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div style="text-align:left;font-size:10pt;">Other operating expenses

42,456

34,396

Total operating expenses
332,081

310,968

Operating income:
31,928

15,383

Other expense:

Interest expense
(3,466
)

(1,216
)
Interest expense-related-party
(1,024
)

(806
)
Capitalized interest
479

1,067

Other income (expense), net
217

(1,318
)
Total other expense

(3,794
)

(2,273
)
Income before income tax
28,134

13,110

Income tax expense
10,680

324

Net income
$
17,454

$
12,786

Net income per share:

Basic
$
0.39

$
0.30

Diluted
$
0.39

$
0.29

Shares used for computation:

Basic
44,230

43,184

Diluted
44,618

44,618

See accompanying notes to the condensed consolidated financial statements

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Virgin America Inc.
Consolidated Statements of Comprehensive Income
(In thousands) (Unaudited)

	Three months ended March 31,	
	2016	2015
Net income	17,454	12,786
Fuel derivative financial instruments:		
Change in unrealized gains on fuel derivatives, net of tax expense of $474 and $0 for the three months ended March 31, 2016 and 2015, respectively	779	(3,018)
Net fuel derivative losses reclassified into earnings, net of tax expense of $4,920 and $0 for the three months ended March 31, 2016 and 2015, respectively	8,102	15,235
Interest rate swap derivative financial instruments:		
Change in unrealized losses on interest rate swaps, net of tax benefit of $543 for the three months ended March 31, 2016	(894)	—
Interest rate swap losses reclassified into earnings, net of tax expense of $12 for the three months ended March 31, 2016	21	—
Other comprehensive income	8,008	12,217
Total comprehensive income	$25,462	$25,003

See accompanying notes to the condensed consolidated financial statements

Virgin America Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands) (Unaudited)

	Three months ended March 31, 2016	2015
Cash flows from operating activities	$95,348	$33,078
Cash flows from investing activities:		
Acquisition of property and equipment	(98,624)	(7,137)
Pre-delivery payments for flight equipment	—	(2,322)
Net cash used in investing activities	(98,624)	(9,459)
Cash flows from financing activities:		
Net proceeds of equity issuance	834	1
Proceeds of debt issuance	87,000	—
Debt issuance costs	(740)	—
Payment of long-term debt and capital lease obligations	(17,351)	—
Net cash provided by financing activities	69,743	1
Net increase in cash and cash equivalents	66,467	23,620
Cash and cash equivalents, beginning of period	496,349	394,643
Cash and cash equivalents, end of period	$562,816	$418,263
Non-cash transactions:		
Non-cash loan borrowings on pre-delivery payments for flight equipment	—	6,966

See accompanying notes to the condensed consolidated financial statements

Virgin America Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

(1) Basis of Presentation

The condensed consolidated financial statements of Virgin America Inc. (the “Company”) for the three months ended March 31, 2016 include the accounts of the Company and its variable interest entities, for which it was the primary beneficiary. These unaudited condensed consolidated financial statements and related notes should be read in conjunction with the Company's 2015 audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 (“2015 Form 10-K”).

These unaudited condensed consolidated financial statements have been prepared as required by the U.S. Securities Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) have been condensed or omitted as permitted by the SEC. The financial statements include all adjustments, including normal recurring adjustments and other adjustments, which are considered necessary for a fair presentation of the Company’s financial position and results of operations. Operating results for the periods presented herein are not necessarily indicative of the results that may be expected for the entire year. Certain prior year amounts have been reclassified to conform to current year presentation. These amounts were not material to any of the periods presented.

For the three months ended March 31, 2016, the Company incurred $1.6 million of costs related to that certain Agreement and Plan of Merger (the “Merger Agreement”), dated as of April 1, 2016, with Alaska Air Group, Inc. (“Alaska Air Group” or “Parent”) and Alpine Acquisition Corp. (“Merger Sub”), its wholly-owned subsidiary. Refer to Note 9 - Subsequent Events for additional information.

New and Recently Adopted Accounting Standards

In March 2016, the Financial Accounting Standards Board (the “FASB”) issued an accounting standards update to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods with early adoption permitted. The Company is in the process of evaluating the new guidance on its consolidated financial statements.

In February 2016, the FASB issued a comprehensive new leases standard that amends various aspects of existing accounting guidance for leases. It will require recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The main difference between previous GAAP and the amended standard is the recognition of lease assets and lease liabilities by lessees on the balance sheet for those leases classified as operating leases under previous GAAP. The accounting applied by a lessor is largely unchanged from that applied under previous GAAP. As a result, the Company will have to recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company will evaluate the new guidance and plans to provide additional information about its expected financial effect at a future date.

In August 2014, the FASB issued an accounting standards update to require evaluation of whether there are conditions and events that raise substantial doubt about an entity’s ability to continue as a going concern within one year after its financial statements are issued (or available to be issued when applicable) and, if so, disclosure of that fact. The standard requires the Company to make this evaluation for both annual and interim reporting periods, if applicable, and disclose whether its plans alleviate that doubt. The standard is effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. The Company does not expect this accounting standards update to have an impact on its consolidated financial statements.

In May 2014, the FASB and the International Accounting Standards Board (“IASB”) jointly issued a comprehensive new revenue recognition standard that will replace most existing revenue recognition standards under U.S. GAAP and International Financial Reporting Standards (“IFRS”). The new standard will require the Company to recognize revenue when goods or services are transferred to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. As a result, the Company will need to use more judgments and estimates to determine when and how revenue is recognized than U.S. GAAP currently requires. In August 2015, the FASB issued an accounting standards update that provides a one-year deferral of the effective date for the new revenue standard for public and non-public entities, resulting in an effective

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Virgin America Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

date for the Company of January 1, 2018. In March 2016, the FASB issued an accounting standards update to improve the operability and understandability of the implementation guidance on principal versus agent considerations in the new revenue recognition standard. In April 2016, the FASB issued an accounting standards update to improve the guidance and reduce the cost and complexity of applying the guidance on identifying performance obligations in a contract and to improve the operability and understandability of the licensing implementation guidance in the new revenue recognition standard. The Company believes the most significant effect of the accounting standards update will be the elimination of the incremental cost method for frequent flyer accounting, which would require the Company to re-value its liability earned by customers associated with flights points with a relative fair value approach. The Company is continuing to evaluate the new guidance and plans to provide additional information about its expected financial effect at a future date.

(2) Fair Value

The accounting guidance establishes a fair value hierarchy as follows:

Level 1	Observable inputs such as quoted prices in active markets for identical assets or liabilities.
Level 2	Observable inputs other than Level 1 prices such as quoted prices in active markets for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term for the assets or liabilities.
Level 3	Unobservable inputs in which there is little or no market data and that are significant to the fair value of the assets or liabilities.

The following is a listing of the Company’s assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the fair value hierarchy as of March 31, 2016 and December 31, 2015 respectively (in thousands):

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets (Liability)				
Cash equivalents	$480,942	$—	$ —	$480,942
Restricted cash	20,354	—	—	20,354
Heating oil swaps - fuel derivative instruments	—	(8,739)	—	(8,739)
Jet fuel swaps - fuel derivative instruments	—	(3,231)	—	(3,231)
Interest rate swaps	—	(1,282)	—	(1,282)
	$501,296	$(13,252)	$ —	$488,044

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets (Liability)				
Cash equivalents	$419,176	$—	$ —	$419,176
Restricted cash	19,800	—	—	19,800
Heating oil swaps - fuel derivative instruments	—	(17,895)	—	(17,895)
Jet fuel swaps - fuel derivative instruments	—	(9,655)	—	(9,655)
Interest rate swaps	—	155	—	155
	$438,976	$(27,395)	$ —	$411,581

Virgin America Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The following are estimated fair values of the Company's debt at March 31, 2016 (in thousands):

	Carrying value	Estimated fair value
Third-party debt:		
Aircraft-related term loans	$277,200	$284,134
Pre–delivery payment loans	20,890	20,890
Term loan credit facility	40,000	40,000
Related-party debt:		
Virgin Group	43,445	50,728

The estimated fair values of the Company's related-party debt and aircraft-related term loans were based on rates currently offered for debt with similar maturities and terms. The carrying value of the pre-delivery payment loans approximated fair value due to their short-term nature. The carrying value of the airport slots term loan credit facility approximated fair value because it has a variable interest rate that approximates rates that would currently be available to the Company on borrowings for similar assets. The Company uses significant unobservable inputs in determining discounted cash flows to estimate the fair value, and therefore, such amounts are categorized as Level 3 in the fair value hierarchy.

(3) Financial Derivative Instruments and Risk Management

(a) Fuel Derivatives

To manage economic risks associated with the fluctuations of aircraft fuel prices, since 2012, the Company has hedged a targeted percentage of its forecasted fuel requirements over the following 12 months with a rolling strategy of entering into call options for crude oil and collar contracts for heating oil in the longer term, three to 12 months before the expected fuel purchase date; then prior to maturity of these contracts, within three months of the fuel purchase, the Company exited these contracts by entering into offsetting trades and locking in the price of a percentage of its fuel requirements through the purchase of fixed forward pricing (FFP) contracts in jet fuel. In 2015, the Company changed its fuel hedging program strategy by discontinuing the purchase of call options and collars, and began utilizing forward swaps on jet fuel, heating oil and crude oil to lock in future fuel purchase prices. The Company's remaining heating oil collars matured by the end of the second quarter 2015 and the remaining Brent call options matured by the end of the third quarter.

The Company utilizes FFP contracts with its fuel service provider as part of its risk management strategy, wherein fixed prices are negotiated for set volumes of future purchases of fuel. The Company takes physical delivery of the future purchases. The Company has applied the normal purchase and normal sales exception for these commitments. As of March 31, 2016, the total commitment related to FFP contracts was $0.7 million, for which the related fuel will be purchased during 2016.

The Company designates the majority of its fuel hedge derivatives contracts as cash flow hedges under the applicable accounting standard, if they qualify for hedge accounting. Under hedge accounting, all periodic changes in the fair value of the derivatives designated as effective hedges are recorded in accumulated other comprehensive income (loss) (AOCI) until the underlying fuel is purchased, at which point the deferred gain or loss will be recorded as fuel expense. In the event that the Company's fuel hedge derivatives do not qualify as effective hedges, the periodic changes in fair value of the derivatives are included in fuel expense in the period they occur. If the Company terminates a fuel hedge derivative contract prior to its settlement date, the cumulative gain or loss recognized in AOCI at the termination date will remain in AOCI until the terminated intended transaction occurs. In the event it becomes improbable that such event will occur, the cumulative gain or loss is immediately reclassified into earnings. All cash flows associated with purchasing and settling of fuel hedge derivatives are classified as operating cash flows in the accompanying condensed consolidated statements of cash flows.

(b) Interest Rate Swaps

The Company enters into interest rate swaps to protect against adverse fluctuations in interest rates associated with variable rate debt financing by reducing its exposure to variability in cash flows related to the future interest payments on the financing for committed aircraft. The interest rate swaps are designated cash flow hedges. The Company's active swap at March 31, 2016 is on the underlying base indexed rate of one aircraft to be delivered in

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Virgin America Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

April 2016 for $34.0 million notional debt with a 12-year term at 2.1%. The fair value of the active interest rate swap at March 31, 2016 is $1.3 million, which is reflected in other current liabilities in the accompanying consolidated balance sheet. The AOCI balance at March 31, 2016 related to interest rate swaps is a loss of $2.1 million and includes the value of interest rate swaps that matured in 2015 and are being amortized to interest expense over the term of the debt in the accompanying consolidated statements of operations.

(c) Summary of Derivative Instruments

All of the Company's derivatives were designated as cash flow hedges at March 31, 2016 and December 31, 2015. The following tables present the fair value of derivative assets and liabilities that are designated as hedging instruments, as well as the location of the asset and liability balances within the condensed consolidated balance sheets as of March 31, 2016 and December 31, 2015 (in thousands):

Derivatives designated as cash flow hedges	Consolidated balance sheet location	Fair value of derivatives as of March 31, 2016	December 31, 2015
Fuel derivative instruments—Heating oil swaps	Current liabilities	$ (8,898)	$ (17,895)
Fuel derivative instruments—Jet fuel swaps	Current liabilities	(4,059)	(9,655)
Interest rate swaps	Current liabilities	(1,282)	—
Total current liabilities		$ (14,239)	$ (27,550)
Fuel derivative instruments—Heating oil swaps	Current assets	$ 159	$ —
Fuel derivative instruments—Jet fuel swaps	Current assets	828	—
Interest rate swaps	Current assets	—	155
Total current assets		$ 987	$ 155

As of March 31, 2016 and December 31, 2015, the Company has deposited $1.7 million and $9.7 million, respectively, as collateral with two of its counterparties to comply with margin call requirements related to derivative losses that exceed the portfolio's credit limit. The Company has recorded the margin call deposits in other current liabilities in the accompanying condensed consolidated balance sheet as of March 31, 2016 and December 31, 2015, offsetting the net fuel hedge liability of $12.9 million and $27.6 million, respectively. The total net current liability related to fuel hedges was $11.2 million at March 31, 2016 and $17.9 million at December 31, 2015.

The following table summarizes the effect of derivative instruments in the condensed consolidated statements of operations for the three months ended March 31, 2016 and 2015 (in thousands):

Virgin America Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Derivatives accounted for as hedging instruments under ASC 815	Consolidated financial statement location	Gains (losses) on derivative contracts for the three months ended	
		March 31, 2016	March 31, 2015
Fuel derivative instruments	Aircraft fuel expense	$(14,094)	$(15,215)
Interest rate swaps	Interest expense	(33)	—
Total impact to the consolidated statements of operations		$(14,127)	$(15,215)

Derivatives not accounted for as hedging instruments under ASC 815	Consolidated financial statement location	Gains (losses) on derivative contracts for the three months ended	
		March 31, 2016	March 31, 2015
Fuel derivative instruments	Aircraft fuel expense	$ —	$ (447)
Total impact to the consolidated statements of operations		$ —	$ (447)

At March 31, 2016, the Company estimates that approximately $11.5 million of net fuel derivative losses related to its cash flow fuel hedges included in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

At March 31, 2016, the Company estimates that approximately $0.2 million of net derivative losses related to its interest rate swaps included in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

The effect of derivative instruments designated as cash flow hedges and the underlying hedged items on the condensed consolidated statements of operations for the three months ended March 31, 2016 and 2015, respectively, is summarized as follows (in thousands):

Derivatives designated as cash flow hedges	Amount of gain (loss) recognized in AOCI on derivatives (Effective portion)		Gain (loss) reclassified from AOCI into income (Fuel expense or interest expense) (Effective portion)		Amount of gain (loss) recognized into income (Ineffective portion)	
	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
Fuel derivative instruments	$ 1,253	$ (3,018)	$(13,022)	$(15,235)	$(1,072)	$ 20
Interest rate swaps	(1,437)	—	(33)	—	—	—

The notional amounts of the Company’s outstanding derivatives are summarized as follows (gallons in millions):

	March 31, 2016	December 31, 2015
Derivatives designated as hedging instruments:		

Fuel derivative instruments—Heating oil swaps (gallons)	25	38
Fuel derivative instruments—Jet fuel swaps (gallons)	37	25
Interest rate swaps (dollars)	$ 34	$ 34

As of March 31, 2016, the Company has entered into fuel derivative contracts for approximately 40% of its forecasted aircraft fuel requirements for 2016 at a weighted-average cost per gallon of $1.39, excluding related fuel taxes.
The Company presents its derivative instruments at net fair value in the accompanying condensed consolidated balance sheets. The Company’s master netting arrangements with counterparties allow for net

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Virgin America Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

settlement under certain conditions. As of March 31, 2016, information related to these offsetting arrangements was as follows (in thousands):

	March 31, 2016					
	Derivatives offset in consolidated balance sheet			Derivatives eligible for offsetting		
	Gross derivative amounts	Gross derivative amounts offset in consolidated balance sheet	Net amount	Gross derivative amounts	Gross derivative amounts eligible for offsetting	Net amount
Fair value of assets	$ 1,775	$ (788)	$ 987	$ 1,775	$ (788)	$ 987
Fair value of liabilities	(13,745)	788	(12,957)	(13,745)	788	(12,957)
Margin call deposits			1,725			1,725
Total			$ (10,245)			$ (10,245)

As of December 31, 2015, no fuel derivative amounts were available for offset.
As of March 31, 2016 and December 31, 2015, no amounts were available for offset for interest rate swaps.

(4) Long-Term Debt

In February 2016, the Company took delivery of its first two of five aircraft scheduled to be delivered in 2016 and simultaneously executed financing agreements totaling $68.2 million with senior debt facilities subject to 12-year repayment terms with an average interest rate of 4.0% and $11.1 million with subordinated debt facilities subject to seven-year repayment terms with an average interest rate of 6.4%. Principal and interest are payable quarterly in arrears. Loans related to both aircraft are not pre-payable prior to the third anniversary of the delivery date (for the first aircraft) or issuance date (for the second aircraft) and are pre-payable at par thereafter, subject to payment of early termination charges, if applicable. The debt agreements have no financial covenants.
In March 2016, the Company financed $7.8 million of the purchase price of a spare engine acquired in 2015 with a debt facility subject to 7-year repayment terms and at a 90 day floating rate based on LIBOR. Principal and interest are payable quarterly in arrears. The loan related to the engine is not pre-payable prior to the third anniversary of the delivery date and is pre-payable at par thereafter. The debt agreement has no financial covenants.
Long-term debt including accrued paid-in-kind interest consisted of the following as of March 31, 2016 and December 31, 2015 (in thousands):

	March 31, 2016	December 31, 2015
Third-party debt:		
Aircraft-related term loans	$ 277,200	$ 193,618
Pre–delivery payment loans	20,890	34,823
Term loan credit facility	40,000	40,000
Total third-party debt	338,090	268,441
Related-party debt:		
Virgin Group	53,461	52,808
Total debt	391,551	321,249
Less: current maturities	(40,654)	(48,843)
Less: unamortized debt issuance costs	(4,709)	(3,121)
Less: discount on Virgin Group debt	(10,016)	(10,387)
Long–term debt	$ 336,172	$ 258,898

Virgin America Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

In connection with three of the 2015 aircraft-related term loans and one of the 2016 aircraft-related term loans, a special purpose entity was formed to authorize and issue senior and junior secured notes and to acquire, finance, own and lease to the Company certain aircraft. Under variable interest entity accounting guidelines, the Company consolidated this entity because the Company is its primary beneficiary. As of March 31, 2016, the entity's assets consisted of four aircraft it leased to the Company and its only liabilities consisted of notes payable in relation to the financing of such aircraft.

(5) Contingencies and Commitments

(a) Contingencies

The Company is subject to legal proceedings, claims and investigations arising in the ordinary course of business. While the outcome of these matters is currently not determinable, the Company does not expect that the ultimate costs to resolve these matters will have a material adverse effect on its condensed consolidated financial position, results of operations or cash flows.

The Company is party to routine contracts under which it indemnifies third parties for various risks. The Company has not accrued any liability for these indemnities, as the amounts are not determinable nor estimable.

In its aircraft related agreements, as is typical of commercial arrangements made in order to purchase, finance and operate commercial aircraft, the Company indemnifies the manufacturer, the financing parties and other related parties against liabilities that arise from the manufacture, design, ownership, financing, use, operation and maintenance of the aircraft for tort liability, whether or not these liabilities arise out of or relate to the negligence of these indemnified parties, except for their gross negligence or willful misconduct. The Company believes that it will be covered by insurance subject to deductibles for most tort liabilities and related indemnities as described above with respect to the aircraft the Company will operate. Additionally, if there is a change in the law that results in the imposition of any reserve, capital adequacy, special deposit or similar requirement the result of which is to increase the cost to the lender, the Company will pay the lender the additional amount necessary to compensate the lender for the actual cost increase. The Company cannot estimate the potential amount of future payments under the foregoing indemnities.

(b) Commitments

In December 2010, the Company entered into a purchase agreement with Airbus for 60 A320 aircraft, including 30 A320neo aircraft, the first commercial order for the new eco-efficient engine option. Under the terms of the Company’s aircraft purchase agreement, the Company is committed to making pre-delivery payments at varying dates prior to delivery.

In December 2012, the Company amended its 2010 aircraft purchase agreement with Airbus reducing its order of 60 A320 aircraft to 40 aircraft and deferring delivery dates to begin in 2015. Under the amended agreement, the Company also obtained cancellation rights for the last 30 of the 40 aircraft, which cancellation rights are exercisable in groups of five aircraft three years prior to the stated delivery periods in 2020 to 2022, subject to loss of deposits and credits as a cancellation fee. All of the deposits have been reapplied according to the new delivery schedule except for $11.0 million which was converted into a credit earned upon delivery of the last 10 of the 40 aircraft.

The Company has evaluated the recoverability of the deposits, credits and related capitalized interest in connection with the anticipated purchase of aircraft in future periods and determined them to be recoverable. If the Company ultimately exercises its cancellation rights for up to 30 aircraft, it would incur a loss of deposits and credits of up to $26.0 million as a cancellation fee. Because the Company concluded that the deposits and credits are recoverable and that it is not likely to incur cancellation fees, the Company did not record such fees. The Company maintains $53.8 million of pre-delivery payments, of which $27.8 million relates to the next three and $26.0 million to the last 30 aircraft, in its accompanying condensed consolidated balance sheets as of March 31, 2016, $20.9 million of which was financed by a third party.

Committed expenditures not subject to cancellation rights for these aircraft and separately sourced spare engines, including estimated amounts for contractual price escalations and pre-delivery payment deposits, will total approximately $128.3 million in 2016. In October 2015, the Company executed debt facility agreements to finance the Company's five 2016 aircraft deliveries for $199.3 million. This financing represents approximately 80% of the net purchase price of the A320ceo aircraft. Each of the loans will be closed and funded on the date of each respective aircraft delivery. The Company executed loans totaling $79.3 million under these agreements in relation

Virgin America Inc.
Notes to Condensed Consolidated Financial Statements
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to the two deliveries made during the quarter. See Note 4 - Long-Term Debt for additional information.. For the remaining three aircraft deliveries, the Company will finance $100.0 million through senior debt facility agreements with terms of 12 years and $20.0 million through subordinate debt facility agreements with terms of seven years. Principal and interest will be payable quarterly in arrears. All of the debt will accrue interest which, if fixed at current rates would average 4.2%. The debt agreements have no financial covenants. The Company entered into interest rate swaps on the underlying base indexed rates of one aircraft for $34.0 million notional of aircraft financing with a 12-year term at 2.1%. Refer to Note 3 - Financial Derivative Instruments and Risk Management for more information. The Company took delivery of one aircraft in April 2016 as scheduled and drew the related financing in connection with such delivery, which increased long-term debt by $40.0 million.

The Company had five spare engines on hand as of March 31, 2016, four of which were leased under operating lease contracts and one of which was purchased in 2015. In March 2016, the Company financed $7.8 million of the purchase price of the engine purchased in 2015 with a debt facility subject to 7-year repayment term and a 90 day floating interest rate based on three month LIBOR. The Company executed a debt facility agreement with similar terms to finance a sixth spare engine which is expected to be purchased in the second half of 2016.

(6) Related-Party Transactions

The Company licenses the use of its brand name from certain entities affiliated with Virgin Enterprises Limited, a company incorporated in England and Wales (“VEL”). VEL is an affiliate of one of the Company’s largest stockholders, the Virgin Group, which has an employee who sits on the Company's board of directors. In connection with the recapitalization agreement the Company entered into in November 2014, the annual license fee to the Virgin Group increased from 0.5% to 0.7% of total revenue starting January 1, 2016. The annual license fee increase will resume at 0.5% once the Company’s total revenue for four consecutive quarters exceeds $4.5 billion. The Company paid license fees of $2.0 million and $1.6 million during the three months ended March 31, 2016 and 2015, respectively. The Company has accrued unpaid royalty fees of $2.6 million and $2.0 million at March 31, 2016 and December 31, 2015.

As of March 31, 2016, the Virgin Group, through its affiliates including VX Holdings L.P., owns approximately 18.3% of the Company’s issued and outstanding voting stock and all of the outstanding related-party debt. In order to comply with requirements under U.S. law governing the ownership and control of U.S. airlines, at least 75% of the voting stock of the Company must be held by U.S. citizens and at least two-thirds of the Company's board of directors must be U.S. citizens. U.S. citizen investors own over 75% of the voting stock of the Company, of which Cyrus Aviation Holdings, LLC, the largest single U.S. investor, owns approximately 27.9% as of March 31, 2016.

As of March 31, 2016, 11.5% of the Company’s $376.8 million debt is held by related-party investors. The Company incurred $1.0 million and $0.8 million of related-party interest expense for the three months ended March 31, 2016 and 2015, respectively. Commencing in November 2014, the Company began to incur an annual commitment fee on the $100.0 million Letter of Credit Facility issued by the Virgin Group. The fee was equal to 5.0% per annum of the daily maximum amount available to be drawn, accruing on a daily basis from the date of issuance and was payable quarterly. In June 2015, the Company canceled the Letter of Credit Facility in conjunction with the elimination of the credit card holdback requirement and stopped incurring related commitment fees. For the three months ended March 31, 2015, the Company recorded $1.4 million in commitment fees related to this Letter of Credit Facility in other income (expense) in the accompanying condensed consolidated statement of operations.

(7) Income Taxes

The provision for income taxes for the three months ended March 31, 2016 was $10.7 million as compared to $0.3 million for the three months ended March 31, 2015. The Company’s effective tax rate was approximately 38.1% in the three months ended March 31, 2016, compared to 2.5% for the three months ended March 31, 2015. The difference was primarily related to the effects of the valuation allowance the Company had on its deferred tax assets through the first three quarters of 2015 that was fully released as of December 31, 2015. The rate for the first quarter of 2016 differs from the statutory rate of 35.0% mainly driven by state taxes.

(8) Net Income Per Share

Employee equity share options and unvested stock and stock units granted by the Company are treated as potential common shares outstanding in computing diluted earnings per share. Diluted shares outstanding include

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Virgin America Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

the dilutive effect of in-the-money options, unvested restricted stock and stock units, and shares to be issued under the Company's ESPP. The dilutive effect of such equity awards is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are collectively assumed to be used to repurchase shares.

The following table sets forth the computation of the Company's basic and diluted net income for the periods presented (in thousands, except per share data):

	Three months ended March 31,	
	2016	2015
BASIC:		
Net income	$17,454	$12,786
Weighted-average common shares outstanding	44,230	43,184
Basic net income per share	$0.39	$0.30
DILUTED:		
Net income	$17,454	$12,786
Weighted-average common shares outstanding-basic	44,230	43,184
Effect of dilutive potential common shares	388	1,434
Weighted-average common shares outstanding-diluted	44,618	44,618
Diluted net income per share	$0.39	$0.29

The following director and employee stock awards were excluded from the calculation of diluted net income per share because their effect would have been anti-dilutive for the periods presented (share data, in thousands):

	Three months ended March 31,	
	2016	2015
Stock option awards	—	17
Restricted stock awards	208	—
Restricted stock units	101	—
ESPP	25	—

(9) Subsequent Events

On April 1, 2016, the Company entered into the Merger Agreement with Alaska Air Group and Merger Sub. The Merger Agreement provides that Merger Sub will merge with and into Virgin America, with Virgin America surviving as a subsidiary of Parent (the "Merger").

At the closing of the acquisition, the Company's stockholders will receive the right to receive $57.00 in cash, without interest and less any applicable withholding taxes, for each share of Virgin America's stock that they own. Immediately prior to the closing of the acquisition, each unexpired and unexercised option to purchase shares of the Company's common stock will vest and be canceled in exchange for the right to receive $57.00 in cash per share less the option exercise price for such option, each outstanding restricted stock unit will vest and be canceled in exchange for the right to receive $57.00 in cash, and each outstanding award of shares that is subject to restrictions based on performance or continuing service will vest and be converted into the right to receive $57.00 in cash per share. All consideration is payable without interest and subject to deduction for any required withholding tax.

The closing of the acquisition is subject to the approval by the Company's stockholders, performance by the parties of all their obligations under the Merger Agreement, regulatory approvals and the satisfaction of other customary closing conditions, as set forth in further detail in the Merger Agreement. The Company anticipates that the transaction will be consummated in the second half of 2016. However, the Company cannot predict with certainty whether and when any of the required closing conditions will be satisfied or if the Merger will close.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. When used in this report, the words "expect," "estimate," "plan," "anticipate," "indicate," "believe," "forecast," "guidance," "outlook," "may," "will," "wou "target" and similar expressions are intended to identify forward-looking statements. Forward-looking statements represent our expectations and beliefs concerning future events, based on information available to us on the date of the filing of this report, and are subject to various risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the times at which or by which such performance or results will be achieved. Factors that could cause actual results to differ materially from those referenced in the forward-looking statements include those listed in Part II, Item 1A of this report. We disclaim any intent or obligation to update or revise any of the forward-looking statements, whether in response to new information, unforeseen events, changed circumstances or otherwise, except as required by applicable law.

Overview

Virgin America is a premium-branded, low-cost airline based in California that provides scheduled air travel in the United States and Mexico. We operate primarily from our focus cities of Los Angeles and San Francisco, with a smaller presence at Dallas Love Field, to other major business and leisure destinations in North America. We provide a distinctive offering for our passengers, whom we call guests, that is centered around our brand and our premium travel experience, while at the same time maintaining a low-cost structure through our point-to-point network and high utilization of our efficient, single fleet type. As of March 31, 2016, we provided service to 24 airports in the United States and Mexico with a fleet of 58 narrow-body aircraft. We also took delivery of two aircraft in February 2016 that were not yet placed in service as of March 31, 2016 and one aircraft subsequent to quarter end.

First Quarter 2016 Highlights

Our pre-tax income for the first quarter of 2016 was $28.1 million, an increase of $15.0 million as compared to the first quarter of 2015. Several factors contributed to our significant improvement in earnings:

Capacity: Consistent with our growth plan that we began implementing in 2015, we increased our capacity by 15.8% during the first quarter of 2016 as compared to the first quarter of 2015. Our capacity increase was driven primarily by an increase in our operating fleet of five aircraft. We focused this growth in new markets, such as San Francisco to Honolulu and Maui (which began operations in the fourth quarter of 2015), and San Francisco to Denver (which began operations in March 2016), as well as increased frequencies in existing markets throughout our network.

Operating Revenue: Our total operating revenue increased 11.5% as compared to the first quarter of 2015. Revenue primarily increased from the implementation of our growth plan, partially offset by a decline in our passenger revenue per available seat mile, or PRASM, of 3.8%. Despite our increase in capacity, we out-performed the industry average year-over-year decline in domestic PRASM of 5.0%, as reported by Airlines for America.

Operating Cost: Total operating costs increased 6.8% as compared to the first quarter of 2015, well below our increase in capacity. Our cost per available seat mile, or CASM, decreased 7.8%, primarily due to a 34.7% drop in the average cost per gallon for aircraft fuel during the quarter. Our CASM excluding fuel and profit sharing increased 2.4%, primarily due to increases in salaries, wages and benefits from pay initiatives that we implemented during 2015, increases in sales and marketing expenses tied to our revenue growth plan, and $1.6 million of professional fees related to the negotiation of the proposed acquisition of Virgin America by Alaska Air Group.

Net Other Expense: Our net other expense increased by $1.5 million as compared to the first quarter of 2015 due to an increase in our interest expense from the financing of five additional aircraft that we acquired and placed into service during 2015 and early 2016.

Proposed Acquisition by Alaska Air Group

On April 1, 2016, we entered into that certain Agreement and Plan of Merger, or the Merger Agreement, with Alaska Air Group, Inc., or Alaska Air Group, and Alpine Acquisition Corp., or Merger Sub. The Merger Agreement provides that Merger Sub will merge with and into Virgin America, with Virgin America surviving as a subsidiary of Alaska Air Group.

At the closing of the acquisition, our stockholders will receive the right to receive $57.00 in cash for each share of Virgin America’s stock that they own. Immediately prior to the closing of the acquisition, each unexpired and unexercised option to purchase shares of our common stock will vest and be canceled in exchange for the right to receive $57.00 in cash per share less the option exercise price per share for such option, each outstanding restricted stock unit will vest and be canceled in exchange for the right to receive $57.00 in cash per share, and each outstanding award of shares that is subject to restrictions based on performance or continuing service will vest and be converted into the right to receive $57.00 in cash per share. All consideration is payable without interest and subject to deduction for any required withholding tax.

The merger is subject to approval by our stockholders, performance by the parties of all their obligations under the Merger Agreement, regulatory approvals and the satisfaction of other customary closing conditions. We anticipate that the transaction will be consummated in the second half of 2016. However, we cannot predict with certainty whether and when any of the required closing conditions will be satisfied or if the merger will close.

Results of Operations

Three months ended March 31, 2016 Compared to Three months ended March 31, 2015

For the three months ended March 31, 2016, we had net income of $17.5 million compared to net income of $12.8 million for the same period in 2015. Our operating income of $31.9 million for the three months ended March 31, 2016 increased by $16.5 million, or 107.6%, from the three months ended March 31, 2015. Our operating margin increased by 4.1 points to 8.8% in the three months ended March 31, 2016 as compared to 4.7% in the three months ended March 31, 2015.

Our operating capacity, as measured by available seat miles, or ASMs, increased by 15.8% for the three months ended March 31, 2016 from the same period in 2015. Our number of passengers increased by 16.0% in the three months ended March 31, 2016 year-over-year, and our yield decreased by 3.7%.

Our CASM decreased by 7.8% to 10.17 cents for the three months ended March 31, 2016 as compared to 11.03 cents for the same period in 2015. This was primarily a result of lower fuel costs, partially offset by increased salaries, wages and benefits, sales and marketing costs tied to our expansion, and $1.6 million of professional fees associated with the negotiation of the proposed acquisition of Virgin America by Alaska Air Group.

In addition, net other expense for the three months ended March 31, 2016 increased by $1.5 million from the prior year period as a result of a financing we entered into for five aircraft that we acquired and placed into service from July 2015 through March 2016, partially offset by a decrease in fees associated with a letter of credit facility that we terminated in the second quarter of 2015.

Operating Revenues

	Three months ended March 31,		Change	
	2016	2015	Amount	%
Operating revenues (in thousands):				
Passenger	$322,631	$289,364	$33,267	11.5
Other	41,378	36,987	4,391	11.9
Total operating revenues	$364,009	$326,351	$37,658	11.5
Operating statistics:				
Available seat miles (millions)	3,265	2,819	446	15.8
Revenue passenger miles (millions)	2,615	2,257	358	15.9
Average stage length (statute miles)	1,423	1,425	(2)	(0.1)
Load factor	80.1 %	80.1 %	—	pts
Total passenger revenue per available seat mile—PRASM (cents)	9.88	10.27	(0.39)	(3.8)
Total revenue per available seat mile—RASM (cents)	11.15	11.58	(0.43)	(3.7)
Yield (cents)	12.34	12.82	(0.48)	(3.7)
Average fare	$182.70	$190.03	$(7.33)	(3.9)
Passengers (thousands)	1,766	1,523	243	16.0

Passenger revenue for the three months ended March 31, 2016 increased 11.5% from the three months ended March 31, 2015 on a 15.8% increase in capacity as measured by our ASMs. First quarter 2016 PRASM decreased 3.8% year-over-year due to a 3.7% decrease in passenger yield. Total RASM for the three months ended March 31, 2016 decreased 3.7% from the three months ended March 31, 2015, primarily from the decrease in PRASM, slightly offset by an 11.9% increase in other revenue.

Other revenue for the three months ended March 31, 2016 increased 11.9% from the three months ended March 31, 2015 primarily due to higher ancillary fee revenue from reserved seat assignments and priority boarding in our main cabin and higher bag revenue primarily driven by higher capacity.

Operating Expenses

	Three months ended March 31,		Change		Cost per ASM		Change
	2016	2015	Amount	%	2016	2015	%
					(In cents)		
Operating expenses (in thousands):							
Salaries, wages and benefits	$78,868	$64,733	$14,135	21.8	2.41	2.29	5.2
Aircraft fuel	67,277	88,558	(21,281)	(24.0)	2.06	3.14	(34.4)
Aircraft rent	47,320	44,982	2,338	5.2	1.45	1.59	(8.8)
Landing fees and other rents	39,132	33,983	5,149	15.2	1.20	1.21	(0.8)
Sales and marketing	32,388	26,379	6,009	22.8	0.99	0.94	5.3
Aircraft maintenance	16,834	13,834	3,000	21.7	0.52	0.49	6.1
Depreciation and amortization	7,806	4,103	3,703	90.3	0.24	0.15	60.0
Other operating expenses	42,456	34,396	8,060	23.4	1.30	1.22	6.6
Total operating expenses	$332,081	$310,968	$21,113	6.8	10.17	11.03	(7.8)
Operating statistics:							
Available seat miles (millions)	3,265	2,819	446	15.8			
Average stage length (statute miles)	1,423	1,425	(2)	(0.1)			
Departures	16,016	13,828	2,188	15.8			
CASM (excluding fuel)	8.11	7.89	0.22	2.8			
CASM (excluding fuel and profit sharing)	8.01	7.82	0.19	2.4			
Fuel cost per gallon	$1.56	$2.39	$(0.83)	(34.7)			
Fuel gallons consumed (thousands)	43,072	37,026	6,046	16.3			
Teammates (FTE)	2,715	2,429	286	11.8			

Salaries, wages and benefits

Salaries, wages and benefits expense for the three months ended March 31, 2016 increased by $14.1 million, or 21.8%, from the three months ended March 31, 2015, primarily driven by an 11.8% increase in teammate FTE headcount as we began hiring new teammates during 2015 in connection with our new aircraft deliveries. Salaries and wages for flight crews also increased as a result of pay initiatives we implemented during 2015 due to the competitive marketplace for talent and increasing seniority of our pilots and inflight teammates. In addition, salaries, wages and benefits expense for the three months ended March 31, 2016 included an increase of $1.3 million in profit sharing expense. Under our annual profit sharing program, we accrued a pro rata portion of our estimated annual total profit sharing, which is based on current internal projections of pre-tax income for the year. Our profit sharing plan provides for profit sharing on pre-tax income above a threshold which is based on $1.5 million times the weighted average number of aircraft in our fleet. For the full year 2016, we estimate the threshold to be approximately $92.8 million. Our overall benefit plan costs for the three months ended March 31, 2016 increased from the prior year period due to an increase in the amount of the 401(k) match benefits paid to our teammates primarily driven by higher headcount.

Aircraft fuel

Aircraft fuel expense for the three months ended March 31, 2016, which includes the effect of our fuel hedges, decreased by $21.3 million, or 24.0%, from the three months ended March 31, 2015. The decrease was primarily due to a decrease of $0.83, or 34.7%, in the average fuel cost per gallon offset in part by a 16.3% increase in fuel consumption, and $14.1 million net fuel hedge losses. The increased fuel consumption was substantially consistent with the increase in available seat miles.

We maintain an active fixed forward pricing, or FFP, and derivative hedging program, primarily jet fuel and heating oil swaps, to reduce the impact of sudden, sharp increases in fuel prices. We use FFPs and jet fuel swaps to lock in the price of jet fuel for specified quantities and at specified locations in future periods. At March 31, 2016,

we had entered into derivative hedging instruments and FFPs for approximately 40% of our then expected nine-month fuel requirements, with all of our then existing hedge contracts expected to settle by the end of the fourth quarter of 2016. Due in part to the impact of declining fuel prices, we recorded $14.1 million in fuel hedge net losses in the three months ended March 31, 2016, which include the effect of $1.3 million offsetting unrealized gains associated with fuel hedges that will mature after March 31, 2016.

Aircraft rent

Aircraft rent expense remained relatively constant for the three months ended March 31, 2016 compared with the three months ended March 31, 2015.

Landing fees and other rents

Landing fees and other rents expense for the three months ended March 31, 2016 increased by $5.1 million, or 15.2%, compared with the three months ended March 31, 2015, primarily as a result of our increase in departures of 15.8% from the addition of frequencies throughout our network and the opening of two Hawaii stations at the end of 2015.

Sales and marketing

Sales and marketing expense for the three months ended March 31, 2016 increased $6.0 million, or 22.8%, from the three months ended March 31, 2015, primarily due to increases in distribution costs and commissions.

Aircraft maintenance

Aircraft maintenance expense for the three months ended March 31, 2016 increased by $3.0 million, or 21.7% from the three months ended March 31, 2015 primarily due to overall increase in fleet size and flight hours. There were also three heavy aircraft maintenance events scheduled for the first quarter of 2016, whereas there were none during the same period in 2015.

Depreciation and amortization

Depreciation and amortization expense increased by $3.7 million, or 90.3%, for the three months ended March 31, 2016 as compared to the three months ended March 31, 2015, primarily due to depreciation associated with the five aircraft that were delivered and placed in service beginning July 2015 and additional aircraft and building leasehold improvements.

Other operating expenses

Other operating expense increased by $8.1 million, or 23.4%, for the three months ended March 31, 2016 as compared to the three months ended March 31, 2015, primarily related to catering and crew travel costs commensurate with capacity growth as well as consulting fees and legal costs, including $1.6 million of professional fees associated with the negotiation of the proposed acquisition of Virgin America by Alaska Air Group.

Other Income (Expense)

Other income (expense) for the three months ended March 31, 2016 increased by $1.5 million, or 66.9%, from the three months ended March 31, 2015, as a result of interest expense associated with financings we entered into in relation to the five aircraft we acquired and placed into service from July 2015 through March 2016, partially offset by a decrease in fees associated with a letter of credit facility that we terminated in the second quarter of 2015.

Income Taxes

Our effective tax rate was approximately 38.1% in the three months ended March 31, 2016, compared with 2.5% in the three months ended March 31, 2015. The difference was primarily related to the effect of the valuation allowance we had on our deferred tax assets through the first three quarters 2015 that was fully released as of December 31, 2015. The rate for the first quarter of 2016 differs from the federal statutory rate of 35.0% mainly due to state taxes.

Operating Statistics

The following table sets forth our operating statistics for the three months ended March 31, 2016 and 2015:

	Three months ended March 31,		
	2016	2015	% Change
Available seat miles—ASMs (millions)	3,265	2,819	15.8
Departures	16,016	13,828	15.8
Average stage length (statute miles)	1,423	1,425	(0.1)
Aircraft in service—end of period [1]	58	53	9.4
Fleet utilization	10.4	10.1	3.0
Passengers (thousands)	1,766	1,523	16.0
Average fare	$182.70	$190.03	(3.9)
Yield per passenger mile (cents)	12.34	12.82	(3.7)
Revenue passenger miles—RPMs (millions)	2,615	2,257	15.9
Load factor	80.1 %	80.1 %	— pts
Passenger revenue per available seat mile—PRASM (cents)	9.88	10.27	(3.8)
Total revenue per available seat mile—RASM (cents)	11.15	11.58	(3.7)
Cost per available seat mile—CASM (cents)	10.17	11.03	(7.8)
CASM, excluding fuel (cents) [1]	8.11	7.89	2.8
CASM, excluding fuel and profit sharing (cents) [2]	8.01	7.82	2.4
Fuel cost per gallon	$1.56	$2.39	(34.7)
Fuel gallons consumed (thousands)	43,072	37,026	16.3
Teammates (FTE)	2,715	2,429	11.8

(1) Excludes two deliveries taken during the first quarter of 2016 that have not yet been placed in service as of March 31, 2016.

(2) Refer to our “Reconciliation of GAAP to Non-GAAP Financial Measures” note for more information on these non-GAAP measures.

Liquidity and Capital Resources

As of March 31, 2016, our principal sources of liquidity were cash and cash equivalents of $562.8 million. As of March 31, 2016, we also had restricted cash of $20.4 million, which primarily represents cash collateral securing our letters of credit for airport facility leases. In addition, we had $1.7 million of cash collateral posted with various third parties related to losses under our fuel hedging program.

Our primary uses of liquidity are to fund our operations, which include working capital, aircraft operations, sales and marketing activities, general and administrative matters and capital expenditures.

In June 2015, we entered into agreements with our credit card processors to reduce our holdback requirements to 0%. The credit card processors have the right to increase the credit card holdback amount depending on our future financial performance.

Currently, our single largest capital expense is the acquisition cost of our aircraft. As of March 31, 2016, we operated 53 of the 60 aircraft in our fleet as of such date under operating leases, which required a smaller up-front investment than if we had financed these aircraft with debt. In 2015, we executed and funded aircraft related debt facility agreements for $195.0 million with three financing parties for approximately 80% of the net purchase price of our five 2015 A320ceo aircraft deliveries. We financed $168.6 million with senior debt facilities subject to 12-year repayment terms with an average interest rate of 4.6% and $26.4 million with subordinated debt facilities subject to six-year repayment terms with an average interest rate of 6.8%.

In October 2015, we entered into long-term debt financing agreements for $199.3 million to finance approximately 80% of the net purchase price of the five A320ceo aircraft deliveries scheduled for 2016. We took delivery of two aircraft in February 2016 and drew down upon the related financing in connection with such deliveries, which increased long-term debt by $79.3 million. We financed $68.2 million with senior debt facilities

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subject to 12-year repayment terms with an average interest rate of 4.0% and $11.1 million with subordinated debt facilities subject to seven-year repayment terms with an average interest rate of 6.4%. As of March 31, 2016, we had a balance of $269.5 million outstanding in relation to our 2016 and 2015 aircraft financing with principal and interest payable quarterly in arrears.

We took delivery of one aircraft in April 2016 as scheduled and drew the related financing in connection with such delivery, which increased long-term debt by $40.0 million.

In December 2015, we entered into lease agreements for 10 A321neo aircraft to be delivered in 2017 and 2018. We have the option to purchase up to four of the ten aircraft by notifying the lessor no less than six months prior to the delivery date. All lease agreements have terms of 12 years with an option to renew for up to two consecutive renewal terms at rental rates to be negotiated at the time of renewal. We evaluated the lease agreements and determined that the leases would qualify as operating leases. Our rent payments are variable and adjust based on fluctuations in LIBOR or other interest rate benchmark adjustments as defined in the contract. We made deposits totaling $8.4 million on these 10 aircraft and we will be required to make additional deposits equal to one month rent if our unrestricted cash balance is less than 15% of trailing twelve month revenues two business days prior to delivery. There are no maintenance reserve payments required on these aircraft.

We do not have financing commitments in place for the remaining 30 Airbus aircraft orders scheduled for delivery between 2020 and 2022. We have the right to cancel the last 30 aircraft, and as a result, these are not considered firm commitments. If we ultimately exercise our cancellation rights for up to 30 aircraft, we would incur a loss of deposits and credits of up to $26.0 million as a cancellation fee.

Pre-delivery payments, or PDPs, relating to future deliveries under our agreement with Airbus, are required at various times prior to each aircraft's delivery date. As of March 31, 2016, we had paid $53.8 million of PDPs to Airbus, $20.9 million of which were financed by a third party payable upon delivery of aircraft. We expect that committed expenditures for three aircraft deliveries in April, May and June 2016, separately sourced spare engines and related aircraft equipment will total approximately $128.3 million.

We also had five spare engines on hand as of March 31, 2016, of which four were leased under operating lease contracts and one was purchased in 2015. In March 2016, we financed $7.8 million of the purchase price of the engine purchased in 2015 with a debt facility subject to 7-year repayment terms and at a 90-day floating rate based on LIBOR. We executed a debt facility agreement with similar terms to finance a sixth spare engine which we expect to purchase in the second half of 2016.

Our long-term debt balance also includes a five-year term loan credit facility we entered into in April 2014 for $40.0 million to finance airport slot purchases. This loan was funded in two tranches in April and May 2014. Principal is repayable in full at the end of five years. We accrue interest on this loan at a variable rate based on LIBOR, and we pay interest quarterly in arrears.

We expect to meet our obligations as they become due through available cash, internally generated funds from our operating cash flows, supplemented by financing activities as necessary and as they may become available to us, although we cannot assure that adequate financing will be available on acceptable terms, or at all. We cannot predict what the effect on our business and financial position might be from the extremely competitive environment in which we operate or from events beyond our control, such as volatile fuel prices, economic conditions, weather-related disruptions, the impact of airline bankruptcies, restructurings or consolidations, U.S. military actions or acts of terrorism. We believe the working capital available to us will be sufficient to meet our cash requirements for at least the next 12 months.

Cash Flows

The following table presents information regarding our cash flows in the three months ended March 31, 2016 and 2015 (in thousands):

	Three months ended March 31,	
	2016	2015
Net cash provided by operating activities	$95,348	$33,078
Net cash used in investing activities	(98,624)	(9,459)
Net cash provided by financing activities	69,743	1

Net increase in cash and cash equivalents	66,467	23,620
Cash and cash equivalents, end of period	562,816	418,263

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Net Cash Flow Provided By Operating Activities

During the three months ended March 31, 2016, net cash flow provided by operating activities was $95.3 million. We had net income of $17.5 million adjusted for the following non-cash items: depreciation and amortization of $7.8 million, share-based compensation expense of $2.1 million, paid in-kind interest expense of $1.0 million and deferred income taxes of $10.7 million. Air traffic liability contributed $81.8 million of operating cash flow in line with regular seasonality patterns for the first quarter. We also received an annual advance payment of $33 million from our co-branded credit card partner that was offset in part by revenue from the credit card program. Receivables increased by $7.6 million due to higher receivables from our credit card processors also in line with higher air traffic liability balance. Other non-current assets increased by $6.1 million primarily due to expensing rent on a straight-line basis at a rate that is lower than our cash payments during the period. We increased our maintenance deposits by $5.2 million, primarily due to our reserve payments for future maintenance events.

During the three months ended March 31, 2015, net cash flow provided by operating activities was $33.1 million. We had net income of $12.8 million adjusted for the following non-cash items: depreciation and amortization of $4.1 million, share-based compensation expense of $1.4 million and paid in-kind interest expense of $0.8 million. Air traffic liability, net of credit card holdbacks contributed $37.8 million of operating cash flow, primarily due to an annual advance payment of $33 million from our co-branded credit card partner. We increased our maintenance deposits by $9.1 million, primarily due to our reserve payments for future maintenance events. Other non-current assets increased by $8.3 million primarily due to expensing rent on a straight-line basis at a rate that was lower than our cash payments during the period.

Net Cash Flows Used In Investing Activities

During the three months ended March 31, 2016, net cash flow used in investing activities was $98.6 million. We invested $98.6 million in flight equipment, which included our two aircraft deliveries during the quarter, building leasehold improvements and software.

During the three months ended March 31, 2015, net cash flow used in investing activities was $9.5 million. We invested $7.1 million in flight equipment and software and made $2.3 million in pre-delivery payments for our aircraft scheduled to be delivered in 2015 and 2016.

Net Cash Flows Provided By Financing Activities

During the three months ended March 31, 2016 cash flow provided by financing was $69.7 million primarily as a result of $87.0 million of financing for the purchase of two aircraft and one spare engine. We used $17.4 million to repay loans related to pre-delivery payments on two 2016 aircraft purchases and made principal payments on our aircraft debt.

Cash flow provided by financing was not material in the three months ended March 31, 2015.

Commitments and Contractual Obligations

The following table presents aggregate information about our contractual payment commitments as of March 31, 2016 and the periods in which payments are due (in thousands):

	Long-Term Debt including Related Party (1)	Aircraft and Engine Purchases (2)	Aircraft and Engine Leases (3)	Maintenance Deposits (4)	Other (5)	Total
2016	$ 35,963	$ 128,346	$167,092	$ 7,819	$21,987	$361,207
2017	21,177	—	221,246	10,929	30,174	283,526
2018	62,166	—	240,521	11,821	26,900	341,408
2019	73,892	—	234,494	12,516	18,778	339,680
2020	21,545	—	214,971	13,145	14,780	264,441
Thereafter	176,808	—	832,364	30,419	30,440	1,070,031
	$ 391,551	$ 128,346	$1,910,688	$ 86,649	$143,059	$2,660,293

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(1) Includes accrued paid-in-kind interest; excludes future interest of $13.5 million to be accrued through and payable in November 2020 on the $50.0 million note to the Virgin Group.
(2) Represents non-cancelable contractual payment commitments for aircraft and engines.
(3) Represents future minimum lease payments under non-cancelable operating leases with initial terms in excess of one year, including renewal payments for signed lease extensions and excluding lease rebates, as well as estimated future minimum lease payments for 10 A321 NEO aircraft to be delivered in 2017 and 2018.
(4) Represents the fixed portion of supplemental rent under lessor contracts for maintenance reserve payment commitments; excludes variable future amounts that will be based on actual flight hours.
(5) Represents future minimum lease payments under non-cancelable building, airport station and equipment leases.

The table above does not include our commitment to pay royalties to the Virgin Group pursuant to an amended and restated license agreement related to our use of the Virgin name and brand.

Certain of our aircraft operating leases and debt instruments include certain financial covenants and cross-default provisions. As of March 31, 2016, we were in compliance with all covenants under these agreements.

Critical Accounting Estimates

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, "Management’s Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Estimates" included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Reconciliation of GAAP to Non-GAAP Financial Measures

Consolidated operating cost per available seat mile, excluding fuel and profit sharing is a non-GAAP financial measure that we use as a measure of our performance. CASM is a common metric used in the airline industry. We exclude aircraft fuel and profit sharing from operating cost per available seat mile to determine CASM ex-fuel and profit sharing. We believe that CASM excluding fuel and profit sharing provides investors the ability to measure financial performance excluding items beyond our control, such as (i) fuel costs, which are subject to many economic and political factors beyond our control, and (ii) profit sharing, which is sensitive to volatility in earnings. We believe this measure is more indicative of our ability to manage costs and is more comparable to measures reported by other major airlines.

We believe this non-GAAP measure provides a more meaningful comparison of our results to others in the airline industry and our prior year results. Investors should consider this non-GAAP financial measure in addition to, and not as a substitute for, our financial performance measures prepared in accordance with GAAP. Further, our non-GAAP information may be different from the non-GAAP information provided by other companies.

The following table provides the reconciliation of operating expense per ASM excluding fuel and profit sharing for the three months ended March 31, 2016 and 2015:

	Three months ended March 31,			
	2016		2015	
	$	Per ASM	$	Per ASM
	(In thousands)	(In cents)	(In thousands)	(In cents)
Total operating expenses	$332,081	10.17	$310,968	11.03
Less: Aircraft fuel	67,277	2.06	88,558	3.14
Operating expenses, excluding fuel	264,804	8.11	222,410	7.89
Less: profit sharing	3,435	0.10	2,096	0.07
Operating expense, excluding fuel and profit sharing	$261,369	8.01	$220,314	7.82

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risks in the ordinary course of our business. These risks include commodity price risk, specifically with respect to aircraft fuel, as well as interest rate risk. The adverse effects of changes in these markets could pose a potential loss as discussed below. The sensitivity analysis provided does not consider the effects that such adverse changes may have on overall economic activity, nor does it consider additional actions we may take to mitigate our exposure to such changes. Actual results may differ.

Aircraft Fuel. Our results of operations can vary materially, due to changes in the price and availability of aircraft fuel and are also impacted by the number of aircraft in use and the number of flights we operate. Aircraft fuel expense for the three months ended March 31, 2016 and 2015 represented approximately 20.3% and 28.5% of our operating expenses. Increases in aircraft fuel prices or a shortage of supply could have a material adverse effect on our operations and results of operations. Based on March 2016 aircraft fuel market prices and our projected 2016 fuel consumption, a 10% increase in the average price per gallon would increase our annual aircraft fuel expense, including the impact of our outstanding hedged positions, by approximately $11.2 million. To manage economic risks associated with the fluctuations of aircraft fuel prices, we periodically enter into fixed forward price contracts, or FFPs, and forward swaps for jet fuel and heating oil. As of March 31, 2016, we had entered into fuel derivative contracts and FFPs that fixed or established a floor on the price associated with 40% of our forecasted aircraft fuel requirements for the next nine months at an approximate cost per gallon of $1.39, which is in excess of current market prices. All of our then-existing fuel hedge contracts are expected to settle by the end of the fourth quarter of 2016. The fair value of our fuel derivative contracts as of March 31, 2016 was a net liability of $11.9 million offset by margin call deposits of $1.7 million, resulting in an overall net liability of $10.2 million. As of March 31, 2015, our fuel hedge net liability was $13.2 million offset by margin call deposits of $5.3 million, resulting in an overall net liability of $7.9 million. We measure our fuel derivative instruments at fair value, which is determined using standard option valuation models that use observable market inputs including contractual terms, market prices, yield curves, fuel price curves and measures of volatility. Changes in the related commodity derivative instrument cash flows may change by more or less than the fair value based on further fluctuations in futures prices. Outstanding financial derivative instruments expose us to credit loss in the event of nonperformance by the counterparties to the agreements. As of March 31, 2016, we believe the credit exposure related to these fuel forward contracts was minimal and do not expect the counterparties to fail to meet their obligations.

Interest Rates. We are subject to market risk associated with changing interest rates, due to LIBOR-based interest rates on an applicable portion of our aircraft pre-delivery payments loan and airport slot financing. A hypothetical 10% change in LIBOR for the three months ended March 31, 2016 would have had an immaterial effect on total interest expense for the three months ended March 31, 2016.

Our remaining long-term debt consists of a fixed rate note payable. A hypothetical 10% change in market interest rates as of March 31, 2016 would have no effect on our interest expense but would increase or reduce the fair value of our fixed-rate debt instruments by $8.3 million.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer, or CEO, and our Chief Financial Officer, or CFO, to allow timely decisions regarding required disclosure. Management, with the participation of our CEO and CFO, performed an evaluation of the effectiveness of our disclosure controls and procedures as of March 31, 2016. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2016.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our fiscal quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART 2. OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS
On April 21, 2016, a putative shareholder class action complaint was filed in the Court of Chancery of the State of Delaware against the outside directors on our board of directors, captioned Thomas Houston v. Donald J. Carty, et al., Case No. 12235 (Del. Ch.). The complaint alleges, among other things, that the directors breached their fiduciary duties by approving the Merger Agreement. The complaint seeks, among other things, to enjoin the proposed transaction, or to rescind it should it be consummated, and to require the outside directors to exercise their fiduciary duties and commence a sale process and obtain a transaction that is in the best interests of stockholders, as well as other equitable relief and damages, including attorneys' and experts' fees.
We are reviewing the complaint and have not yet formally responded to it, but we believe that the allegations in the complaint are without merit and we intend to defend against them vigorously. Litigation is inherently uncertain, however, and there can be no assurance regarding the likelihood that our defense of this action will be successful. Additional complaints containing substantially similar allegations may be filed in the future.
We are also subject to litigation claims and to administrative and regulatory proceedings and reviews that may be asserted or maintained from time to time. We currently believe that the ultimate outcome of such other lawsuits, proceedings and reviews will not, individually or in the aggregate, have a material adverse effect on our financial position, liquidity or results of operations.
ITEM 1A. RISK FACTORS
Our business involves significant risks, some of which are described below. You should carefully consider these risks, as well as the other information in this report, including our financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The occurrence of any of the events or developments described below, as well as additional risks and uncertainties not presently known to us or that we currently deem immaterial, could materially adversely affect our business, results of operations, financial condition and growth prospects.
The announcement and pendency of our agreement to be acquired by Alaska Air Group could have an adverse effect on our business.
On April 1, 2016, we entered into an Agreement and Plan of Merger, or the Merger Agreement, with Alaska Air Group Inc., or Alaska Air Group, pursuant to which a wholly-owned subsidiary of Alaska Air Group will, subject to the satisfaction or waiver of the conditions contained in the Merger Agreement, merge with and into Virgin America, and Virgin America will be the successor or surviving corporation of the merger and will become a subsidiary of Alaska Air Group. Pursuant to the terms of the Merger Agreement and subject to the satisfaction or waiver of the closing conditions set forth in the Merger Agreement, at the effective time of the merger, each share of common stock of Virgin America issued and outstanding immediately prior to the effective time of the Merger will be converted into $57.00 in cash, without interest.
Uncertainty about the effect of the proposed merger on our teammates, guests and other parties may have a material adverse effect on our business. Our teammates may experience uncertainty about their roles or seniority following the merger. There can be no assurance that our teammates, including key personnel, can be retained to the same extent that we have previously been able to attract and retain employees. Any loss or distraction of such employees could have a material adverse effect on our business and operations. In addition, we have diverted, and will continue to divert, significant management resources towards the completion of the transaction, which could materially adversely affect our business and operations.
Parties with which we do business may experience uncertainty associated with the merger and related transactions, including with respect to current or future business relationships with us. Uncertainty may cause guests or corporate customers to refrain from booking travel with us and vendors may seek to change existing business relationships, which could result in a material adverse effect on our business, operations and financial position.
Pursuant to the terms of the Merger Agreement, we are subject to certain restrictions on the conduct of our business, including the ability in certain cases to enter into contracts, acquire or dispose of assets, incur indebtedness or incur capital expenditures, until the proposed merger becomes effective or the Merger Agreement terminates. These restrictions may prevent us from taking actions with respect to our business that we may consider advantageous and

result in our inability to respond effectively to competitive pressures and industry developments, and may otherwise harm our business and operations.

The failure to complete the merger with Alaska Air Group could adversely affect our business.
Completion of the merger with Alaska Air Group is subject to several conditions beyond our control that may prevent, delay or otherwise materially adversely affect its completion, including the approval of our stockholders and the expiration or termination of applicable waiting periods under antitrust and competition laws and various approvals or consents that must be obtained from regulatory entities. If the proposed merger or a similar transaction is not completed, the share price of our common stock will drop to the extent that the current market price of our common stock reflects an assumption that a transaction will be completed. In addition, under circumstances defined in the Merger Agreement, we may be required to pay a termination fee of $78.5 million in the event the merger is not consummated. Further, a failed transaction may result in negative publicity and a negative impression of us in the investment community. Finally, any disruption to our business resulting from the announcement and pendency of the merger and from intensifying competition from our competitors, including any adverse changes in our relationships with our guests, teammates and vendors, could continue or accelerate in the event of a failed transaction. There can be no assurance that our business, these relationships or our financial condition will not be adversely affected, as compared to the condition prior to the announcement of the merger, if the merger is not consummated.
Our business has been and in the future may be materially adversely affected by the price and availability of aircraft fuel. High fuel costs and increases in fuel prices or a shortage or disruption in the supply of aircraft fuel would have a material adverse effect on our business.
The price of aircraft fuel may be high or volatile. The cost of aircraft fuel is highly volatile and has been our largest individual operating expense, accounting for 25.7%, 35.8% and 37.7% of our operating expenses for 2015, 2014 and 2013, respectively. High fuel costs or increases in fuel costs (or in the price of crude oil) could materially adversely affect our business. Since August 2014, the price of jet fuel has fallen substantially, which benefits us by lowering our expenses. However, because fuel prices are highly volatile, the price of jet fuel may increase significantly at any time. We may be more susceptible to fuel price volatility than most of our competitors since fuel represents a larger proportion of our total costs due to the longer average stage length of our flights.
Availability of aircraft fuel may be low. Our business is also dependent on the availability of aircraft fuel (or crude oil), which is not predictable. Weather-related events, natural disasters, terrorism, wars, political disruption or instability involving oil-producing countries, changes in governmental or cartel policy concerning crude oil or aircraft fuel production, labor strikes or other events affecting refinery production, transportation, taxes or marketing, environmental concerns, market manipulation, price speculation and other unpredictable events may drive actual or perceived fuel supply shortages. Shortages in the availability of, or increases in demand for, crude oil in general, other crude-oil-based fuel derivatives and aircraft fuel in particular could result in increased fuel prices and could materially adversely affect our business.
Fare increases may not cover increased fuel costs. We may not be able to increase ticket prices sufficiently to cover increased fuel costs, particularly when fuel prices rise quickly. We sell a significant number of tickets to passengers well in advance of travel, and, as a result, fares sold for future travel may not reflect increased fuel costs. In addition, our ability to increase ticket prices to offset an increase in fuel costs is limited by the competitive nature of the airline industry and the price sensitivity associated with air travel, particularly leisure travel, and any increases in fares may reduce the general demand for air travel.
Our fuel hedging program may not be effective. We cannot assure you our fuel hedging program, including our fixed forward price, or FFP, contracts, which we use as part of our hedging strategy, will be effective or that we will maintain a fuel hedging program. Even if we are able to hedge portions of our future fuel requirements, we cannot guarantee that our hedge contracts will provide an adequate level of protection against increased fuel costs or that the counterparties to our hedge contracts will be able to perform. Certain of our fuel hedge contracts may contain margin funding requirements that could require us to post collateral to counterparties in the event of a significant drop in fuel prices. Additionally, our ability to realize the benefit of declining fuel prices will be delayed by the impact of fuel hedges in place, and we may record significant losses on fuel hedges during periods of declining prices. A failure of our fuel hedging strategy, significant margin funding requirements, overpaying for fuel through the use of FFPs or our failure to maintain a fuel hedging program could prevent us from adequately mitigating the risk of fuel price increases and could materially adversely affect our business.

The airline industry is exceedingly competitive, and we compete against both legacy airlines and low-cost carriers; if we are not able to compete successfully in the domestic airline industry, our business will be materially adversely affected.

The domestic airline industry is characterized by significant competition from both large legacy airlines and low-cost carriers, or LCCs. Airlines compete for passengers with a variety of fares, discounts, route networks, flight schedules, flight frequencies, frequent flyer programs and other products and services, including seating,

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food, entertainment and other on-board amenities. Airlines also compete on the basis of customer-service performance statistics, such as on-time arrivals, customer complaints and mishandled baggage reports. We face significant competition from both large legacy airlines and LCCs on the routes we operate, and if we are unable to compete effectively, our business will be materially adversely affected.

Large legacy airlines have numerous competitive advantages in competing for airline passengers, particularly following the consolidation in the domestic airline industry that occurred between 2008 and 2013, which resulted in the creation of four dominant domestic airlines with significant breadth of network coverage and financial resources. We face competition from one or more of these legacy carriers with respect to nearly all of the routes we serve. The legacy carriers have a number of competitive advantages relative to us that may enable them to attain higher average fares, more passenger traffic and a greater percentage of business passengers than we attain. These advantages include a much larger route network with domestic and international connections, more flights and convenient flight schedules in routes that overlap with ours. These carriers also offer frequent flyer programs and lounge access benefits that reward and create loyalty with travelers, particularly business travelers. Moreover, several legacy carriers have corporate travel contracts that direct employees to fly with a preferred carrier. The enormous route networks operated by these airlines, combined with their marketing and partnership relationships with regional airlines and international alliance partner carriers, allow them to generate increased passenger traffic from domestic and international cities. Our smaller, point-to-point route network and lack of connecting traffic and marketing alliances puts us at a competitive disadvantage to legacy carriers, particularly with respect to our appeal to higher-fare business travelers.

Each of the legacy carriers operates a much larger fleet of aircraft and has greater financial resources than we do, which permits them to add service in response to our entry into new markets. For example, United Airlines operates a hub at San Francisco International Airport (SFO) and has historically engaged in aggressive competitive practices, such as increasing seat capacity by introducing larger-gauge aircraft or adding incremental flights in response to our entry into new markets served from SFO. Due to our relatively small size, we are more susceptible to a fare war or other competitive activities in one or more of the markets we serve, which could prevent us from attaining the level of passenger traffic or maintaining the level of ticket sales required to sustain profitable operations in new or existing markets.

LCCs also have numerous competitive advantages in competing for airline passengers. LCCs generally offer a more basic service to travelers and therefore have lower cost structures than other airlines. The lower cost structure of LCCs permits them to offer flights to and from many of the same markets as most major airlines, which are defined by the U.S. Department of Transportation, or DOT, as U.S.-based air carriers with annual operating revenues in excess of one billion dollars during a fiscal year, but at lower prices. LCCs also typically fly direct, point-to-point flights, which tends to improve aircraft and crew scheduling efficiency. Many LCCs also provide only a single class of service, thereby avoiding the incremental cost of offering premium-class services like those that we offer.

In addition, some LCCs have a relentless focus on lowering costs and provide only a very basic level of service to passengers. These carriers configure their aircraft with high-density seating configurations and offer minimal amenities during the flight, and as a result, they incur lower unit costs than we do. Some LCCs also charge ancillary fees for basic services that we provide free of charge, such as making a reservation, printing boarding passes at the airport and carrying bags onboard the cabin for stowage in the overhead bins. In general, LCCs have lower unit costs and therefore are able to offer lower base fares.

The demand for airline services is sensitive to changes in economic conditions, and another recession would weaken demand for our services and materially adversely affect our business.

The demand for business and leisure travel is affected by U.S. and global economic conditions. Unfavorable economic conditions have historically reduced airline travel spending. For most leisure consumers, travel is a discretionary expense, and during unfavorable economic conditions, travelers have often replaced air travel with car travel or other forms of ground transportation or have opted not to travel at all. Likewise, during unfavorable economic conditions, businesses have foregone or deferred air travel. Travelers have also reduced spending by purchasing less expensive tickets, which can result in a decrease in average revenue per seat. Because we have relatively high fixed costs, much of which cannot be mitigated during periods of lower demand for air travel, our business is particularly sensitive to changes in U.S. economic conditions. A reduction in the demand for air travel due to unfavorable economic conditions also limits our ability to raise fares to counteract increased fuel, labor and other costs. If U.S. or global economic conditions are unfavorable or uncertain for an extended period of time, it would materially adversely affect our business.

If we fail to implement our business strategy successfully, our business will be materially adversely affected.

Our business strategy is to target business and leisure travelers who are willing to pay a premium for our newer aircraft, more comfortable seating, better customer service and the latest on-board amenities while maintaining a cost structure that is lower than that of the legacy airlines that these business and premium travelers have historically favored. We may not be successful in attracting enough passengers willing to pay a premium over the fares offered by the LCCs, which we require to offset the additional costs embedded within our premium service model. In addition, American Airlines, Delta Air Lines, United Airlines and JetBlue Airways are increasing the quality of their seating and on-board amenities in some of the routes where they compete with us, making it more challenging to attract passengers who are loyal to those airlines. Continuing to grow our business profitably is also critical to our business strategy. Growth poses various operational and financial challenges, including securing additional financing for aircraft acquisition, obtaining airport gates and facilities at congested airports that serve business and premium travelers and hiring qualified personnel while maintaining our culture, which we believe is vital to the continued success of our airline. We cannot assure you that we will be able to successfully and profitably expand our fleet, enter new markets or grow existing markets in order to achieve additional economies of scale and maintain or increase our profitability. If we are unsuccessful in deploying our strategy, or if our strategy is unsustainable, our business will be materially adversely affected.

Threatened or actual terrorist attacks or security concerns involving airlines could materially adversely affect our business.

Past terrorist attacks against airlines have caused substantial revenue losses and increased security costs. As a result, any actual or threatened terrorist attack or security breach, even if not directly against an airline, could materially adversely affect our business by weakening the demand for air travel and resulting in increased safety and security costs for us and the airline industry generally. Terrorist attacks made directly on a domestic airline, or the fear of such attacks or other hostilities (including elevated national threat warnings or selective cancellation or redirection of flights due to terror threats), would have a negative impact on the airline industry and materially adversely affect our business.

Unauthorized incursions of our information technology infrastructure could compromise the personally identifiable information of our guests, prospective guests or employees and expose us to liability, damage our reputation and materially adversely affect our business.

In the processing of our customer transactions and as part of our ordinary business operations, we and certain of our third-party service providers collect, process, transmit and store a large volume of personally identifiable information, including email addresses and home addresses and financial data such as credit card information. The security of the systems and network where we and our service providers store this data is a critical element of our business, and these systems and our network may be vulnerable to computer viruses, hackers and other security issues. Recently, several high profile consumer-oriented companies have experienced significant data breaches, which have caused those companies to suffer substantial financial and reputational harm. While we believe that we have taken appropriate precautions to avoid an unauthorized incursion of our computer systems, we cannot assure you that our precautions are either adequate or implemented properly to prevent a data breach and its adverse financial and reputational consequences to our business. We are also subject to laws relating to privacy of personal data. The compromise of our technology systems resulting in the loss, disclosure, misappropriation of or access to the personally identifiable information of our guests, prospective guests or employees could result in governmental investigation, civil liability or regulatory penalties under laws protecting the privacy of personal information, any or all of which could disrupt our operations and materially adversely affect our business. Additionally, any material failure by us or our service providers to maintain compliance with the Payment Card Industry security requirements or to rectify a data security issue may result in fines and restrictions on our ability to accept credit cards as a form of payment.

We rely heavily on technology and automated systems to operate our business, and any failure of these technologies or systems could materially adversely affect our business.

We are highly dependent on technology and computer systems and networks to operate our business. These technologies and systems include our computerized airline reservation system, flight operations systems, telecommunications systems, airline website, maintenance systems and check-in kiosks.

In order for our operations to work efficiently, our website and reservation system must be able to accommodate a high volume of traffic, maintain secure information and deliver flight information. We depend on our reservation system, which is hosted and maintained under a long-term contract by a third-party service provider, to issue, track and accept electronic tickets, conduct check-in, board and manage our passengers through the airports we serve and provide us with access to global distribution systems, which enlarge our pool of potential passengers. In May 2011, we experienced significant reservations system outages, which resulted in lost ticket sales on our website which materially adversely affected our business and goodwill. If our reservation system fails or experiences interruptions again, and we are unable to book seats for a period of time, we could lose a significant

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amount of revenue as customers book seats on other airlines, and our reputation could be harmed.
We also rely on third-party service providers to maintain our flight operations systems, and if those systems are not functioning, we could experience service disruptions, which could result in the loss of important data, increase our expenses, decrease our operational performance and temporarily stall our operations. Replacement services may not be readily available on a timely basis, at competitive rates or at all, and any transition time to a new system may be significant. In the event that one or more of our primary technology or systems vendors fails to perform and a replacement system is not available, our business could be materially adversely affected.
Our business could be materially adversely affected from an accident or safety incident involving our aircraft.
An accident or safety incident involving one of our aircraft could expose us to significant liability and a public perception that our airline is unsafe or unreliable. In the event of a major accident, we could be subject to significant personal injury and property claims. While we maintain liability insurance in amounts and of the type generally consistent with industry practice, the amount of such coverage may not be adequate to cover fully all claims, and we may be forced to bear substantial losses from an accident. In addition, any accident or incident involving one of our aircraft (or an accident involving another Virgin-branded airline), even if fully insured, could harm our reputation and result in a loss of future passenger demand if it creates a public perception that our operation is unsafe or unreliable as compared to other airlines or means of transportation. As a result, any accident or safety incident involving our aircraft could materially adversely affect our business.
We have a limited operating history and have recorded only three years of profit, and we may not sustain or increase profitability in the future.
We have a history of losses and only a limited operating history upon which you can evaluate our business and prospects. While we recorded an annual profit in 2013, 2014 and 2015 and a profit in the first quarter of 2016, we cannot assure you that we will be able to sustain or increase profitability on a quarterly or an annual basis. In turn, this may cause the trading price of our common stock to decline and may materially adversely affect our business.
Airlines are subject to extensive regulation and taxation by governmental authorities, and compliance with new regulations and any new or higher taxes will increase our operating costs and may materially adversely affect our business.
We are subject to extensive regulatory and legal compliance requirements. Congress regularly passes laws that affect the airline industry, and the DOT, the Federal Aviation Administration, or FAA, and the Transportation Security Administration, or TSA, continually issue regulations, orders, rulings and guidance relating to the operation, safety and security of airlines that require significant expenditures and investment by us. For example, the DOT has broad authority over airlines to prevent unfair and deceptive practices and has used this authority to impose numerous airline regulations, including rules and fines relating to airline advertising, pricing, baggage compensation, denied boarding compensation and tarmac delayed flights. The DOT frequently considers the adoption of new regulations, such as rules relating to congestion-based landing fees at airports and limits or disclosures concerning ancillary passenger fees. For example, in June 2014, the DOT issued a notice of proposed rulemaking to further enhance passenger protections that addresses several areas of regulation, including post-purchase ticket increases, ancillary fee disclosures and code-share data reporting and disclosure. Compliance with existing requirements drives administrative, legal and operational costs and subjects us to potential fines, and any new regulatory requirements issued by the DOT may increase our compliance costs, reduce our revenues and materially adversely affect our business.
The FAA has broad authority to address airline safety issues, including inspection authority over our flight, technical and safety operations, and has the ability to issue mandatory orders relating to, among other things, the grounding of aircraft, installation of mandatory equipment and removal and replacement of aircraft parts that have failed or may fail in the future. Any decision by the FAA to require aircraft inspections, complete aircraft maintenance or ground aircraft types operated by us could materially adversely affect our business. For example, on January 4, 2014, the FAA's new and more stringent pilot flight and duty time requirements under Part 117 of the Federal Aviation Regulations took effect, which has increased costs and could further increase our costs in the future.
The FAA also has extensive authority to address airspace/airport congestion issues and currently imposes limitations on take-off and landing slots at four airports: Ronald Reagan Washington National Airport (DCA), LaGuardia Airport (LGA), John F. Kennedy International Airport (JFK) and Newark Liberty International Airport (EWR). The FAA

announced on April 1, 2016 that, based on an updated demand and capacity analysis, it would eliminate the current FAA order designating EWR as a slot-controlled airport and designate EWR as a schedule-facilitated airport beginning on October, 30, 2016. Under this approach, the FAA will review and facilitate airline schedules at EWR using the International Air Transport Association Worldwide Slot Guidelines, giving priority to carriers based on approved schedules and operations conducted in the prior corresponding winter and summer seasons. This change in the EWR designation could result in additional flights to EWR and conflicting demands by airlines for available gates, terminal space and runway times. In addition, larger airline competitors at EWR, who have greater resources and flexibility than us, may seek to add additional capacity on our routes, which could interfere with our ability to add flights at EWR and harm our existing business at EWR. In the future, the FAA could eliminate slot controls or reduce the number of slots allocated at DCA, LGA or JFK, reimpose slot restrictions at EWR, or impose new slot restrictions at other airports, which actions may adversely affect our operations at those airports.

The Port Authority of New York & New Jersey maintains a so-called “perimeter rule” that prohibits, with certain exceptions, weekday non-stop flights longer than 1,500 statutory miles from LGA, a restriction that does not exist at JFK and EWR. We currently have a limited number of take-off and landing slots at LGA, compared to certain of our competitors. If the LGA perimeter rule were relaxed or eliminated, it could increase competition at LGA for high-revenue longer haul routes favored by business travelers and higher revenue passengers. If New York business travelers and higher revenue passengers elect to travel out of LGA rather than JFK and EWR, airports that are farther from Manhattan, the financial performance of our operations at JFK and EWR may be materially adversely affected. Additionally, we may not have sufficient slots at LGA to compete, which could materially adversely affect our business.

We are also subject to restrictions imposed by federal law that require that no more than 24.9% of our stock be voted, directly or indirectly, by persons who are not U.S. citizens, that no more than 49.9% of our outstanding stock be owned by persons who are not U.S. citizens and that our president and at least two-thirds of the members of our board of directors and senior management be U.S. citizens. For more information on these requirements, see “-Our corporate charter and bylaws include provisions limiting voting and ownership by non-citizens and specifying an exclusive forum for stockholder disputes.” We are currently in compliance with these ownership restrictions. Our high level of foreign ownership may limit our opportunity to participate in U.S. government travel contracts and the Civilian Reserve Air Fleet program, however, if we are unable to satisfy policies and procedures of the U.S. Department of Defense for the mitigation of foreign ownership, control or influence required of cleared U.S. contractors.

Domestic airlines are also subject to significant taxation, including taxes on jet fuel, passenger tickets and security fees to compensate the federal government for its role in regulating airlines, providing air traffic controls and implementing security measures related to airlines and airports. In July 2014, the TSA implemented an increased passenger security fee at a flat rate of $5.60 per passenger. Any significant increase in ticket taxes or security fees could weaken the demand for air travel, increase our costs and materially adversely affect our business.

Many aspects of airlines’ operations are also subject to increasingly stringent environmental regulations, and growing concerns about climate change may result in the imposition of additional regulation. Since the domestic airline industry is highly price sensitive, we may not be able to recover from our passengers the cost of compliance with new or more stringent environmental laws and regulations, which could materially adversely affect our business. Although we do not expect the costs of complying with current environmental regulations will have a material adverse effect on our business, we cannot assure you that the costs of complying with environmental regulations would not materially adversely affect us in the future.

Almost all commercial service airports are owned and/or operated by units of local or state governments. Airlines are largely dependent on these governmental entities to provide adequate airport facilities and capacity at an affordable cost. Many airports have increased their rates and charges to air carriers because of higher security costs, increased costs related to updated infrastructures and other costs. Additional laws, regulations, taxes and airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce the demand for air travel. Although lawmakers may impose these additional fees and consider them “pass-through” costs, we believe that a higher total ticket price will influence consumer purchase and travel decisions and may result in an overall decline in passenger traffic, which could materially adversely affect our business.

We are subject to labor-related disruptions that could materially adversely affect our business.

Our inflight teammates (whom other airlines refer to as flight attendants) and pilots have voted for representation by the Transport Workers Union, or TWU, and the Air Line Pilots Association, or ALPA, respectively. As a result, the TWU has been certified as the representative of our inflight teammates and ALPA has been certified as the representative of our pilots. We are currently engaged with each of the TWU and ALPA in a collective bargaining process for a first contract for these respective teammate groups in accordance with the requirements of

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the Railway Labor Act.

Although we currently have a direct relationship with our remaining teammates, airline workers are one of the most heavily unionized private-sector employee groups, and any of our other non-management teammates could also seek to unionize. If we are not able to reach agreement with the TWU or ALPA on the terms of the collective bargaining agreements for each of our inflight teammates, or pilots, respectively, or if one or more of our other teammate groups elects a union to represent them, it could create a risk of work stoppages, which could materially adversely affect our business.

We depend on the Los Angeles and San Francisco markets to be successful.

Most of our current flights operate from our two focus cities of Los Angeles and San Francisco. In 2015, passengers to and from LAX and to and from SFO accounted for 43.6% and 57.5% of our total passengers. We believe that concentrating our service offerings in this way allows us to maximize our investment in personnel, aircraft and ground facilities and to leverage sales and marketing efforts in those regions. As a result, we are highly dependent on the LAX and SFO markets.

At LAX, we have the preferential use of six airport gates and shared access with other airlines to additional common-use gates. At SFO, we have preferential access to eight Terminal Two gates and shared access with other airlines to additional common-use gates. As gate space is limited at both LAX and SFO, we cannot assure you that our gate access at each airport is capable of handling our planned growth in operations for the next several years.

Both LAX and SFO are high-traffic airports with limited excess facilities and capacity, which may restrict our growth at these two bases or may even constrict our existing operations. If either LAX or SFO are fully utilized by other airlines, we may be unable to increase our operations at such airport. Additionally, under our LAX and SFO leases, each airport has reserved the right to reevaluate the airlines' collective utilization of the airport facilities to re-allocate preferential gates among the airlines based on certain usage standards. If we are unable to meet current or future minimum usage standards, we may lose access to our preferential gates. If we are unable to increase flights in these and other key markets, if any events cause a reduction in demand for air transportation in these key markets, if increases in competition cause us to reduce fares in these key markets, or if we lose access to our preferential gates, our business may be materially adversely affected.

Our credit card processors have the right to impose holdbacks, which could have a material adverse effect on our business.

Most of our tickets are sold to customers using credit cards as the form of payment. Our credit card processors have rights in their agreements to hold back receivable monies related to tickets sold for future travel services (i.e., a "holdback"). Any related holdback is remitted to us shortly after the customer travels. Holdbacks are commonly imposed on newer or less creditworthy airlines. Previously, we had significant holdback requirements with our two primary credit card processors, Elavon Inc. for Visa/MasterCard and American Express. In connection with our IPO in November 2014, the Virgin Group obtained a $100.0 million letter of credit on our behalf, which was issued to our credit card processors in order to release $100.0 million of our credit card holdbacks.

In 2015, Elavon agreed to reduce the Company's holdback to zero percent and American Express agreed to remove the letter of credit requirement, effectively reducing our holdback to zero. Elavon and American Express each have the right to restore the holdback in the future depending on our financial performance. Any re-imposition of our holdbacks by Elavon or American Express will immediately and negatively impact our liquidity, which may materially adversely affect our business.

Our quarterly results of operations fluctuate due to a number of factors, including seasonality.

We expect our quarterly results of operations to continue to fluctuate due to a number of factors, including actions by our competitors, price changes in aircraft fuel and the timing and amount of maintenance expenses. As a result of these and other factors, quarter-to-quarter comparisons of our results of operations may not be reliable indicators of our future performance. In addition, seasonality may cause our quarterly results of operations to fluctuate since passengers tend to fly more during the summer months and less in the winter months. We cannot assure you that we will find profitable markets in which to operate during the winter season. Lower demand for air travel during the winter months may materially adversely affect our business.

We have a significant amount of fixed obligations.

The airline business is capital intensive, and many airlines, including us, are highly leveraged. We currently lease 53 of our 61 aircraft, and these leases contain provisions requiring the payment of monthly rent regardless of usage. In December 2015, we entered into agreements to lease ten Airbus A321neo aircraft, beginning the first quarter of 2017 through the third quarter of 2018. Under these agreements, we are obligated to make fixed rent

payments as we take delivery of these aircraft. As of March 31, 2016, we had undiscounted future operating lease obligations of approximately $1.9 billion, as well as significant maintenance reserve requirements associated with these leases that are variable in nature. In addition, we have ordered aircraft and spare engines (with certain rights to cancel some of these commitments by forfeiting pre-delivery payments) from Airbus and CFM for delivery over the next seven years. Under those agreements, we are obligated to make pre-delivery payments, or PDPs, to Airbus and CFM on regular intervals in advance of the delivery of our ordered aircraft and spare engines. Moreover, we expect to incur additional fixed expenses as we take delivery of new aircraft, with two aircraft scheduled for delivery between May 2016 and June 2016 that are non-cancelable and 30 aircraft scheduled for delivery in 2020 through 2022 that can be canceled by forfeiting amounts on deposit with Airbus.
The amount of our current and expected future fixed obligations could strain our cash flows from operations, reducing the availability of our cash flows to fund working capital, capital expenditures and other general corporate purposes and limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete. Our substantial fixed obligations could reduce our credit, which would negatively impact our ability to obtain additional financing and could place us at a competitive disadvantage compared to less leveraged competitors and competitors that have better access to capital resources or more favorable terms. We cannot assure you that we will be able to generate sufficient cash flows from our operations or from capital market activities to pay our debt and other fixed obligations as they become due or that we will be able to finance these obligations on favorable terms, or at all. If we are unable to generate sufficient cash flows for any reason, we may be unable to meet our fixed obligations, and our business may be materially adversely affected. In particular, if we are unable to make our required aircraft lease rental payments, we could lose access to one or more aircraft and forfeit our rent deposits, and our lessors could exercise their remedies under the lease agreements. Also, an event of default under any of our leases and our debt financing agreements could trigger cross-default provisions under other agreements.
Significant flight delays, cancellations or aircraft unavailability may materially adversely affect our business.
Various factors, many of which are beyond our control, such as air traffic congestion at airports, other air traffic control problems, security requirements, unscheduled maintenance and adverse weather conditions, can cause flight delays or cancellations or cause certain of our aircraft to be unavailable for a period of time. SFO, one of our two primary focus airports, is particularly vulnerable to air traffic constraints and other delays due to fog and inclement weather. Factors that cause flight delays frustrate passengers, and reduced aircraft availability could lead to customer dissatisfaction that harms our reputation. Additionally, if we are forced to cancel a flight due to an event within our control, we will be liable to re-accommodate our guests, including by purchasing tickets for them on other airlines. If one or more of our aircraft is unavailable to fly revenue service for any amount of time, our capacity will be reduced. Significant flight delays, cancellations or aircraft unavailability for any reason could have a material adverse effect on our business.
Our maintenance costs will increase as our fleet ages.
As of March 31, 2016, the average age of aircraft in our fleet of Airbus A320-family aircraft was 6.3 years. Our aircraft will require more scheduled and unscheduled maintenance as they age. We are beginning to incur substantial costs for major maintenance visits for our aircraft, and because of the pattern of our historical fleet growth, we expect to have several aircraft undergoing major maintenance at roughly the same time. These more significant maintenance activities result in out-of-service periods during which certain of our aircraft are unavailable to fly passengers. Any significant increase in maintenance and repair expenses, as well as resulting out-of-service periods, could have a material adverse effect on our business.
We expect that costs associated with the final qualifying major engine maintenance events for our aircraft will be amortized over the remaining lease term rather than until the next estimated major maintenance event, because we account for major maintenance under the deferral method. This could result in significantly higher depreciation and amortization expense related to major maintenance in the last few years of the leases as compared to the expenses in earlier periods.
In addition, the terms of our lease agreements for our existing 53 leased aircraft require us to pay supplemental rent, also known as maintenance reserves, to our lessor in advance of the performance of major maintenance, resulting in our recording significant aircraft maintenance deposits on our consolidated balance sheet. However, the payments made after the final qualifying major engine maintenance event during the lease term are generally fully expensed, as

the majority of these amounts are not reimbursable from the lessor. As such, it will result in both additional rent expense and depreciation and amortization expense for previously capitalized maintenance being recorded in the period after the final qualifying major engine maintenance event and just prior to the termination of the lease. We have made key assumptions around the timing and cost of future maintenance events to record these supplemental rent payments as aircraft maintenance deposits on our balance sheet. Modifications to these assumptions in future periods could result in significant adjustments to the amount of

aircraft maintenance deposits recorded on our balance sheet. For example, in 2015, we recorded an adjustment to reduce our aircraft maintenance deposits by $36.1 million after revising key estimates related to the timing of replacing engine life-limited parts on a portion of our leased fleet.
Our ability to obtain financing or access capital markets may be limited.
We have significant obligations to purchase aircraft and spare engines that we have on order from Airbus and CFM International, or CFM. There are a number of factors that may affect our ability to raise financing or access the capital markets in the future, including our liquidity and credit status, our operating cash flows, market conditions in the airline industry, U.S. and global economic conditions, the general state of the capital markets and the financial position of the major providers of commercial aircraft financing. We cannot assure you that we will be able to source external financing for our planned aircraft acquisitions or for other significant capital needs, and if we are unable to source financing on acceptable terms, or unable to source financing at all, our business could be materially adversely affected. To the extent we finance our activities with additional debt, we may become subject to financial and other covenants that may restrict our ability to pursue our strategy or otherwise constrain our growth and operations.
The "Virgin" brand is not under our control, and negative publicity related to the Virgin brand name could materially adversely affect our business.
We believe the "Virgin" brand, which is integral to our corporate identity, represents quality, innovation, creativity, fun, a sense of competitive challenge and employee-friendliness. We license rights to the Virgin brand from certain entities affiliated with the Virgin Group on a non-exclusive basis. The Virgin brand is also licensed to and used by a number of other companies, including two airlines, Virgin Atlantic Airways and Virgin Australia Airlines, operating in other geographies. We rely on the general goodwill of consumers and our employees, whom we call teammates, towards the Virgin brand as part of our internal corporate culture and external marketing strategy. Consequently, any adverse publicity in relation to the Virgin brand name or its principals, particularly Sir Richard Branson who is closely associated with the brand, or in relation to another Virgin-branded company over which we have no control or influence, could have a material adverse effect on our business.
We obtain our rights to use the Virgin brand under agreements with certain entities affiliated with the Virgin Group, and we would lose those rights if these agreements are terminated or not renewed.
We are party to license agreements with certain entities affiliated with the Virgin Group pursuant to which we obtain rights to use the Virgin brand. The licensor may terminate the agreements upon the occurrence of a number of specified events including if we commit a material breach of our obligations under the agreements that is uncured for more than 10 business days or if we materially damage the Virgin brand. If we lose our rights to use the Virgin brand, we would lose the goodwill associated with our brand name and be forced to develop a new brand name, which would likely require substantial expenditures, and our business would likely be materially adversely affected.
We depend on sole-source suppliers for our aircraft and engines.
A critical cost-saving element of our business strategy is to operate a single-family aircraft fleet; however, our dependence on the Airbus A320-family aircraft and CFM engines for all of our flights makes us more vulnerable to any design defects or mechanical problems associated with this aircraft type or these engines. In the event of any actual or suspected design defects or mechanical problems with the Airbus A320-family aircraft or CFM engines, whether involving our aircraft or that of another airline, we may choose or be required to suspend or restrict the use of our aircraft. Our business could also be materially adversely affected if the public avoids flying on our aircraft due to an adverse perception of the Airbus A320-family aircraft or CFM engines, whether because of safety concerns or other problems, real or perceived, or in the event of an accident involving such aircraft or engines. Separately, if Airbus or CFM becomes unable to perform its contractual obligations and we must lease or purchase aircraft from another supplier, we would incur substantial transition costs, including expenses related to acquiring new aircraft, engines, spare parts, maintenance facilities and training activities, and we would lose the cost benefits from our current single-fleet composition, any of which could have a material adverse effect on our business.
We rely on third-party service providers to perform functions integral to our operations.
We depend on third-party service providers to provide the majority of the services required for our operations, including fueling, maintenance, catering, passenger handling, reservations and airport ground handling, as well as certain administrative and support services. We are likely to enter into similar service agreements for new markets we enter, and we cannot assure you that we will be able to obtain the necessary services at acceptable rates. Moreover,

although we do enter into agreements with many of our third-party service providers that define expected service performance, we do not directly control these third-party service providers. Any of these third-party service providers may fail to meet their service performance commitments to us, suffer disruptions to their systems that could negatively impact their services or fail to perform their services reliably, professionally or at the high standard of quality that we expect. Any such failure of our third-party service providers may prevent us from operating one or more flights or providing other services to our customers and may materially adversely affect our business. In addition, our business could be materially adversely affected if our customers believe that our services are unreliable or unsatisfactory.

Our business could be affected by severe weather conditions, natural disasters or the outbreak of contagious disease, any of which could materially adversely affect our business.

Our operations may be materially adversely affected by factors beyond our control, including severe weather conditions, natural disasters and the outbreak of disease. Severe weather conditions, such as winter snowstorms, hurricanes or other weather events, can cause flight cancellations, turbulence or significant delays that may result in increased costs and reduced revenue. Also, our two focus cities, Los Angeles and San Francisco, and our headquarters in Burlingame, California, are located on or near active seismic faults, and an earthquake could occur at any time, which could disrupt our operations at those locations. Similarly, outbreaks of pandemic or contagious diseases, such as avian flu, severe acute respiratory syndrome (SARS), H1N1 (swine) flu, the Ebola virus and the Zika virus could significantly reduce demand for passenger traffic and result in travel restrictions. Any interruption in our ability to operate flights or reduction in airline passenger demand because of such events could have a material adverse effect on our business.

Increases in insurance costs or reductions in insurance coverage may materially adversely affect our business.

If any of our aircraft were to be involved in an accident or if our property or operations were to be affected by a significant natural catastrophe or other event, we could be exposed to significant liability or loss. If we are unable to obtain sufficient insurance (including aviation hull and liability insurance and property and business interruption coverage) to cover such liabilities or losses, whether due to insurance market conditions or otherwise, our business could be materially adversely affected.

We currently obtain third-party war risk (terrorism) insurance, which is a separate policy from our commercial aviation hull and liability policy, from private insurance companies. Our current war risk insurance from commercial underwriters excludes NBCR (nuclear, biological, chemical and radiological) events. If we are unable to obtain adequate third-party war risk (terrorism) insurance or if a NBCR attack were to take place, our business could be materially adversely affected.

Our business could be materially adversely affected if we lose the services of our key personnel.

Our success depends to a significant extent upon the efforts and abilities of our officers, senior management team and key operating personnel. Competition for highly qualified personnel is intense, and a substantial turnover in key employees without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on our business.

Concentrated ownership by our principal stockholders could materially adversely affect our other stockholders.

As of March 31, 2016, the Virgin Group and Cyrus Holdings owned approximately 18.3% and 27.9% of our outstanding voting common stock, respectively. This concentrated ownership may limit the ability of other stockholders to influence corporate matters; as a result, these stockholders may cause us to take actions that our other stockholders do not view as beneficial.

The requirements of being a public company may strain our resources, divert management’s attention and affect our ability to attract and retain qualified board members or executive officers.

As a public company, we have incurred and will incur significant legal, accounting and other expenses that we did not incur as a private company, including costs associated with public company reporting requirements. We also have incurred and will incur costs associated with the Sarbanes-Oxley Act of 2002, as amended, the Dodd-Frank Wall Street Reform and Consumer Protection Act, related rules implemented or to be implemented by the SEC and the listing rules of the NASDAQ Global Select Market. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly, although we are currently unable to estimate these costs with any degree of certainty. These laws and regulations could also make it more costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage.

These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors or our board committees or as our executive officers and may divert management's attention. Furthermore, if we are unable to satisfy our obligations as a public company, our common stock could be delisted, and we could be subject to fines, sanctions and other regulatory action and potentially civil litigation.

We are required to assess our internal control over financial reporting on an annual basis, and any adverse findings from such assessment could result in a loss of investor confidence in our financial reports, result in significant expenses to remediate any internal control deficiencies and have a material adverse effect on our business.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, as amended, our management is required to report on, and our independent registered public accounting firm to attest to, the effectiveness of our internal control over financial reporting. The rules governing management's assessment of our internal control over financial reporting are complex and require significant documentation, testing and possible remediation. Annually, we review, document and test our internal control over financial reporting. We may encounter problems or delays in completing the implementation of any changes necessary to make a favorable assessment of our internal control over financial reporting. In connection with the attestation process by our independent registered public accounting firm, we may encounter problems or delays in implementing any requested improvements and receiving a favorable attestation. In addition, if we fail to maintain the adequacy of our internal control over financial reporting, we will not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the NASDAQ Global Select Market, regulatory investigations, civil or criminal sanctions and litigation, any of which would materially adversely affect our business.

The market price of our common stock may be volatile, which could cause the value of an investment in our stock to decline.

We completed our IPO in November 2014. Prior to that offering, there was no public market for shares of our common stock, and an active public market for our shares may not be sustained. From November 14, 2014, the first date of trading of our common stock, through March 31, 2016, the reported high and low sale price of our common stock fluctuated between $26.30 and $45.43 per share. The market price of our common stock may fluctuate substantially due to a variety of factors, many of which are beyond our control, including:

- changes in the price of aircraft fuel;
- announcements concerning our competitors, the airline industry or the economy in general;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- media reports and publications about the safety of our aircraft or the aircraft type we operate;
- new regulatory pronouncements and changes in regulatory guidelines;
- announcements concerning the availability of the type of aircraft we use;
- general and industry-specific economic conditions;
- changes in financial estimates or recommendations by securities analysts or failure to meet analysts' performance expectations;
- sales of our common stock or other actions by investors with significant shareholdings, including sales by our principal stockholders;
- trading strategies related to changes in fuel or oil prices; and
- general market, political and other economic conditions.

The stock markets in general have experienced substantial volatility that has often been unrelated to the operating performance of particular companies. Broad market fluctuations may materially adversely affect the trading price of our common stock.

In the past, stockholders have sometimes instituted securities class action litigation against companies following periods of volatility in the market price of their securities. Any similar litigation against us could result in substantial costs, divert management's attention and resources and materially adversely affect our business.

If securities or industry analysts cease to publish research or reports about our business or publish negative reports about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities and industry analysts may publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, the trading price of our common stock would likely decline. If one or more of these analysts ceases to cover our company or fails to publish reports on us regularly, demand for our stock could decrease, which may cause the trading price of our common stock and our trading volume to decline.

Our anti-takeover provisions may delay or prevent a change of control, which could materially adversely affect the price of our common stock.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may make it difficult to remove our board of directors and management and may discourage or delay “change of control” transactions, which could materially adversely affect the price of our common stock. These provisions include, among others:

- our board of directors is divided into three staggered classes, with each class serving a three-year term, which prevents stockholders from electing an entirely new board of directors at a single annual meeting;
- actions to be taken by our stockholders may only be effected at an annual or special meeting of our stockholders and not by written consent;
- special meetings of our stockholders can be called only by our board of directors, the Chairman of the Board, our chief executive officer or our president;
- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors and propose matters to be brought before an annual meeting of our stockholders may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer’s own slate of directors or otherwise attempting to obtain control of our company; and
- our board of directors may, without stockholder approval, issue series of preferred stock, or rights to acquire preferred stock, that could dilute the interest of, or impair the voting power of, holders of our common stock or could also be used as a method of discouraging, delaying or preventing a change of control.

The value of our common stock may be materially adversely affected by additional issuances of common stock or preferred stock by us or sales by our principal stockholders.

Any future issuances or sales of our common stock by us will be dilutive to our existing common stockholders. Cyrus Holdings and the Virgin Group collectively held an aggregate of 17,411,888 shares of our voting common stock, or 46.2% of our voting common stock outstanding, and 54.4% of the total outstanding equity interests in our company as of March 31, 2016 (which includes 6,852,738 shares of non-voting common stock held by the Virgin Group). Cyrus Capital and the Virgin Group are entitled to rights with respect to registration of such shares under the Securities Act. Sales of substantial amounts of our common stock in the public or private market, a perception in the market that such sales could occur, or the issuance or exercise of securities exercisable or convertible into our common stock, including warrants to purchase our common stock, could materially adversely affect the prevailing price of our common stock.

Our corporate charter and bylaws include provisions limiting voting and ownership by non-U.S. citizens and specifying an exclusive forum for stockholder disputes.

To comply with restrictions imposed by federal law on foreign ownership of U.S. airlines, our amended and restated certificate of incorporation and amended and restated bylaws restrict voting of shares of our common stock by non-U.S. citizens. The restrictions imposed by federal law currently require that no more than 24.9% of our stock be voted, directly or indirectly, by persons who are not U.S. citizens, that no more than 49.9% of our outstanding stock be owned (beneficially or of record) by persons who are not U.S. citizens and that our president and at least two-thirds of the members of our board of directors and senior management be U.S. citizens. Our amended and restated bylaws provide that the failure of non-U.S. citizens to register their shares on a separate stock record, which we refer to as the “foreign stock record,” would result in a suspension of their voting rights in the event that the aggregate foreign ownership of the outstanding common stock exceeds the foreign ownership restrictions imposed by federal law. Our amended and restated bylaws also provide that any transfer or issuance of our stock that would cause the amount of our stock owned by persons who are not U.S. citizens to exceed foreign ownership restrictions imposed by federal law will be void and of no effect.

Our amended and restated bylaws further provide that no shares of our common stock will be registered on the foreign stock record if the amount so registered would exceed the foreign ownership restrictions imposed by federal law. If it is determined that the amount registered in the foreign stock record exceeds the foreign ownership restrictions imposed by federal law, shares will be removed from the foreign stock record in reverse chronological order based on the date of registration therein, until the number of shares registered therein does not exceed the foreign ownership restrictions imposed by federal law. We are currently in compliance with these ownership restrictions.

As of April 1, 2016, non-U.S. citizens owned, in the aggregate, 8,118,097 shares of voting common stock and 14,970,835 shares of outstanding common stock (representing approximately 21.5% of the total voting rights and approximately 33.6% of the total outstanding equity interests in our company, respectively).

Our amended and restated certificate of incorporation provides that, unless we consent in writing to an alternative forum, the Court of Chancery of the State of Delaware will, to the fullest extent permitted by law, be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of us; (ii) any action asserting a claim of breach of a fiduciary duty owed by, or otherwise wrongdoing by, any of our directors, officers or other employees to us or our stockholders; (iii) any action asserting a claim against us arising pursuant to any provision of the Delaware General Corporation Law or our amended and restated certificate of incorporation or amended and restated bylaws; (iv) any action to interpret, apply, enforce or determine the validity of our amended and restated certificate of incorporation or the bylaws; or (v) any action asserting a claim against us or any of our directors, officers or employees governed by the internal affairs doctrine. Accordingly, you may be limited in your ability to pursue legal actions.

We may use our capital to finance the further development and expansion of our business and not distribute cash to our stockholders.

We maintain certain levels of unrestricted cash. Any determination regarding the use of such capital is in the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, restrictions contained in current or future financing instruments, business prospects and such other factors as our board of directors deems relevant. In the past, we have not declared or paid cash dividends on our common stock or offered a stock repurchase program. We cannot assure you that capital, if any, would be returned to our stockholders through cash dividends or a stock repurchase program in the future, and instead, we could retain our unrestricted cash to reduce leverage, purchase assets, finance the further development and expansion of our business or address certain business occurrences or trends, including but not limited to, terrorist events, fuel price increases or economic recessions.

We may become involved in litigation that may materially adversely affect us.

From time to time, we may become involved in various legal proceedings relating to matters incidental to the ordinary course of our business, including patent, commercial, product liability, employment, class action, whistleblower and other litigation and claims, and governmental and other regulatory investigations and proceedings. In particular, in recent years, there has been significant litigation in the United States and abroad involving patents and other intellectual property rights. We have in the past faced, and may face in the future, claims by third parties that we infringe upon their intellectual property rights. Such matters can be time-consuming, divert management’s attention and resources, cause us to incur significant expenses or liability and/ or require us to change our business practices. Because of the potential risks, expenses and uncertainties of litigation, we may, from time to time, settle disputes, even where we believe that we have meritorious claims or defenses. Because litigation is inherently unpredictable, we cannot assure you that the results of any of these actions will not have a material adverse effect on our business.

Risks associated with our presence in international emerging markets, including political or economic instability, and failure to adequately comply with existing legal requirements, may materially adversely affect us.

Countries with less developed economies, legal systems, financial markets and business and political environments are vulnerable to economic and political problems, such as significant fluctuations in gross domestic product, interest and currency exchange rates, civil disturbances, government instability, nationalization and expropriation of private assets, trafficking and the imposition of taxes or other charges by governments. The occurrence of any of these events in markets served by us now or in the future and the resulting instability may materially adversely affect our business.

We emphasize legal compliance and have implemented and continue to implement and refresh policies, procedures and certain ongoing training of our teammates with regard to business ethics and many key legal requirements; however, we cannot assure you that our teammates will adhere to our code of business ethics, other policies or other legal requirements. If we fail to enforce our policies and procedures properly or maintain adequate record-keeping and internal accounting practices to record our transactions accurately, we may be subject to sanctions. In the event we believe or have reason to believe our teammates have or may have violated applicable laws or regulations, we may incur investigation costs, potential penalties and other related costs which in turn may materially adversely affect our reputation and business.

Our ability to utilize our net operating loss carryforwards and certain other tax attributes may be limited.

We incurred significant cumulative net taxable losses through 2015. Our unused losses generally carry forward to offset future taxable income, if any, until such unused losses expire. We may be unable to use these losses to offset income before such unused losses expire. If a corporation undergoes an “ownership change” (generally defined as a greater than 50-percentage-point cumulative change in the equity ownership of certain stockholders over a rolling three-year period) under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, the corporation’s ability to use its pre-change net operating loss carryforwards, or NOLs and other pre-change tax attributes to offset future taxable income or taxes may be limited.We may experience ownership changes as a result of future changes in our stock ownership (some of which changes may not be within our control), including in connection with sales of our common stock by Cyrus Capital or the Virgin Group. This, in turn, could materially reduce or eliminate our ability to use our losses or tax attributes to offset future taxable income or tax and have an adverse effect on our future cash flows.

ITEM 2 . UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

We have not sold any equity securities during the period covered by this Quarterly Report on Form 10-Q that were not registered under the Securities Act.

Use of Proceeds from Initial Public Offering of Common Stock

On November 13, 2014, the Securities and Exchange Commission declared effective our Registration Statement on Form S-1 (File No. 333-197660), as amended, filed in connection with the IPO. Pursuant to the Registration Statement, we registered, issued and sold an aggregate of 13,106,377 shares of our common stock at a price to the public of $23.00 per share for aggregate gross offering proceeds of $301.4 million. In addition, pursuant to the Registration Statement, VX Employee Holdings, LLC, a Virgin America employee stock ownership vehicle that we consolidate for financial reporting purposes, sold 231,210 outstanding shares held by it at a price to the public of $23.00 per share for aggregate gross offering proceeds of $5.3 million, which were then immediately disbursed to our teammates.

There has been no material change in the planned use of proceeds from the offering as described in the Registration Statement and in our Annual Report on Form 10-K for the year ended December 31, 2015.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The exhibits filed as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index and are incorporated herein by reference.

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.

Dated: April 28, 2016

VIRGIN AMERICA INC.
By: /s/ Peter D. Hunt
Peter D. Hunt
Chief Financial Officer
(Principal Financial Officer and Duly Authorized Signatory)

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Exhibit No.	Filing Date	
2.1	Agreement and Plan of Merger, dated as of April 1, 2016, by and among Virgin America Inc., Alaska Air Group, Inc. and Alpine Acquisition Corp.	8-K	2.1	4/4/2016	
3.1	Amended and Restated Certificate of Incorporation of Virgin America Inc.	8-K	3.1	11/19/2014	
3.2	Amended and Restated Bylaws of Virgin America Inc.	8-K	3.2	11/19/2014	
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1**	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.INS	XBRL Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				X

** The certification attached as Exhibit 32.1 that accompanies this Quarterly Report on Form 10-Q is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Virgin America Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.