meaning of Section 409A). Notwithstanding anything to the contrary contained in the foregoing proviso, the exact payment date of any RSUs shall be determined by the Company in its sole discretion (and Participant shall not have a right to designate the time of payment).

(b) Notwithstanding the foregoing, the Company may delay any payment under this Agreement that the Company reasonably determines would violate Applicable Law until the earliest date the Company reasonably determines the making of the payment will not cause such a violation (in accordance with Treasury Regulation Section 1.409A-2(b)(7)(ii)); provided the Company reasonably believes the delay will not result in the imposition of excise taxes under Section 409A.

ARTICLE III.
TAXATION AND TAX WITHHOLDING

3.1 Representation. Participant represents to the Company that Participant has reviewed with Participant's own tax advisors the tax consequences of this Award and the transactions contemplated by the Grant Notice and this Agreement. Participant is relying solely on such advisors and not on any statements or representations of the Company or any of its agents.

3.2 Tax Withholding.

(a) Unless the Administrator otherwise determines, the Company shall withhold, or cause to be withheld, Shares otherwise vesting or issuable under this Award (including the RSUs) in satisfaction of any applicable withholding tax obligations. The number of Shares which may be so withheld or surrendered shall be limited to the number of Shares which have a Fair Market Value on the date of withholding no greater than the aggregate amount of such liabilities based on the maximum individual statutory withholding rates in Participant's applicable jurisdictions for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such taxable income.

(b) Participant acknowledges that Participant is ultimately liable and responsible for all taxes owed in connection with the RSUs, regardless of any action the Company or any Subsidiary takes with respect to any tax withholding obligations that arise in connection with the RSUs. Neither the Company nor any Subsidiary makes any representation or undertaking regarding the treatment of any tax withholding in connection with the awarding, vesting or payment of the RSUs or the subsequent sale of Shares. The Company and its Subsidiaries do not commit and are under no obligation to structure the RSUs to reduce or eliminate Participant's tax liability.

3.3 Section 409A.

(a) General. To the extent applicable, this Agreement shall be interpreted in accordance with Section 409A, including without limitation any such regulations or other guidance that may be issued after the effective date of this Agreement.

(b) Non-qualified Deferred Compensation. Sections 10.6(b) and (c) of the Plan shall apply to the RSUs and this Agreement. For purposes of Section 409A, each RSU (and the right to payment with respect to each RSU) is to be treated as a right to a separate payment.

ARTICLE IV.
OTHER PROVISIONS

4.1 Adjustments. Participant acknowledges that the RSUs, and the Shares subject to the RSUs are subject to adjustment, modification and termination in certain events as provided in this Agreement and the Plan.

4.2 Notices. Any notice to be given under the terms of this Agreement to the Company must be in writing and addressed to the Company in care of the Company's Secretary at the Company's principal office or the Secretary's then-current email address or facsimile number. Any notice to be given under the terms of this Agreement to Participant must be in writing and addressed to Participant (or, if Participant is then deceased, to the Designated Beneficiary) at Participant's last known mailing address, email address or facsimile number in the Company's personnel files. By a notice given pursuant to this Section, either party may designate a different address for notices to be given to that party. Any notice will be deemed duly given when actually received, when sent by email, when sent by certified mail (return receipt requested) and deposited with postage prepaid in a post office or branch post office regularly maintained by the United States Postal Service, when delivered by a nationally recognized express shipping company or upon receipt of a facsimile transmission confirmation.

4.3 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

4.4 Conformity to Securities Laws. Participant acknowledges that the Plan, the Grant Notice and this Agreement are intended to conform to the extent necessary with all Applicable Laws and, to the extent Applicable Laws permit, will be deemed amended as necessary to conform to Applicable Laws.

4.5 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement will inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer set forth in this Agreement or the Plan, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

4.6 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan or this Agreement, if Participant is subject to Section 16 of the Exchange Act, the Plan, the Grant Notice, this Agreement and the RSUs will be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3) that are requirements for the application of such exemptive rule. To the extent Applicable Laws permit, this Agreement will be deemed amended as necessary to conform to such applicable exemptive rule.

4.7 Entire Agreement. The Plan, the Grant Notice and this Agreement (including any exhibit hereto) constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof.

4.8 Agreement Severable. In the event that any provision of the Grant Notice or this Agreement is held illegal or invalid, the provision will be severable from, and the illegality or invalidity of the provision will not be construed to have any effect on, the remaining provisions of the Grant Notice or this Agreement.

4.9 Limitation on Participant's Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Company as to amounts payable and may not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. Participant will have only the rights of a general unsecured creditor of the Company with respect to amounts credited and benefits payable, if any, with respect to the RSUs, and rights no greater than the right to receive cash or the Shares as a general unsecured creditor with respect to the RSUs, as and when settled pursuant to the terms of this Agreement.

4.10 Not a Contract of Employment. Nothing in the Plan, the Grant Notice or this Agreement confers upon Participant any right to continue in the employ or service of the Company or any Subsidiary or interferes with or restricts in any way the rights of the Company and its Subsidiaries, which rights are hereby expressly reserved, to discharge or terminate the services of Participant at any time for any reason whatsoever, with or without Cause, except to the extent expressly provided otherwise in a written agreement between the Company or a Subsidiary and Participant.

4.11 Counterparts. The Grant Notice may be executed in one or more counterparts, including by way of any electronic signature, subject to Applicable Law, each of which will be deemed an original and all of which together will constitute one instrument.

Exhibit 10.5

December 21, 2018

New Mexico Spaceport Authority 901 E. University Ave, Suite 965L Las Cruces, NM 88001

Attention: Mr. Dan Hicks Dear Dan:

This letter is intended to memorialize certain discussions between our respective entities concerning the matters outlined below.

Facilities Lease

Virgin Galactic, LLC ("VG") has entered into a facilities lease agreement with the New Mexico Spaceport Authority ("NMSA") (each a "Party" and, collectively, the "Parties") dated December 31, 2008, as amended from time to time, pursuant to which VG leases certain real property, including the Gateway to Space ("GTS"), located in Sierra County, New Mexico at Spaceport America, from the NMSA (the "Facilities Lease").

Capitalised terms used but not defined in this letter of agreement (the "Letter Agreement") have the meaning given to those terms in the Facilities Lease.

The Parties have agreed to enter into this Letter Agreement in order to clarify certain provisions of the Facilities Lease and minimize the uncertainty of their obligations during the upcoming transition period in VG operations at the spaceport.

1. Acknowledgement

1.1 The Parties acknowledge that this Letter Agreement benefits both Parties in that it simplifies certain terms and provides greater revenue predictability.

1.2 The Parties acknowledge that any terms and provisions of the Facilities Lease not affected by this Letter Agreement shall remain in full force and effect.

1.3 The Parties acknowledge that the terms of the Letter Agreement shall be as binding and enforceable under the same terms as if they were contained within the Facilities Lease.

2. User Fees

2.1 The Parties agree that:

2.1.1 Commencing July l , 2018, and ending December 31, 2018, and subject to Section 2.1.6 below, VG shall pay NMSA an annual fee of two million dollars ($2,000,000) per year for General Aviation Aircraft (as defined below) and unlimited WhiteK.night Two and Spaceship Two flights ("2018 Annual Fee"). Such 2018 Annual Fee shall be paid in a monthly fee of one hundred sixty-six thousand, six hundred sixty-six dollars and sixty-six cents ($166,666.66) upon invoice by NMSA. For the avoidance of doubt, the 2018 Annual Fee shall consist of six (6) monthly payments of one hundred sixty-six thousand, six hundred sixty-six dollars, and sixty-six cents ($166,666.66) and shall not exceed one million dollars ($1,000,000.00) in the aggregate. NMSA acknowledges that NMSA has received payment in full of the 2018 Annual Fee prior to the date hereof.

2.1.2 Commencing January 1, 2019, and ending December 31, 2020, and subject to Section 2.1.6 below, VG shall pay NMSA an annual fee of one million dollars ($1,000,000) per year for General Aviation Aircraft (as defined below), and unlimited WhiteKnight Two and Spaceship Two flights ("2019-2020 Annual Fee"). Such 2019-2020 Annual Fee shall be paid in a monthly fee of eighty three thousand, three hundred thirty-three dollars, and thirty-three cents ($83,333.33) upon invoice by NMSA.

2.1.3 Commencing January 1, 2021 and ending June 30, 2028, and subject to section 2.1.6 below, VG shall pay NMSA an annual fee of two million, two hundred sixty six thousand, six hundred sixty-six dollars and fifty-six cents ($2,266,666.56) per year for General Aviation Aircraft (as defined below), and unlimited WhiteKnight and SpaceshipTwo flights ("2021-2028 Annual Fee"). Such 2021-2028 Annual fee shall be paid in a monthly fee of one hundred eighty-eight thousand, eight hundred eighty-eight dollars, and eighty-eight cents ($188,888.88) upon invoice by NMSA. For the avoidance of doubt, in the aggregate and subject to Section 2.16 below, the 2021-2028 Annual Fee payments shall consist of ninety (90) monthly payments, each in the amount of one hundred eighty-eight thousand, eight hundred eighty-eight dollars, and eighty-eight cents ($188,888.88), commencing January 1, 2021, and, in the aggregate, shall not exceed seventeen million dollars ($17,000,000).

2.1.4 For purposes of this Agreement, VG shall be permitted the following general aviation activity included in the applicable Annual Fee: Unlimited operationally required flights; Operational flights shall be defined as any flight the purpose of which is directly tied to preparation for or flight of spacecraft, including, but not limited to, pilot training and currency flights, SFP training flights, and transport flights of staff or materials.

2.1.5 For the term of this Agreement, in any calendar month in which VG conducts more than twenty (20) revenue-generating spaceflights from Spaceport America, VG shall pay NMSA an additional fee of ten thousand dollars ($10,000) per any revenue-generating spaceflight after the twentieth (20th) spaceflight from Spaceport America in that calendar month ("High Flight Rate Fee"). Notwithstanding the foregoing, for the period of January 1, 2019 through December 31st 2020, the High Flight Rate Fee shall apply after the 15th spaceflight from Spaceport America. For the avoidance of doubt, this High Flight Rate Fee shall be paid in addition to the applicable Annual Fee.

2.1.6 Commencing July 1, 2020 and continuing through the term of this Agreement, in the event VG conducts no revenue-generating spaceflights for a period of three (3) or more consecutive calendar months, VG shall pay NMSA a user fee of fifty thousand dollars ($50,000) per month ("Minimum User Fee") in lieu of the applicable Annual Fee and in accordance with the below.

2.16.1 In the event VG provides at least three (3) months advance notice of its plan to conduct no revenue-generating spaceflights for one (1) or more consecutive calendar months, VG shall only be obligated to pay the Minimum User Fee commencing on the beginning of the no revenue generating spaceflight month and continuing each month until the calendar month prior to VG's commencement of revenue-generating spaceflights. For the avoidance of doubt, if VG notifies NMSA on January 1st that VG will not conduct any revenue-generating spaceflights commencing April 1st through the end of June, then VG will be obligated to pay the applicable Annual Fee monthly instalments for January, February, and March, the Minimum User Fee for April and May, and the applicable Annual Fee monthly instalment for June, assuming no revenue-generating spaceflights were actually conducted during the planned hiatus.

2.16.2 In the event VG does not anticipate having three (3) or more consecutive calendar months without conducting revenue-generating spaceflights, but such a situation occurs, VG shall be obligated to pay the Annual Fee monthly instalment for the first three (3) consecutive months in which no revenue-generating spaceflights are conducted, but shall only be obligated to pay the Minimum User Fee for any subsequent consecutive calendar months in which no revenue-generating spaceflights are conducted . VG shall recommence paying the Annual Fee monthly instalment in the calendar month before revenue-generating spaceflights are resumed. For the avoidance of doubt, if VG conducts no revenue-generating spaceflights from January through the end of June, VG will be obligated to pay the applicable Annual Fee monthly instalment for January, February, and March, the Minimum User Fee for April and May, and the Annual Fee monthly instalment for June.

3. Public Viewing of Spaceflights at Spaceport America

3.1 The Parties agree that VG shall have the exclusive right to market and earn revenue from the general public at Spaceport America to view VG spaceflights from Spaceport America. The Parties shall enter a licensing agreement defining these rights and memorializing that VG shall be entitled to eighty percent (80%) of all net revenues generated from the general public physically present at Spaceport America to view VG spaceflights, and NMSA shall be entitled to twenty percent (20%) of all such net revenues. VG shall contract for, and shall be responsible for the costs of engaging, additional security, vendors, and other resources, and net revenues shall be calculated by subtracting these and other event expenses from gross revenues. For the avoidance of doubt, these rights are separate from VG 's existing rights for Astronaut Customers and their Friends and Family. Notwithstanding the foregoing, VG shall have no obligation to market and/or generate revenues from the general public viewing of VG spaceflights at Spaceport America. Further, said licensing agreement excludes revenues generated from events beyond the scope of the launch itself, from any existing agreements in place as of the date of signing this agreement, and other special events as agreed by both parties in accordance with the licensing agreement.

3.2

4. Notices

4.1 All notices and demands under this Letter Agreement shall be in writing, sent by email or first-class registered or recorded delivery post to the party being served at its address, and marked for the attention of the individual(s) specified in clause 6.2 below or at such other address (or to such other individual) of which such party shall have given notice aforesaid. Any notice shall be deemed to have been served 48 hours after posting or the day on which the notice is first stored in the recipient's electronic mail box if sent by email.

4.2 All notices and demands sent to:

a) Virgin Galactic, LLC shall be sent to:
Virgin Galactic, LLC
16555 Spaceship Landing Way Mojave, CA 93501
Attn: Julia Hunter, Vice-President Email:Julia.hunter@virgingalactic.com

With a copy to:
Virgin Galactic, LLC
16555 Spaceship Landing Way
Mohave, CA 93501
Attn: Vanessa Chandler, General Counsel
Vanessa.chandler@virgingalactic.com

b) New Mexico Spaceport Authority shall be sent to:

New Mexico Spaceport Authority
901 E. University Ave, Suite 965L Las Cruces, NM 88001
Attn: Dan Hicks, CEO
Daniel.hicks@spaceportamerica.com

With a copy to:

New Mexico Spaceport Authority
901 E. University Ave, Suite 965L
Las Cruces, NM 88001
Attn: Melissa Force, General Counsel Melissa.force@spaceportarnerica.com

5. Term

5.1 This letter Agreement shall be effective from the date of the latest signature below and shall continue for a term of 10 years.

6. Other

6.1 In the event NMSA enters into any agreement, or modifies any existing agreement, for tenancy at Spaceport America with an entity in direct competition with VG, and such agreement or modification offers such tenant rights and benefits materially more beneficial than those afforded VG, NMSA shall offer VG, and provide VG a reasonable opportunity to accept, the same such rights and benefits.

6.2 This Letter Agreement constitutes the entire understanding and agreement between the Parties with respect to its subject matter and supersedes all prior written or oral understandings, agreements and deeds relating to it and shall not be modified or amended except in writing executed by both Parties. Each party agrees that it shall have no claim for innocent or negligent misrepresentation or negligent misstatement based on any statement in this Letter Agreement.

6.3 If any provision of this Letter Agreement is or becomes illegal, invalid or unenforceable, the legality, validity or enforceability of all of the other provisions of this Letter Agreement shall not be impaired and such provision shall be deemed amended to conform to applicable law or, if it cannot be so amended without materially altering the intention of the Parties, it shall be stricken.

6.4 This Letter Agreement may be signed in any number of counterparts, each of which shall be deemed an original and which, when taken together, shall constitute one and the same instrument.

This Letter Agreement (and any non-contractual obligations arising out of or in relation to it) shall be governed by and construed in accordance with the laws of New Mexico, and the Parties submit to the exclusive jurisdiction of the courts in New Mexico.

For and on behalf of Virgin Galactic, LLC
Name: /s/ George T. Whitesides
Title: CEO

For and on behalf of the New Mexico Spaceport Authority

Name: /s/ Daniel C. Hicks
Title: CEO

Exhibit 31.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Michael Colglazier, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Virgin Galactic Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 11, 2021	/s/ Michael Colglazier
	Michael Colglazier Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Douglas Ahrens, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Virgin Galactic Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 11, 2021	/s/ Douglas Ahrens
	Douglas Ahrens
	Chief Financial Officer
	(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Virgin Galactic Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Colglazier, Chief Executive Officer (Principal Executive Officer), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

May 11, 2021	/s/ Michael Colglazier
	Michael Colglazier
	Chief Executive Officer
	(Principal Executive Officer)

This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Virgin Galactic Holdings, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Douglas Ahrens, Chief Financial Officer (Principal Financial Officer), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

May 11, 2021

/s/ Douglas Ahrens

Douglas Ahrens
Chief Financial Officer
(Principal Financial and Accounting Officer)

This certification shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.