Virgin America Inc.
Form 10-K
February 29, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2015

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 001-36718

VIRGIN AMERICA INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-1585173**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

555 Airport Boulevard

Burlingame, CA 94010

(Address of Principal Executive Offices) (Zip Code)

(650) 762-7000

(Registrant s telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	The NASDAQ Global Select Market

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ¨ No x

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of the last business day of the registrant s most recently completed second fiscal quarter was $510.0 million.

As of February 19, 2016, the registrant had 44,562,939 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Proxy Statement for its 2016 Annual Meeting of Stockholders, which is to be filed subsequent to the date hereof, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

ITEM 1. BUSINESS

This Annual Report on Form 10-K 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 Annual Report on Form 10-K, the words expects, estimates, plans, anticipates, indicates, believes, forecast, guidance, outlook, may, will, would, should, seeks, targets and similar expressions are intended to identify forward-looking statements. Forward-looking statements represent the Company s expectations and beliefs concerning future events, based on information available to the Company on the date of the filing of this Annual Report on Form 10-K, 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 I, Item 1A, Risk Factors and in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations. The Company disclaims 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 (DAL), 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 consisting of Airbus A320 family aircraft. As of December 31, 2015, we provided service to 23 airports in the United States and Mexico with a fleet of 57 narrow-body aircraft. In December 2015, we accepted delivery of our 58th aircraft which went into service subsequent to year end. In February 2016, we accepted delivery of two aircraft that will go into service in 2016, and we anticipate taking delivery of three additional A320 aircraft prior to June 30, 2016. We expect to end 2016 with 63 total A320-family aircraft in our operating fleet.

Leveraging the reputation of the Virgin brand, a global brand founded by Sir Richard Branson, we target guests who value the experience associated with Virgin and the high-quality product and service that we offer. We have won numerous awards for our product, including Best Domestic Airline in *Travel + Leisure Magazine* s World s Best Awards and Best U.S. Airline in *Condé Nast Traveler Magazine* s Readers Choice Awards for the past eight consecutive years.

We were incorporated in the state of Delaware in 2004. Our corporate address is 555 Airport Boulevard, Burlingame, California, and our telephone number is (650) 762-7000. Our internet address is www.virginamerica.com, and you may access free of charge at our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act with the Securities and Exchange Commission, or the SEC, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The reference to our web address does not constitute incorporation by reference of the information contained at this site.

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The Virgin America Business Model

We believe our business model, which combines a premium product and guest experience with a competitive cost structure, is distinctive within the domestic airline industry. We seek to achieve higher revenue per available seat mile, or RASM, than that of any other low-cost carriers, or LCCs, while maintaining a cost structure lower than that of the legacy airlines and competitive with that of other LCCs.

Our Product

We believe that our service is highly differentiated from that of our competitors. Our cabins have a distinctive appearance through innovative design and use of technology. We employ special mood lighting within our cabins that we designed to create a calming, low-stress environment for our guests. We have installed custom-designed leather seats throughout our cabin that are tailored to provide comfort, especially on our long-haul flights. We were the first airline to offer inflight wireless internet access across our entire fleet, and we also provide electrical power outlets adjacent to every seat. Unlike legacy carriers, which offer certain services on a variety of aircraft types and subcontract some flying to regional airlines, our service is consistent throughout our fleet and on every flight.

All of our guests have access to our Red® inflight entertainment system. The Red system allows each guest to customize his or her inflight experience through a host of entertainment options, including 17 channels of free live television and six pre-recorded channels, on-demand current movies and premium television programs, a free music library with approximately 3,000 MP-3 files from which each guest can create customized playlists, interactive video games and moving map technology that allows guests to track their flights progress. A key component of the Red system is our on-demand food and beverage ordering system. Guests can order and pay for high-quality food or beverage items for themselves or for other guests during the flight through the Red system, and our inflight teammates promptly deliver the order. The Red system also features a seat-to-seat chat function which allows guests to message passengers in other seats or send a drink or menu item to another guest. These features provide a distinctive experience for guests to interact during their flight.

Our employees, whom we call teammates, are a key element of our product. We have a highly engaged workforce that strives to provide a high degree of service and friendliness to our guests both at the airport and in flight. We heavily emphasize our service standards with our teammates through training and education programs and monetary incentives related to operational performance and guest surveys.

Within the cabin, we offer three levels of service: First Class, Main Cabin Select, which is our premium economy product, and Main Cabin. Some highlights of our service levels include the following:

First Class:

- Exclusive, eight-seat cabin with a dedicated inflight teammate to provide a high level of attention and service;

- Custom-designed 165 degree reclining leather seat with massage functions;

55 inches of pitch between rows one of the most spacious First Class configurations in the U.S. domestic market;

Complimentary gourmet meals (on most flights) and alcoholic and non-alcoholic beverages with linen table service;

Individual Red inflight entertainment system;

Unlimited complimentary on-demand movies and premium television programs;

Complimentary live television;

- Two free checked bags; and
- Priority boarding and priority security access.

Main Cabin Select:

- 38 inches of pitch, providing generous leg room;
- Individual Red inflight entertainment system at every seatback;
- Complimentary on-demand movies and premium television programs on our Red inflight entertainment system;
- Complimentary live television;
- Complimentary Main Cabin meals (on most flights), snacks and alcoholic and non-alcoholic beverages;
- One free checked bag; and
- Priority boarding and priority security access.

Main Cabin:

- 32 or 33 inches of pitch one of the most spacious economy configurations in the U.S. domestic market;
- Individual Red inflight entertainment system at every seatback;
- Complimentary live television;
- Power outlets adjacent to every seat;
- On-demand movies and premium television programs available for purchase;

- A variety of fresh meals (on most flights), snacks and alcoholic and premium non-alcoholic beverage offerings available for purchase on demand;

- Complimentary non-alcoholic beverages; and

- The ability to purchase reserved seating near the front of the Main Cabin, priority boarding and priority security access with our Express product.

Cost Structure

We employ disciplined strategies to maintain a competitive cost structure. Our CASM was 10.66 cents in 2015. On a stage-length adjusted basis, our CASM was competitive within the industry and below that of legacy airlines. Key components of our low cost structure include the following:

- Operating a modern, fuel-efficient single-aircraft fleet type of Airbus A320-family aircraft, with an average age of 6.3 years as of December 31, 2015, resulting in lower maintenance costs and common flight crew training across the entire fleet;

- High aircraft utilization, which averaged 10.9 hours per aircraft day during 2015;

- A long-haul network with an average flight length of over 1,400 miles, which results in lower engine maintenance costs over the life of the aircraft and a lower overall CASM generally as compared to a network with a shorter average flight length;

- Point-to-point operations, avoiding the complexities and inefficiencies of a hub-and-spoke system;

- Our productive and engaged workforce;

- The strategic use of outsourcing for non-core activities, such as certain airport ground handling functions, many maintenance functions and call center activities; and

- Lean overhead structure in information technology, finance, human resources and planning that is scalable and can be leveraged as we continue to grow.

The productivity of our workforce contributes significantly to our competitive cost structure. Our long-haul network provides a naturally efficient environment for crew scheduling. In 2015, our pilots flew an average of 62 block hours per month. Over the same period, our inflight teammates flew an average of 63 block hours per month.

While we maintain our focus on costs, we have chosen to invest in certain areas of our product that we believe support our high RASM strategy. These areas include:

- Configuring our First Class and Main Cabin seating capacity with lower density than most airlines. Our Airbus A320 aircraft are configured with 146-149 seats, and our Airbus A319 aircraft are configured with 119 seats.

- Providing a premium travel experience favored by business travelers, including inflight entertainment options, an enhanced cabin with custom leather seats, inflight wireless internet and power outlets adjacent to every seat.

- Focusing on serving primary airports that provide convenience for business travelers but that generally have higher costs than alternative, secondary airports.

- Maintaining a distribution strategy through multiple channels, including global distribution systems, or GDS, and corporate agencies that frequent business travelers value.

This business model enables us to compete effectively with other LCCs by generating, on average, higher stage-length adjusted RASM but at a stage-length adjusted CASM competitive with that of other LCCs and lower than that of legacy airlines.

Competitive Strengths

We believe the following strengths allow us to compete successfully in the U.S. airline industry:

Premium Travel Experience. A key component of our product strength is the consistency across our entire fleet. In contrast to airlines with multiple aircraft types, our product offering is identical on every Airbus 320-family aircraft, allowing for the same enhanced travel experience on every flight. We also provide both First Class and Main Cabin Select products in addition to our Main Cabin economy product. Our First Class cabin has an exclusive feel and a dedicated attendant with just eight seats on every aircraft fewer than most first class cabins offered on competing airlines, providing a personal level of service. Unlike many other airlines, we do not provide complimentary upgrades to First Class, enhancing the exclusivity of this product. In addition to more leg room, which is a standard feature of most premium economy products, we offer additional features within Main Cabin Select, such as complimentary on-demand current-run movies, premium television programs, premium beverages and Main Cabin meals and snacks.

World-Class Virgin Brand. We believe that the Virgin brand is widely recognized in the United States and is known for being innovative, stylish, entrepreneurial and hip. We believe that the brand is recognized worldwide from the Virgin Group s offerings in music, air travel, wireless service and a wide variety of other products. We capitalize on the strength of the Virgin brand to target guests who value an enhanced travel experience and association with the Virgin brand. We believe that the Virgin brand has helped us to establish ourselves as a premium airline in the domestic market in a short period of time. When we enter a new market, awareness of the Virgin brand generates interest from new guests. The power of the Virgin brand provides an opportunity for low-cost public relations events that generate extensive media coverage in new markets and has led to other cooperative marketing relationships for us with major companies. In addition to capitalizing on the Virgin brand strength, we are rapidly establishing Virgin America as a distinct and premium brand for air travel in the United States in its own right. We believe our guests associate the Virgin and Virgin America brands with a distinctive high-quality and high-value travel experience.

Low-Cost, Disciplined Operating Structure. A core component of our business model is our disciplined cost structure. Key components of this low cost structure include our modern, fuel-efficient single-aircraft fleet, our high aircraft utilization, our point-to-point operations, our productive and engaged workforce, our outsourcing of non-core activities and our lean, scalable overhead structure. We are committed to maintaining this disciplined cost structure and believe we will continue to improve our competitive cost position in future years as we grow and further leverage our existing infrastructure.

Established Presence in Los Angeles and San Francisco. We have built our network around the Los Angeles and San Francisco metropolitan areas, the second- and third-largest domestic air travel markets, respectively, in the United States in 2015. We believe that these two markets, with a combined population of approximately 27 million people and strong economic bases in the technology, media and entertainment industries, serve as an excellent platform for long-term growth. Los Angeles and San Francisco both have large populations of technologically savvy, entrepreneurial and innovative individuals who we believe value our brand and premium guest experience. We have made significant investments in these key markets since 2010, and as of December 31, 2015, we provided service to 19 destinations from Los Angeles and 22 destinations from San Francisco. These destinations include eight of the top ten domestic destinations served from Los Angeles International Airport (LAX) and nine of the top ten domestic destinations served from San Francisco International Airport (SFO), based on passenger volume. This investment provides greater network coverage across North America for travelers from these two focus markets, and we expect that this investment will allow us to continue to grow by leveraging the loyal guest base that we have established in each market.

Our Team and Entrepreneurial Culture. Our teammates and culture are essential elements of our success because they contribute significantly to our premium travel experience. We start by hiring the right teammates through a rigorous process that includes numerous interviews, as well as pre-employment testing for our frontline teammates and our pilots. Key characteristics of Virgin America teammates include a friendly, personable nature, a willingness to think differently, a passionate approach to his or her work and intense pride in Virgin America and our product. We empower our teammates with a high level of authority to resolve guest issues throughout the travel experience, from making flight reservations to interactions at the airport and in flight. We strive to create an environment for our teammates where open communication is both encouraged and expected and where we celebrate our successes together.

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Route Network

We served 23 airports throughout North America as of December 31, 2015. The majority of our routes operate to and from our focus cities of Los Angeles and San Francisco, with a smaller presence located at Dallas Love Field (DAL). Our current network is a mix of long-haul, transcontinental service combined with short-haul West coast service and select Mexico leisure destinations. Below is a route map of our network.

We use publicly available data related to existing traffic, fares and capacity in domestic markets to identify growth opportunities. To monitor the profitability of each route, we analyze monthly profitability reports as well as near-term forecasting. We routinely make adjustments to capacity and frequency of flights within our network based on the financial performance of our markets, and we discontinue service in markets where we determine that long-term profitability is not likely to meet our expectations.

Our future network plans include growing from our focus cities of Los Angeles and San Francisco to other major markets in North America. By continuing to add destinations in select markets from Los Angeles and San Francisco, we can leverage our existing base of loyal guests and grow our share of revenue within these focus cities while also expanding our customer base as we gain new guests in these markets. In the fourth quarter of 2015, we obtained additional Federal Aviation Authority, or FAA, certification for extended twin-engine over-water operations which allowed us to add service from SFO to Honolulu International Airport (HNL) and Kahului Airport (OGG). We believe this Hawaii opportunity increased the diversity of our route network. We are scheduled to commence service to Denver (DEN) in March 2016, and we have announced service from Los Angeles to HNL and OGG to commence in the summer of 2016.

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Commercial Partnerships

We have codeshare and interline agreements with a number of other high-quality airlines to support our revenue strategy. Our codeshare relationships provide for cross-selling of seamless connecting itineraries from our partners international and domestic flights onto our network and, in some instances, also provide for frequent-flyer reciprocity whereby guests can earn and use reward travel on both airlines. Los Angeles and San Francisco are gateways to the U.S. mainland from Asian and trans-Pacific destinations, as well as Hawaii, and our domestic network from these cities provides a natural extension for our codeshare partners.

We currently have codeshare agreements with China Airlines, China Eastern Airlines, China Southern Airlines, Hawaiian Airlines, Singapore Airlines and Virgin Australia, and we plan to add additional codeshare partners in the future, focusing on Asia/Pacific partnership opportunities. We also have interline agreements with 29 additional airlines. Interline agreements allow guests to create itineraries connecting from one airline to another but are more limited in scope than codeshare agreements. Our commercial partnerships contribute to our RASM growth by adding incremental international and domestic guests and revenue and by providing international network opportunities to our existing guests.

Ancillary and Other Revenue

While some of our product features are included in our base pricing, we have unbundled certain ancillary features that our guests separately value. Major ancillary revenue products include checked baggage fees, ticket change fees and our Express product providing reserved seating near the front of the Main Cabin, priority boarding and security access. Guests also pay a reservation fee if they choose to make their reservation through our call center. Additionally, we market certain products from our partners such as travel insurance on our website and recognize revenue in connection with our co-branded credit card program. We also promote and sell products in-flight to enhance the guest experience, including meals, snacks, alcoholic and premium non-alcoholic beverages, on-demand current-run movies and premium television programs, headphones and sleep kits. In June 2015, we transitioned to a new Sabre platform, called Electronic Miscellaneous Document, or EMD, which enabled the sale of Virgin America ancillary products through global distribution systems. In 2015, other revenue, of which the majority represents the ancillary revenue items noted above, represented 10.9% of our total revenue.

Guest Loyalty Program

We maintain an extensive guest loyalty program called the Elevate® frequent flyer program. Our guests earn points for purchasing travel that are redeemable for travel rewards throughout our network and the networks of our partners. We were the first U.S. airline to adopt a loyalty program based on the value of ticket purchases. The number of points that guests earn is tied directly to the purchase price of the ticket; likewise, guests may redeem Elevate points for any fare within our inventory, without any blackout dates, because our rewards pricing is variable. Elevate members with Gold or Silver status enjoy earning bonus Elevate points on purchases, advance access to purchase upgrade options, complimentary upgrades to Main Cabin Select on a space-available basis, free checked bags and priority check-in boarding and security access. At the end of 2015, we had approximately 3.9 million Elevate members, which represented an 12.9% increase over the end of 2014.

We maintain partnerships with other companies through our Elevate program. Companies purchase Elevate points from us to reward their own customers. We benefit from the direct sale of Elevate points as well as additional loyalty from guests that earn points through these other channels. Our most significant third-party Elevate relationship is our co-branded consumer credit card issued by Alliance Data Services, or ADS. The ADS program provides enhanced features to our Elevate members such as point accumulation, free first checked bag, waived change fees and various discounts for companion travel and inflight purchases.

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Marketing and Distribution

We are focused on direct-to-consumer marketing targeted at our core business and leisure guests. Our principal marketing messages are our association with the Virgin brand, our premium travel experience, popular destinations within our network, our innovative product offerings and competitive fares. Consistent with our business model and our brand, we use edgy and fun marketing messages to engage our key demographic. We are early adopters of technology including social networks, generating significant engagement from our advocates on Facebook, Twitter and other social media channels. We consider these channels important for generating awareness around our product and brand as well as creating a positive connection and communication channel with our guests, teammates and other advocates.

Our primary advertising mediums include online search-and-display advertising, targeted direct email marketing, strategically located outdoor advertisements in our key markets, as well as sponsorships of sports teams, select events and entertainment venues. We are also able to leverage the Virgin brand to create public relations events and low-cost viral marketing campaigns that generate extensive media coverage.

We sell our product through three primary distribution channels: our website, our outsourced call center and third parties such as travel agents who access us through GDS (e.g., Amadeus, Sabre and Travelport), and select online travel agents, or OTAs (e.g., Orbitz and Travelocity). We use our website as the primary platform for ticket sales, and approximately 60% of our total tickets sold in 2015 were through direct internet bookings using our website.

We also have a dedicated sales team that focuses on corporate and travel agent accounts. We focus on this segment because corporate accounts and agencies booking through GDS generated average fares 41% higher than those generated through other channels in 2015.

Teammates

We believe maintaining a positive relationship with our teammates is a valuable part of our culture. We believe our relationship with our workforce allows us a highly productive working environment that benefits both the company and our teammates.

At December 31, 2015, our active teammates consisted of 639 pilots, 928 inflight teammates (whom other airlines refer to as flight attendants), 678 guest services teammates, 128 maintenance technicians and 592 management and other personnel. Our inflight teammates, voted for representation by the Transport Workers Union on August 13, 2014, and our pilots, voted for representation by the Air Line Pilots Association on June 4, 2015. We are currently in the beginning stages of negotiating collective bargaining agreements with both of these parties. None of our other teammates are represented by a union organization.

Competition

The airline industry is highly competitive. The principal competitive factors in the airline industry are the fare and total price, flight schedules, product and passenger amenities, customer service, number of routes served from a city, fleet type, safety record and reputation, code-sharing relationships and frequent flier programs. Our competitors and potential competitors include traditional legacy airlines, LCCs and ultra-low-cost carriers, or ULCCs. We typically compete in markets served by traditional legacy airlines and LCCs and, to a lesser extent, ULCCs.

Our principal competitors on domestic routes are Alaska Airlines, American Airlines, Delta Air Lines, Hawaiian Airlines, JetBlue Airways, Spirit Airlines, Southwest Airlines and United Airlines. Our principal competitive advantages are our premium product and brand, distinctive culture and low cost structure. We believe our business model enables us to compete effectively with other LCCs by generating, on average, higher stage-length adjusted RASM but at a stage-length adjusted CASM competitive within the industry and lower than that of legacy airlines.

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The airline industry is particularly susceptible to price discounting because, once a flight is scheduled, airlines incur only nominal incremental costs to provide service to passengers occupying otherwise unsold seats. The expenses of a scheduled aircraft flight do not vary significantly with the number of passengers carried, and as a result, a relatively small change in the number of passengers or in pricing can have a disproportionate effect on an airline s operating and financial results. Price competition occurs on a market-by-market basis through price discounts, changes in pricing structures, fare matching, target promotions and frequent flier initiatives. Airlines typically use discount fares and other promotions to stimulate traffic during normally slower travel periods to generate cash flow and to maximize RASM. The prevalence of discount fares can be particularly acute when a competitor has excess capacity to sell.

Operational Performance

Operational reliability is paramount to success in the airline industry. We strive to achieve high levels of operational performance through careful planning of our flight schedules, an extensive maintenance reliability program and the use of an operating spare aircraft and spare engines. For both 2015 and 2014, we were the top-ranked airline in the Airline Quality Rating, an annual analysis of airline performance conducted by Wichita State University and Embry-Riddle. The U.S. Department of Transportation, or DOT, publishes statistics regarding measures of customer satisfaction for domestic airlines and can assess civil penalties for failure to comply with certain customer service obligations. Our domestic performance under customer service measures for the years ended December 31, 2015 and 2014 was as follows:

	2015	2014
On-Time Performance (1)	79.9%	81.5%
Completion Factor (2)	99.1%	99.4%
Mishandled Baggage (3)	0.84	0.95

(1) Percentage of our scheduled flights operated by us on-time (within 15 minutes).
(2) Percentage of our scheduled flights operated by us, whether or not delayed (i.e., not canceled).
(3) Our incidence of delayed, mishandled or lost baggage per 1,000 passengers.

Aircraft Fuel

Aircraft fuel is our largest expense representing 25.7% of our total operating costs in 2015. The price and availability of jet fuel are volatile due to global economic and geopolitical factors as well as domestic and local supply factors. We use a third-party fuel management vendor to procure most of our fuel. Our historical fuel consumption and costs were as follows:

	Year Ended December 31,		
	2015	2014	2013
Gallons consumed (millions)	169	162	159
Total cost (millions)	$ 348	$ 499	$ 507
Average price per gallon	$ 2.06	$ 3.08	$ 3.18
Percent of operating expenses	25.7%	35.8%	37.7%

Total cost and average price per gallon each include related fuel fees and taxes as well as effective fuel-hedging gains and losses.

We maintain an active fuel hedging program to reduce our exposure to sudden, sharp increases in fuel prices. Historically, we have entered into a variety of hedging instruments, such as forward swaps, options and collar contracts on jet fuel and highly correlated commodities such as heating oil and crude oil. In 2015, we eliminated the use of call options and collars from our fuel hedging program and utilized forward swaps to lock in future fuel purchase prices. There were no heating oil collars or Brent call options outstanding as of December 31, 2015.

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We also use fixed forward price contracts, or FFPs, which allow us to lock in the price of jet fuel for specified quantities and at specified locations in future periods.

Maintenance and Repairs

We have an FAA mandated and approved maintenance program, which is administered by our technical operations department. Our maintenance technicians undergo extensive initial and ongoing training to ensure the safety of our aircraft.

Aircraft maintenance and repair consist of routine and non-routine maintenance, and work performed is divided into three general categories: line maintenance, major maintenance and component service. Line maintenance consists of routine daily and weekly scheduled maintenance checks on our aircraft, including pre-flight, daily, weekly and overnight checks, diagnostics, routine repairs and any unscheduled items on an as-needed basis. Line maintenance events are currently serviced by our mechanics in Los Angeles, San Francisco, Dallas and New York and are supplemented by contract vendors in other locations. Major airframe maintenance checks consist of a series of more complex tasks that can take from one to four weeks to accomplish and typically are required approximately every 20 months. We outsource our major airframe maintenance to an FAA-certified maintenance provider in the United States. Engine overhauls and engine performance restoration events are quite extensive and can take one to two months. We keep spare engines to maintain continued operations during engine maintenance events. We expect to begin the initial engine maintenance overhauls on our engine fleet approximately eight to ten years after the date of manufacture and introduction into our fleet, with subsequent engine maintenance every four to six years thereafter. We have entered into a long-term flight hour agreement with General Electric for our engine overhaul services. Lufthansa Technik covers our component repair and inventory management services on an hourly basis and also provides all of our aircraft component inventory acquisition, replacement and repairs, thereby eliminating the need to carry expensive spare parts inventory.

Our recent maintenance expenses have been lower than what we expect to incur in the future because of the relatively young age of our aircraft fleet. We expect our maintenance costs to increase as the frequency of repair increases with aircraft age. As our aircraft age, the scheduled scope of work and the frequency of unscheduled maintenance events are likely to increase as with any mature fleet. Our aircraft utilization rate could decrease with the increase in aircraft maintenance. In addition, we account for qualifying major engine maintenance under the deferral method wherein overhaul costs and replacement of engine life limited parts are capitalized and amortized. We expect that the final qualifying major engine maintenance events will be amortized over the remaining lease term rather than until the next estimated major maintenance event, which will result in significantly higher depreciation and amortization expense related to major maintenance in the last few years of the leases as compared to expenses in earlier periods.

Insurance

We maintain multiple insurance policies customary in the airline industry and as required by the DOT. The policies principally provide liability coverage for public and passenger injury, damage to property, loss of or damage to flight equipment, third-party war risk (terrorism), fire and extended coverage, directors and officers liability and workers compensation and employer s liability. Although we currently believe our insurance coverage is adequate, we cannot assure you that the amount of such coverage will not be changed or that we will not be forced to bear substantial losses from any accidents.

Foreign Ownership

Under DOT regulations and federal law, we must be controlled by U.S. citizens. In order to qualify, no more than 24.9% of our voting stock may be voted, directly or indirectly, by persons who are non-U.S. citizens, no more than 49.9% of our outstanding stock may be owned (beneficially or of record) by persons who are not U.S. citizens and our president and at least two-thirds of the members of our board of directors and senior management must be U.S. citizens. We are currently in compliance with these ownership provisions.

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Government Regulation

Aviation Regulation

The DOT and FAA have regulatory authority over air transportation in the United States. The DOT has authority to issue certificates of public convenience and necessity required for airlines to provide domestic air transportation. International routes and international code-sharing arrangements are regulated by the DOT and by the governments of the foreign countries involved. An airline s ability to operate flights to international destinations is subject to the aviation agreement in place between the United States and the foreign country and the carrier s ability to obtain necessary authority from the DOT and the applicable foreign government.

The U.S. government has negotiated open skies agreements with many countries, which allow unrestricted access between the United States and foreign markets. Our international flights to Mexico are governed by a bilateral agreement between the United States and Mexico. Changes in U.S. or Mexico aviation policies could result in the alteration or termination of that agreement, diminish the value of our route authorities or otherwise affect our Mexico operations.

The FAA is responsible for regulating and overseeing matters relating to the safety of air carrier flight operations, including the control of navigable air space, the qualification of flight personnel, flight training practices, compliance with FAA airline operating certificate requirements, aircraft certification and maintenance and other matters affecting air safety. The FAA requires each commercial airline to obtain and hold an FAA air carrier certificate.

Airport Access

Flights at four major domestic airports are regulated through allocations of slots or similar regulatory mechanisms, which limit take-offs and landings at those airports. Each slot represents the authorization to land at or take off from the particular airport during a specified time period.

In the United States, the FAA currently regulates the allocation of slots, slot exemptions, operating authorizations or similar capacity allocation mechanisms at Ronald Reagan Washington National Airport (DCA) in Washington, D.C., Newark Liberty International Airport (EWR) in New Jersey and New York s LaGuardia Airport (LGA) and John F. Kennedy International Airport (JFK). Our operations at these airports generally require the allocation of slots or analogous regulatory authorizations. We currently have sufficient slots or operating authorizations to operate our existing flights, but there is no assurance that we will be able to do so in the future because, among other reasons, such allocations are subject to changes in governmental policies.

Consumer Protection Regulation

The DOT also has jurisdiction over certain economic issues affecting air transportation and consumer protection matters, including unfair or deceptive practices and unfair methods of competition by air carriers, airline advertising, denied boarding compensation, ticket refunds, baggage liability and disabled passenger transportation. The DOT also has authority to review certain joint venture agreements between major carriers and engages in regulation of economic matters such as slot transactions.

Security Regulation

The U.S. Transportation Security Administration and the U.S. Customs and Border Protection, each a division of the U.S. Department of Homeland Security, are responsible for certain civil aviation security matters, including passenger and baggage screening at U.S. airports and international passenger prescreening prior to entry into or departure from the U.S. International flights are subject to customs, border, immigration and similar requirements of equivalent foreign governmental agencies.

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Environmental Regulation

We are subject to various federal, state and local laws and regulations and foreign government requirements relating to the protection of the environment and affecting matters such as aircraft engine emissions, aircraft noise emissions and the discharge or disposal of materials and chemicals.

Emissions. The U.S. Environmental Protection Agency, or EPA, is authorized to regulate aircraft emissions, including air carrier operations, which affect the quality of air in the United States. We believe the aircraft in our fleet meet the emission standards issued by the EPA. Concern about climate change and greenhouse gases may result in additional regulation or taxation of aircraft emissions in the United States and abroad. Cap and trade restrictions have also been proposed in the United States. In addition, other legislative or regulatory action, including by the EPA, to regulate greenhouse gas emissions is possible. In particular, the EPA has found that greenhouse gases threaten the public health and welfare, which could result in regulation of greenhouse gas emissions from aircraft. In the event that legislation or regulation is enacted in the United States or in the event similar legislation or regulation is enacted in jurisdictions where we operate or where we may operate in the future, it could result in significant costs for us and the airline industry. In addition to direct costs, such regulation may have a greater effect on the airline industry through increases in fuel costs that could result from fuel suppliers passing on increased costs that they incur under such a system. We seek to minimize the impact of greenhouse gas emissions from our operations by operating with newer, more fuel-efficient aircraft. In addition, we have implemented fuel saving procedures in our flight and ground support operations as part of our efforts to reduce our emissions and minimize our impact on the environment.

Noise. Federal law recognizes the right of airport operators with special noise problems to implement local noise abatement procedures so long as those procedures do not interfere unreasonably with interstate and foreign commerce and the national air transportation system. These restrictions can include limiting nighttime operations, directing specific aircraft operational procedures during take-off and initial climb and limiting the overall number of flights at an airport. While we have had sufficient scheduling flexibility to accommodate local noise restrictions in the past, our operations could be adversely impacted if locally imposed regulations become more restrictive or widespread.

Other Regulations

Airlines are also subject to various other federal, state, local and foreign laws and regulations. For example, the U.S. Department of Justice has jurisdiction over airline competition matters. Labor relations in the airline industry are generally governed by the Railway Labor Act. The privacy and security of passenger and employee data is regulated by various domestic and foreign laws and regulations.

Future Regulations

The U.S. government and foreign governments may consider and adopt new laws, regulations, interpretations and policies regarding a wide variety of matters that could directly or indirectly affect our results of operations. We cannot predict what laws, regulations, interpretations and policies might be considered in the future, nor can we judge what impact, if any, the implementation of any of these proposals or changes might have on our business.

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 Annual Report on Form 10-K, 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.*

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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, 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.

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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.

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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 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, 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 has imposed 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 could reduce the number of slots allocated at these airports or impose new slot restrictions at other 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

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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 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 the second quarter of 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 60 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 December 31, 2015, we had undiscounted future operating lease obligations of approximately $2.0 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 three aircraft scheduled for delivery between April 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 December 31, 2015, 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

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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.

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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 December 31, 2015, 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. For example, this concentration of ownership could delay or prevent a change in control or otherwise discourage a potential acquirer from attempting to obtain control of us, which in turn could cause the trading price of our common stock to decline or prevent our stockholders from realizing a premium over the market price for their common stock.

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 December 31, 2015, the reported sale price of our common stock has fluctuated between $26.50 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.

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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 46.3% of our voting common stock outstanding, and 54.5% of the total outstanding equity interests in our company as of December 31, 2015 (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 December 31, 2015, non-U.S. citizens owned, in the aggregate, 8,051,873 shares of voting common stock and 14,904,611 shares of outstanding common stock (representing approximately 21.4% of the total voting rights and approximately 33.5% 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.

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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 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

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ITEM 2. PROPERTIES

Fleet

We fly only Airbus A320-family aircraft and operate only CFM engines, which provide us significant operational and cost advantages compared to airlines that operate multiple fleet and engine types. Flight crews are entirely interchangeable across all of our aircraft, and maintenance, spare parts inventories and other operational support are highly simplified relative to more complex fleets. Due to this commonality among Airbus single-aisle aircraft, we retain the benefits of a fleet consisting of a single family of aircraft while still having flexibility to match the capacity and range of the aircraft to the demands of many routes.

We have a fleet of 60 Airbus single-aisle aircraft, consisting of ten Airbus A319s and 50 Airbus A320s. As of December 31, 2015, we had 57 aircraft in service and one aircraft delivered in December 2015 that was expected to go into service in 2016. The average age of the fleet was 6.3 years at December 31, 2015. We additionally took delivery of two additional aircraft in February 2016, which we expect to go into service in 2016. Our Airbus A319 aircraft accommodate 119 guests, and our Airbus A320 aircraft accommodate 146-149 guests. We financed 53 of our aircraft under operating leases and purchased five aircraft during 2015 and two aircraft in 2016 using debt facility agreements and our cash resources. We also had five spare engines on hand at December 31, 2015, four of which were leased under operating lease contracts and one of which was purchased in 2015. We expect to finance our fifth and sixth spare engines, the latter of which is expected to be purchased mid-year 2016, through similar debt facility agreements. Refer to Note 7 to our consolidated financial statements included elsewhere in this Annual Report on Form-10-K for more information about our debt agreements.

We plan to grow our fleet with additional Airbus A320-family aircraft, and we currently have an order with Airbus for three Airbus A320 aircraft to be delivered between April and June 2016, and 30 Airbus A320 new engine option, or A320neo, aircraft to be delivered between 2020 and 2022. We have an option to cancel our Airbus A320neo positions up to three years in advance of delivery in groups of five aircraft, but we could incur a loss of pre-delivery payments and credits as a cancellation fee. Twenty-six of our existing operating leases will expire between 2019 and 2022, and we believe there will be an opportunity to extend these leases at a reduced lease rate or to replace them with new or used Airbus A320-family aircraft. During 2015 we signed an extension for one of our lease agreements that was scheduled to terminate in 2016. We also signed lease agreements for 10 Airbus A321neo aircraft to be delivered in 2017 and 2018. Although we expect to grow our fleet as we increase our flights on our existing route network and expand our route network to new markets, we are only committed to grow to 73 aircraft. As a result, our fleet plan provides significant flexibility.

Our Airbus A320 aircraft deliveries in 2015 and 2016 are equipped with sharklets, a new wingtip device that we believe will create up to 3.0% additional fuel efficiency as compared to A320 aircraft not equipped with sharklets. In addition to lowering our average fuel cost per flight, the sharklets provide increased range. This reduces technical stops on our transcontinental flights that occasionally occur during specific weather patterns, and helped contribute to our ability to begin operations to the state of Hawaii.

Our Airbus A321neo aircraft deliveries in 2017 and 2018 are powered by CFM International LEAP-1A engines and we believe such aircraft are up to 15.0% more fuel efficient than comparable current engine option (ceo) A320-family aircraft. These aircraft are expected to accommodate 185 guests, which we believe will allow us to take advantage of additional revenue opportunities on some of our high-demand transcontinental routes, as well as add new, longer-range routes.

Facilities

We lease all of our facilities at each of the airports we serve. Our leases for our terminal passenger service facilities, which include ticket counter and gate space, operations support areas and baggage carousel areas, contain provisions for periodic adjustments of lease rates. We are typically responsible for maintenance, insurance and other facility-related expenses and services under these agreements. We have also entered into use agreements at many of the airports we serve that provide for the non-exclusive use of runways, taxiways and other facilities. Landing fees under these agreements are generally based on the number of landings and weight of the aircraft.

At SFO, we have preferential access to eight Terminal Two gates and shared access with other airlines to additional common-use gates. Currently, the FAA has not imposed or proposed to impose take-off and landing restrictions at SFO, and we believe that the facility is capable of handling our planned growth of operations. We cannot assure you that the FAA would not impose take-off and landing restrictions at SFO in the future. Additionally, under our SFO lease, SFO has reserved the right to reevaluate the airlines collective utilization of the airport facilities, and to impose minimum usage standards on the airlines in order for each airline to maintain preferential gates. If we are unable to meet future minimum usage standards, we cannot assure you that we will continue to have preferential access to eight Terminal Two gates.

Our second largest operation is at LAX, where we operate out of Terminal Three under an airport lease agreement that provides us with the preferential use of six airport gates and access to additional common-use gates as necessary. While space is limited at LAX, we believe that our leased gates are capable of handling our expected growth in operations and that the planned facility improvements will enhance our airport guest experience. Under our LAX lease, LAX has reserved the right to reevaluate the airlines collective utilization of the airport facilities, and to impose minimum usage standards on the airlines in order for each airline to maintain preferential gates. If we are unable to meet future minimum usage standards, we cannot assure you that we will continue to have preferential use of six airport gates at LAX. In addition to our ticket counters and gate areas, we also lease and operate a premium guest lounge in Terminal Three known as the Virgin America Loft. We provide complimentary access to the Virgin America Loft to our First Class guests and generally charge a one-time fee for other guests.

Our principal executive offices and headquarters are located in a leased facility at 555 Airport Boulevard, Burlingame, California 94010, consisting of approximately 85,674 square feet. This lease expires in 2017.

ITEM 3. LEGAL PROCEEDINGS

We are 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 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 4. MINE SAFETY DISCLOSURES

None applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has been traded on the NASDAQ Global Select Market under the symbol VA since our initial public offering, or IPO, on November 14, 2014. The table below shows the high and low sales prices for our common stock for each full quarter and interim periods since that date. Prior to our IPO, there was no public market for our common stock.

	Low	High
2015 Quarter Ended		
December 31	$ 32.37	$ 38.36
September 30	26.74	37.76
June 30	27.00	32.36
March 31	30.12	43.81
Fourth quarter of fiscal 2014 (November 14, 2014 December 31, 2014)	$ 26.50	$ 45.43

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On February 18, 2016, the closing price of our common stock on the NASDAQ Global Select Market was $30.53 per share.

As of February 18, 2016, there were 29 stockholders of record of our common stock. This number excludes stockholders whose stock is held in nominee or street name by brokers.

We have not paid cash dividends on our common stock and have no current intention of doing so. In addition, certain of our current debt instruments and debt instruments we may enter into in the future may contain covenants that restrict our ability to declare or pay dividends. Any future determination to pay cash dividends will be at the discretion of our Board of Directors, subject to applicable limitations under Delaware law. This decision will be dependent upon our results of operations, financial condition and other factors deemed relevant by our Board of Directors.

Performance Graph

This performance graph shall not be deemed filed with the SEC or subject to Section 18 of the Exchange Act, nor shall it be deemed incorporated by reference in any of our filings under the Securities Act of 1933, as amended.

The following graph and accompanying table show the cumulative total return to stockholders of Virgin America s common stock relative to the cumulative total returns of the NASDAQ Composite Index and the AMEX Airline Index from November 14, 2014 to December 31, 2015. The comparison assumes the investment of $100 in our common stock in each of the foregoing indices and reinvestment of all dividends. The stock performance shown represents historical performance and is not representative of future stock performance.

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Purchase of Equity Securities by the Issuer and Affiliated Purchases

None.

Recent Sales of Unregistered Securities

From January 1, 2015 through December 31, 2015, we did not sell or issue any unregistered securities.

Use of Proceeds from Initial Public Offering of Common Stock

On November 13, 2014, the SEC declared effective our Registration Statement on Form S-1 (File No. 333-197660), as amended, filed in connection with our IPO of our common stock. 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. Barclays Capital Inc. and Deutsche Bank Securities Inc. acted as managing underwriters of the offering.

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 ending December 31, 2014.

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ITEM 6. SELECTED FINANCIAL DATA

The following financial information for the five years ended December 31, 2015 has been derived from our consolidated financial statements. This information should be read in conjunction with the consolidated financial statements and related notes thereto included elsewhere in this report.

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	in thousands, except per share data				
Consolidated Statements of Operations Data:					
Operating revenues:					
Passenger	$ 1,362,871	$ 1,334,088	$ 1,296,929	$ 1,215,178	$ 950,933
Other	166,713	155,879	127,749	117,659	86,175
Operating revenues	1,529,584	1,489,967	1,424,678	1,332,837	1,037,108
Operating expenses:					
Aircraft fuel	347,676	499,102	507,035	537,501	417,815
Salaries, wages and benefits	289,635	257,367	196,477	176,216	138,276
Aircraft rent (1)	219,770	184,357	202,071	236,800	187,876
Landing fees and other rents	143,842	133,128	122,621	110,165	87,133
Sales and marketing	124,771	113,203	106,599	107,136	81,901
Aircraft maintenance	57,307	60,069	61,854	58,934	34,596
Depreciation and amortization	18,637	14,486	13,963	11,260	10,155
Other operating expenses	150,707	131,840	133,177	126,558	106,752
Total operating expenses	1,352,345	1,393,552	1,343,797	1,364,570	1,064,504
Operating income (loss)	177,239	96,415	80,881	(31,733)	(27,396)
Other expense:	(9,089)	(35,127)	(70,420)	(113,640)	(72,993)
Net income (loss) before income tax	168,150	61,288	10,461	(145,373)	(100,389)
Income tax expense (benefit) (2)	(172,387)	1,179	317	15	14
Net income (loss)	$ 340,537	$ 60,109	$ 10,144	$ (145,388)	$ (100,403)
Net income (loss) per share:					
Basic	$ 7.82	$ 8.42	$ 5.60	$ (207.20)	$ (143.09)
Diluted	$ 7.66	$ 7.13	$ 3.68	$ (207.20)	$ (143.09)
Shares used in per share calculation:					
Basic	43,547	6,176	702	702	702
Diluted	44,466	7,470	1,647	702	702

(1) Year ended December 31, 2015 includes $36.1 million additional expense related to the change in estimate on expected supplemental rent payments associated with future maintenance events.
(2) Year ended December 31, 2015 includes $173.5 million tax benefit related to the valuation allowance reversal.

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The following table presents our historical selected consolidated balance sheet data for the periods presented:

	As of December 31,				
	2015	2014	2013	2012	2011
	in thousands				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 496,349	$ 394,643	$ 155,659	$ 76,018	$ 159,815
Total assets	1,568,531	987,585	700,996	511,022	505,644
Long-term debt, including current portion	307,741	129,687	747,431	857,034	726,954
Convertible preferred stock			21,406	21,406	21,406
Total stockholders equity (deficit)	808,147	459,253	(384,027)	(630,924)	(484,473)

OPERATING STATISTICS

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Operating Statistics (unaudited): (1)					
Available seat miles ASMs (millions)	12,691	12,240	12,243	12,514	9,853
Departures	62,719	58,432	58,215	56,362	44,696
Average stage length (statute miles)	1,413	1,466	1,474	1,567	1,571
Aircraft in service (end of period)	57	53	53	52	44
Fleet utilization (block hours per day)	10.9	10.8	10.8	11.6	12.1
Passengers (thousands)	7,036	6,507	6,329	6,219	5,030
Average fare	$ 193.69	$ 205.02	$ 204.91	$ 195.38	$ 189.05
Yield per passenger mile (cents)	13.06	13.24	13.21	12.26	11.82
Revenue passenger miles RPMs (millions)	10,436	10,074	9,814	9,912	8,034
Load factor	82.2%	82.3%	80.2%	79.2%	81.5%
Passenger revenue per available seat mile PRASM (cents)	10.74	10.90	10.59	9.71	9.64
Total revenue per available seat mile RASM (cents)	12.05	12.17	11.64	10.65	10.53
Cost per available seat mile CASM (cents)	10.66	11.38	10.98	10.90	10.80
CASM, excluding fuel (cents)	7.92	7.30	6.83	6.61	6.56
CASM, excluding fuel and profit sharing (cents)	7.75	7.19	6.82	6.61	6.56
Fuel cost per gallon	$ 2.06	$ 3.08	$ 3.18	$ 3.32	$ 3.24
Fuel gallons consumed (thousands)	169,010	161,791	159,326	161,404	128,852
Teammates (FTE)	2,658	2,492	2,482	2,395	2,002

(1) See Glossary of Airline Terms following Item 7A. Quantitative and Qualitative Disclosures about Market Risk in this Annual Report on Form 10-K for definitions of terms used in this table.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 December 31, 2015, we provided service to 23 airports in the United States and Mexico with a fleet of 57 narrow-body aircraft. We also took delivery of one aircraft in December 2015 that went into service subsequent to year end and took delivery of two additional aircraft in February 2016.

2015 Highlights

2015 marked our highest level of profitability since we commenced revenue operations in 2007, with net income of $340.5 million. This represents an increase of $280.4 million over net income of $60.1 million in 2014. Our 2015 results include a $173.5 million gain to reverse a valuation allowance against our deferred tax assets, as well as a $36.1 million expense to write-off aircraft maintenance deposits under leases where we no longer expect to perform certain maintenance events during the lease term. Excluding these two items, our net income would have been $203.2 million. Highlights for 2015 include the following:

- PRASM for 2015 decreased by 1.5% a smaller decline than the industry average domestic PRASM decline of 4.5%;

- RASM for 2015 decreased by 1.0% as compared to 2014, to 12.05 cents;

- CASM decreased 6.3% as compared to 2014, primarily a result of declining fuel prices;

- Our average cost per gallon to purchase fuel declined 33.1% in 2015, to $2.06 per gallon;

- CASM excluding fuel and profit sharing expense increased 7.8% from 2015, primarily from increases in pay and benefits that we implemented in April 2015 as well as the $36.1 million adjustment to aircraft maintenance deposits, which was recorded as aircraft rent expense;

- Net other non-operating expense declined by 74.1% to $9.1 million due to conversion of the majority of our debt into equity in connection with our initial public offering, or IPO, in November 2014, as well as the elimination of a letter of credit facility in June 2015;

- We launched service from San Francisco to Honolulu and Maui, Hawaii in the fourth quarter of 2015, and made other network changes during 2015 including adjustments to the markets we service from Dallas Love Field;

- We continued to improve our product offering in 2015 by introducing an upgrade to our Red® in-flight entertainment system, as well as a new partnership with broadband and communications technology provider ViaSat Inc. to implement a new high-speed satellite based in-flight internet service on our 2015 and 2016 aircraft deliveries;

- We signed an agreement to lease ten A321neo aircraft to be delivered in 2017 and 2018, continuing our long-term growth plan with new technology that we believe will provide up to 15.0% greater fuel efficiency as compared to comparable current engine option (ceo) A320-family aircraft.

We plan to take delivery of five A320 aircraft in the first half of 2016, three of which are on order with Airbus. We expect to have a total of 63 A320-family aircraft in our fleet by June 30, 2016, and anticipate that the final June 2016 delivery will enter service early in the third quarter of 2016. During 2015 we executed debt facility agreements to finance the majority of the purchase price of these aircraft.

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2014 Recapitalization

In November 2014, immediately prior to the consummation of our IPO, we entered into a recapitalization agreement, or the 2014 Recapitalization Agreement, with the Virgin Group, Cyrus Capital and certain of our other security holders. In accordance with the terms of the 2014 Recapitalization Agreement, a portion of our related-party debt and accrued interest, or Related-Party Notes, with recorded value of $728.3 million were repaid by $156.5 million in cash and exchanged for a $50.0 million Post-IPO Note held by the Virgin Group. The Post-IPO Note was recorded at the estimated fair value of $38.5 million, calculated using an effective interest rate of 8.5% at the time of the issuance, determined based on an estimated market rate for unsecured instruments with similar terms. The remainder of the Related-Party Notes were exchanged for 22,159,070 shares of our common stock based on the IPO offering price and the remaining outstanding contractual value of the debt, except for principal and accrued interest under certain Related-Party Notes, which were converted at a premium of 117% of the outstanding contractual value. The application of the premium to these notes had the effect of effectively transferring common ownership between the two principal shareholders, Virgin Group and Cyrus Capital just prior to the IPO. In addition, 1,950,937 shares of convertible preferred stock and Class A, Class A-1, Class B and Class G common stock were converted into shares of common stock on a one-to-one basis. Outstanding related-party warrants, or Related-Party Warrants, to purchase 26,067,475 shares of our common stock were exchanged without receipt of cash consideration for 5,742,543 shares of our common stock and the remaining Related-Party Warrants to purchase an aggregate of 16,175,126 shares of our common stock were canceled in their entirety.

2013 Recapitalization

In May 2013, we, the Virgin Group and Cyrus Capital agreed to modify and exchange a portion of our then outstanding related-party debt. The Virgin Group and Cyrus Capital reduced $318.4 million of our related-party debt and reduced the interest rates ranging from 15.0% to 20.0% on certain of our remaining related-party debt to 5.0% per year in exchange for the issuance of $75.0 million of new debt and certain Related-Party Warrants. We recognized a $150.5 million restructuring gain resulting from the application of guidance for troubled debt restructuring as a capital contribution with a direct increase in additional paid-in-capital due to the debt being issued to related parties. In addition, we also recorded Related-Party Warrants at fair value of $83.4 million on the date of issuance as a reduction to the carrying amount of the related-party debt and a corresponding increase to stockholders equity.

We also amended substantially all of our lease agreements with our existing aircraft lessors to reduce monthly base rent and/or maintenance reserve payments through monthly cash rent rebates. Under some of our leases, we also extended the lease terms by three to five years.

For more information, see Notes 2, 7 and 9 to the Consolidated Financial Statements.

Results of Operations

2015 Compared to 2014

In 2015, we had net income of $340.5 million compared to net income of $60.1 million in 2014. Our operating income of $177.2 million for 2015 increased by $80.8 million, or 83.8%, compared to 2014. Our net income for 2015 includes a tax benefit of $173.5 million resulting from the release of our valuation allowance, discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates. Our operating margin increased by 5.1 points to 11.6% in 2015 as compared to 6.5% in 2014.

Our operating capacity, as measured by ASMs, increased by 3.7% for 2015 as compared to 2014 as we began expanding our fleet with four new Airbus A320 aircraft going into service during the second half of the year. Our number of passengers increased by 8.1% in 2015 as compared to 2014, while our yield decreased by 1.4% year over year.

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Our CASM decreased by 6.3% to 10.66 cents for 2015 as compared to 11.38 cents for 2014. This was primarily a result of a decrease in aircraft fuel cost, partially offset by increased salaries, wages and benefits, aircraft rent, and marketing expense costs.

Our interest expense for 2015 decreased by $26.7 million from the prior year period, primarily as a result of our 2014 Recapitalization.

Operating Revenues

	Year Ended December 31,		Change	
	2015	2014	Amount	%
Operating revenues (in thousands):				
Passenger	$ 1,362,871	$ 1,334,088	$ 28,783	2.2
Other	166,713	155,879	10,834	7.0
Total operating revenues	$ 1,529,584	$ 1,489,967	$ 39,617	2.7
Operating statistics:				
Available seat miles (millions)	12,691	12,240	451	3.7
Revenue passenger miles (millions)	10,436	10,074	362	3.6
Average stage length (statute miles)	1,413	1,466	(53)	(3.6)
Load factor	82.2%	82.3%	(0.1) pts	
Total passenger revenue per available seat mile PRASM (cents)	10.74	10.90	(0.16)	(1.5)
Total revenue per available seat mile RASM (cents)	12.05	12.17	(0.12)	(1.0)
Yield (cents)	13.06	13.24	(0.18)	(1.4)
Average fare	$ 193.69	$ 205.02	$ (11.33)	(5.5)
Passengers (thousands)	7,036	6,507	529	8.1

Passenger revenue for 2015 increased 2.2% from 2014 on a 3.7% increase in capacity, measured by ASMs. Full year 2015 PRASM decreased 1.5% as compared to 2014 to 10.74 cents. The year-over-year decrease in PRASM was principally driven by a 1.4% decrease in passenger yield. Total RASM for 2015 decreased 1.0% from 2014. Our PRASM declined modestly in 2015 due in part to the introduction of new service at Dallas Love Field, where fares have been extremely competitive since the elimination in 2014 of the Wright Amendment law that restricted service at Dallas Field, and also due to more competitive pricing generally throughout our network as airlines adjusted pricing strategies in a declining fuel cost environment. Our PRASM decline of 1.5% was less than the industry average domestic PRASM decline of 4.5%, as measured by the industry trade group Airlines for America.

The 7.0% increase in other revenue for 2015 from 2014 was primarily due to higher ancillary fee revenue from reserved seat assignments, priority boarding in our main cabin and change fees, as well as higher advertising and brand revenues from our credit card program. The increase in ancillary fee revenue was primarily driven by an 8.1% increase in passengers as well as higher fees for ancillary products.

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Operating Expenses

	Year Ended December 31, 2015	2014	Change Amount	%	Cost per ASM 2015 (in cents)	2014	Change %
Operating expenses (in thousands):							
Aircraft fuel	$ 347,676	$ 499,102	$ (151,426)	(30.3)	2.74	4.08	(32.8)
Salaries, wages and benefits	289,635	257,367	32,268	12.5	2.28	2.10	8.6
Aircraft rent	219,770	184,357	35,413	19.2	1.73	1.50	15.3
Landing fees and other rents	143,842	133,128	10,714	8.0	1.13	1.09	3.7
Sales and marketing	124,771	113,203	11,568	10.2	0.98	0.92	6.5
Aircraft maintenance	57,307	60,069	(2,762)	(4.6)	0.45	0.49	(8.2)
Depreciation and amortization	18,637	14,486	4,151	28.7	0.15	0.11	36.4
Other operating expenses	150,707	131,840	18,867	14.3	1.20	1.09	10.1
Total operating expenses	$ 1,352,345	$ 1,393,552	$ (41,207)	(3.0)	10.66	11.38	(6.3)
Operating statistics:							
Available seat miles (millions)	12,691	12,240	451	3.7			
Average stage length (statute miles)	1,413	1,466	(53)	(3.6)			
Departures	62,719	58,432	4,287	7.3			
Block hours	216,336	208,852	7,484	3.6			
CASM (excluding fuel)	7.92	7.30	0.62	8.5			
CASM (excluding fuel and profit sharing)	7.75	7.19	0.56	7.8			
Fuel cost per gallon	$ 2.06	$ 3.08	(1.02)	(33.1)			
Fuel gallons consumed (thousands)	169,010	161,791	7,219	4.5			
Teammates (FTE)	2,658	2,492	166	6.7			

Aircraft fuel

Aircraft fuel expense for 2015, which includes the effect of our fuel hedges, decreased by $151.4 million, or 30.3%, from 2014. The decrease was primarily due to a decrease of $1.02, or 33.1%, in the average fuel cost per gallon offset in part by a 4.5% increase in fuel consumption. The increased fuel consumption was primarily the result of a 3.6% increase in block hours from 2014.

We maintain an active fixed forward price contract, or FFP, and hedging program to reduce the impact of sudden, sharp increases in fuel prices. We enter into a variety of hedging instruments, such as forward swaps, options and collar contracts on jet fuel and highly correlated commodities such as heating oil and crude oil. We also use FFPs, which allow us to lock in the price of jet fuel for specified quantities and at specified locations in future periods. At December 31, 2015, we had entered into derivative hedging instruments and FFPs for approximately 35% of our then expected twelve-month fuel requirements, with all of our then existing hedge contracts expected to settle by the end of the third quarter of 2016. Due to the impact of declining fuel prices, we recognized $41.2 million in fuel hedge losses in the year ended December 31, 2015, of which $1.9 million were unrealized gains for fuel hedges that will mature in 2016.

Salaries, wages and benefits

Salaries, wages and benefits expense for 2015 increased by $32.3 million, or 12.5%, from 2014. Salaries and wages, in particular for flight crews, increased significantly as a result of our 2015 pay initiatives, a 6.7% increase in our full-time headcount, and the increasing seniority of our pilots and inflight teammates. In 2015, we began hiring and training new teammates in connection with our new aircraft deliveries. In addition, salaries, wages and benefits expense for the year ended December 31, 2015 included an increase of $6.1 million in profit sharing and bonus expense to $20.5 million. For the years ended December 31, 2014 and 2013, under our annual profit sharing program, we accrued 15% of cumulative year-to-date income before income taxes and profit sharing (excluding certain special items) for the benefit of our eligible teammates. Starting in 2015, we implemented a change to our annual profit sharing program whereby profit sharing is accrued based on 15% of pre-tax income, net of profit sharing expense, above a certain threshold. For 2015, the threshold, which was based on $1.5 million times the weighted average number of aircraft in our fleet, was $81.4 million.

Our overall benefit plan costs for 2015 increased by $9.4 million from the prior year period due to an increase in the amount of the 401(k) match benefits paid to our teammates and higher healthcare costs. Beginning in 2015, a new discretionary 401(k) company contribution called 401(k) Plus went into effect, under which we make additional 401(k) contributions of up to 4.5% of salary for pilots and 1.5% for all other teammates.

In 2016, we will continue to incur additional costs associated with hiring and training new teammates in connection with our new aircraft deliveries expected in 2016 through 2018.

Aircraft rent

Aircraft rent expense for 2015 increased by $35.4 million, or 19.2% from 2014, primarily due to a $36.1 million adjustment resulting from a change in estimate related to whether maintenance would be performed on certain aircraft prior to the end of the lease term to recover the associated deposits. Refer to Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates.

Landing fees and other rents

Landing fees and other rents expense for 2015 increased by $10.7 million, or 8.0%, from 2014, primarily as a result of 7.3% increase in departures due to the addition of Dallas Love Field Airport (DAL) and LaGuardia Airport (LGA) in late 2014 and Honolulu International Airport (HNL) and Kahului Airport (OGG) in late 2015, as well as capacity increases at existing airports.

Sales and marketing

Sales and marketing expense for 2015 increased by $11.6 million, or 10.2%, from 2014 primarily due to higher spending on advertising and higher distribution costs.

Aircraft maintenance

Aircraft maintenance expense remained relatively consistent over 2015 and 2014.

Depreciation and amortization

Depreciation and amortization expense for 2015 increased by $4.2 million, or 28.7%, from 2014, primarily due to due to depreciation of our new software licenses and aircraft leasehold improvements. We also began incurring depreciation on our 2015 aircraft deliveries. Depreciation expense will continue to increase as we take five more aircraft deliveries in the first half of 2016.

Other operating expenses

Other operating expense for 2015 increased by $18.9 million, or 14.3%, from 2014, primarily due to higher guest supplies and team travel costs driven by 7.3% increase in departures. We also incurred higher legal and professional fees primarily associated with being a public company.

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Other Income (Expense)

Other income (expense) for 2015 decreased by $26.0 million, or 74.1%, from 2014, primarily due to the $30.1 million reduction in related-party interest expense as a result of the 2014 Recapitalization, partially offset by interest expense incurred on our 2015 aircraft financings. In November 2014 in connection with the 2014 Recapitalization, we reduced our remaining related-party debt and accrued interest to a recorded value of $38.5 million with an effective interest rate of 8.5%. The effective interest rate increased to 9.8% in June 2015 as a result of a reduction of the maturity date in connection with the cancellation of the Letter of Credit Facility described in Note 2 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Income Taxes

The income tax benefit associated with our income in 2015 was largely due to the release of our valuation allowance. For the year ended December 31, 2015, we recorded a net tax benefit $172.4 million resulting from the reversal of our valuation allowance.

2014 Compared to 2013

In 2014, we had net income of $60.1 million compared to net income of $10.1 million in 2013. Our operating income of $96.4 million for 2014 increased by $15.5 million, or 19.2%, compared to 2013. Our operating margin increased by 0.8 points to 6.5% in 2014 as compared to 5.7% in 2013.

Our operating capacity, as measured by ASMs, remained consistent for 2014 and 2013. Our number of passengers increased by 2.8% in 2015 as compared to 2013, and our yield remained relatively consistent.

Our CASM increased by 3.6% to 11.38 cents for 2014 as compared to 10.98 cents for 2013. This was primarily a result of increased salaries, wages and benefits, a significant portion of which was due to one-time share-based compensation expense recognized upon our IPO, profit sharing expense related to our increase in pre-tax income and higher landing fees, partially offset by lower aircraft rent and fuel costs.

In addition, interest expense for 2014 decreased by $33.8 million from the prior year period, primarily as a result of our 2013 Recapitalization and 2014 Recapitalization.

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Operating Revenues

	Year Ended December 31, 2014	2013	Change Amount	%
Operating revenues (in thousands):				
Passenger	$ 1,334,088	$ 1,296,929	$ 37,159	2.9
Other	155,879	127,749	28,130	22.0
Total operating revenues	$ 1,489,967	$ 1,424,678	$ 65,289	4.6
Operating statistics:				
Available seat miles (millions)	12,240	12,243	(3)	
Revenue passenger miles (millions)	10,074	9,814	260	2.6
Average stage length (statute miles)	1,466	1,474	(8)	(0.5)
Load factor	82.3%	80.2%	2.1 pts	
Passenger revenue per available seat mile PRASM (cents)	10.90	10.59	0.31	2.9
Total revenue per available seat mile RASM (cents)	12.17	11.64	0.53	4.6
Yield (cents)	13.24	13.21	0.03	0.2
Average fare	$ 205.02	$ 204.91	$ 0.11	0.1
Passengers (thousands)	6,507	6,329	178	2.8

Passenger revenue for 2014 increased 2.9% from 2013 on the same level of capacity, measured by ASMs. Full year 2014 PRASM increased year-over-year due to a 0.2% increase in passenger yield and a 2.1 point increase in load factor. Total RASM for 2014 increased 4.6% from 2013, primarily from the increase in PRASM and a 22.0% increase in other revenue.

The 22.0% increase in other revenue for 2014 from 2013 was primarily due to increased advertising and brand revenues resulting from our new co-branded consumer credit card program that we launched in January 2014. In addition, seat selection fee revenue and change fee revenue increased, primarily due to a 2.8% increase in passengers as well as higher fees for ancillary products.

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Operating Expenses

	Year Ended December 31, 2014	2013	Change Amount	%	Cost per ASM (in cents) 2014	2013	Change %
Operating expenses (in thousands):							
Aircraft fuel	$ 499,102	$ 507,035	$ (7,933)	(1.6)	4.08	4.14	(1.4)
Salaries, wages and benefits	257,367	196,477	60,890	31.0	2.10	1.61	30.4
Aircraft rent	184,357	202,071	(17,714)	(8.8)	1.50	1.65	(9.1)
Landing fees and other rents	133,128	122,621	10,507	8.6	1.09	1.00	9.0
Sales and marketing	113,203	106,599	6,604	6.2	0.92	0.87	5.7
Aircraft maintenance	60,069	61,854	(1,785)	(2.9)	0.49	0.51	(3.9)
Depreciation and amortization	14,486	13,963	523	3.7	0.11	0.11	
Other operating expenses	131,840	133,177	(1,337)	(1.0)	1.09	1.09	
Total operating expenses	$ 1,393,552	$ 1,343,797	$ 49,755	3.7	11.38	10.98	3.6
Operating statistics:							
Available seat miles (millions)	12,240	12,243	(3)				
Average stage length (statute miles)	1,466	1,474	(8)	(0.5)			
Departures	58,432	58,215	217	0.4			
CASM (excluding fuel)	7.30	6.83	0.47	6.9			
CASM (excluding fuel and profit sharing)	7.19	6.82	0.37	5.4			
Fuel cost per gallon	$ 3.08	$ 3.18	(0.10)	(3.1)			
Fuel gallons consumed (thousands)	161,791	159,326	2,465	1.5			
Teammates (FTE)	2,492	2,482	10	0.4			

Aircraft fuel

Aircraft fuel expense for 2014, which includes the effect of our fuel hedges, decreased by $7.9 million, or 1.6%, from 2013. The decrease was primarily due to a decrease of $0.10, or 3.1%, in the average fuel cost per gallon offset in part by a 1.5% increase in fuel consumption. The increased fuel consumption was primarily the result of a slight increase in departures.

We maintain an active FFP and hedging program to reduce the impact of sudden, sharp increases in fuel prices. We enter into a variety of hedging instruments, such as forward swaps, options and collar contracts on jet fuel and highly correlated commodities such as heating oil and crude oil. We also use FFPs, which allow us to lock in the price of jet fuel for specified quantities and at specified locations in future periods. At December 31, 2014, we had entered into derivative hedging instruments and FFPs for approximately 27% of our then expected twelve-month fuel requirements, with all of our then existing hedge contracts expected to settle by the end of the third quarter of 2015. Due to the impact of declining fuel prices, we recognized $10.6 million in fuel hedge losses in the year ended December 31, 2014, of which $3.4 million were unrealized losses for fuel hedges matured in 2015.

Salaries, wages and benefits

Salaries, wages and benefits expense for 2014 increased by $60.9 million, or 31.0%, from 2013. Salaries and wages for flight crews increased significantly as a result of the competitive marketplace for talent and increasing seniority of our pilots and inflight teammates. In addition, salaries, wages and benefits expense for the year ended December 31, 2014 include an increase of $20.9 million in profit sharing and bonus expense, including a $5.3 million expense recognized for the value of shares distributed by our employee stock ownership vehicle to teammates, and $14.0 million in share-based compensation expense primarily associated with our IPO. Share-based compensation expense reflects the effect of pre-IPO performance-based stock compensation which achieved the IPO performance trigger in November 2014 and therefore were recognized in the fourth quarter of 2014. Under our annual profit sharing program, we accrued 15% of cumulative year-to-date income before income taxes and profit sharing (excluding certain special items) for the benefit of our eligible teammates in 2014 and 2013.

Our overall benefit plan costs for 2014 increased from the prior year period due to an increase in the amount of the 401(k) match benefits paid to our teammates and an increase in healthcare costs.

Aircraft rent

Aircraft rent expense for 2014 decreased by $17.7 million, or 8.8% from 2013, primarily due to the full year effect of aircraft lease amendments that we executed in connection with the 2013 Recapitalization in May 2013.

Landing fees and other rents

Landing fees and other rents expense for 2014 increased by $10.5 million, or 8.6%, from 2013, primarily as a result of rate increases for facilities at our destination airports.

For 2013 and for a part of 2014, we received the benefit of landing fee and rent incentives for our added destinations of Austin and San Jose. The expiry of these incentives in the second quarter of 2014 and the additional rate increases at a majority of the airports at which we operate led to an increase in our landing fees and other rents both in absolute dollars and as a percentage of revenue.

Sales and marketing

Sales and marketing expense for 2014 increased $6.6 million, or 6.2%, from 2014, primarily due to $5.0 million in one-time credits recognized in 2013. These one-time credits consisted of a contract termination payment from a former software system provider and a contractual marketing incentive.

Aircraft maintenance

Aircraft maintenance expense remained relatively consistent for 2014 and 2013.

Depreciation and amortization

Depreciation and amortization expense remained relatively consistent for 2014 and 2013.

Other operating expenses

Other operating expense remained relatively consistent for 2014 and 2013.

Other Income (Expense)

Other income (expense) for 2014 decreased by $35.3 million, or 50.1%, from 2013, primarily due to the $34.7 million reduction in related-party interest expense as a result of the 2013 Recapitalization. As part of the 2013 Recapitalization, we reduced our related-party debt of $687.5 million with stated interest rates ranging from 4.7% to

20.0% to related-party debt with a recorded value of $529.8 million with effective interest rates of 0.0% to 10.0% per year. Furthermore, in November 2014 in connection the 2014 Recapitalization, we reduced our remaining related-party debt and accrued interest to a recorded value of $38.5 million with an effective interest rate of 8.5% for the year ended December 31, 2014. See Note 2 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further details and a discussion of the accounting for these transactions.

Income Taxes

The income tax provision associated with our income in 2014 was largely offset by the release of a valuation allowance against net deferred tax assets. For the year ended December 31, 2014, we recorded a deferred tax liability and tax expense of $1.2 million resulting from the difference between the book and tax basis of indefinite-lived intangible assets that are not available to cover net deferred tax assets subject to a valuation allowance.

Liquidity and Capital Resources

As of December 31, 2015, our principal sources of liquidity were cash and cash equivalents of $496.3 million. As of December 31, 2015, we also had restricted cash of $19.8 million, which primarily represents cash collateral securing our letters of credit for airport facility leases. In addition, we had $9.7 million of cash collateral posted with various third parties related to losses under our fuel hedging program. This cash collateral will be released during 2016 as we settle the underlying hedges with such counterparties or if our fuel hedge portfolio losses fall below the credit limits we have with these counterparties.

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 December 31, 2015, we operated 53 of the 58 aircraft in our fleet as of such date under operating leases, which required a smaller upfront 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 to finance 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%. As of December 31, 2015, we had a balance of $193.6 million outstanding in relation to our 2015 aircraft financing with principal and interest payable quarterly in arrears.

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 as scheduled and drew down upon the related financing in connection with such deliveries, which increased long-term debt by $78.0 million.

In December 2015, we entered into lease agreements for 10 A321neo aircraft to be delivered in 2017 and 2018. Refer to Management s Discussion and Analysis of Financial Condition and Results of Operations Off-Balance Sheet Arrangements for further information.

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.

We also have five spare engines on hand at December 31, 2015, of which four are leased under operating lease contracts and one was purchased in 2015. We expect to finance our fifth and sixth spare engines, the latter of which is expected to be purchased mid-year 2016.

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 December 31, 2015, we had paid $72.4 million of PDPs to Airbus, $34.8 million of which were financed by a third party payable upon delivery of aircraft.

In addition to funding the acquisition of our future fleet, we are required to make maintenance reserve payments to our lessors for our current fleet. Qualifying payments that are expected to be recovered from lessors are recorded as aircraft maintenance deposits in our consolidated balance sheets. Maintenance reserves are paid to aircraft lessors and are held as collateral in advance of our performance of major maintenance activities. In 2015 and 2014, we made $61.2 million and $57.5 million, respectively, of maintenance deposit payments to our lessors, net of certain rebates. We received $5.3 million in 2015 and $4.9 million in 2014 of maintenance reimbursements, due to qualifying maintenance events taking place during the respective periods. As a result of various lease amendments entered into with our aircraft lessors in 2013, we are entitled to lease rebates either to base rent or maintenance deposits on a monthly basis. We received $9.2 million in maintenance deposit rebates from our lessors in both 2015 and 2014, which are treated as reductions to maintenance deposits on our consolidated balance sheets when earned.

In connection with various lease amendments entered into with our aircraft lessors in 2013, we are entitled to approximately $1.6 million of lease rebates on a monthly basis. Lease rebates will decline over time as we reach the expiration of the period under each lease for which we are entitled to rebates, or as aircraft leases expire. Receipt of any future lease rebates is contingent on us maintaining $75.0 million of unrestricted cash and cash equivalents as of the last day of each month. Under the amended lease agreements, we are obligated to refund 25.0% of substantially all the monthly base rent lease rebates received through December 31, 2016 in the first quarter of 2017 or on a pro-rata basis with any debt repayment occurring prior to the first quarter of 2017. As a result of the repayment of related-party debt in connection with the 2014 Recapitalization, we accelerated $2.5 million of lease obligation repayments. As of December 31, 2015, the aggregate amount of lease rebates earned was $59.4 million, net of $11.6 million recorded as a payable to the lessors.

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 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 2015, 2014 and 2013:

	Year Ended December 31		
	2015	**2014**	**2013**

Net cash provided by operating activities	$ 197,519	$ 135,605	$ 50,603
Net cash used in investing activities	(254,571)	(55,160)	(41,996)
Net cash provided by financing activities	158,758	158,539	71,034
Net increase in cash and cash equivalents	101,706	238,984	79,641
Cash and cash equivalents, end of period	496,349	394,643	155,659

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Net Cash Flow Provided By Operating Activities

During 2015, net cash flow provided by operating activities was $197.5 million. We had net income of $340.5 million adjusted for the following non-cash items: increases for depreciation and amortization of $18.6 million, share-based compensation expense of $6.1 million, paid in-kind interest expense of $3.6 million, and reduction for deferred income taxes of $172.6 million. The change in our air traffic liability contributed $24.4 million of operating cash flow, primarily due to higher sales on a 3.7% increase in capacity and our annual advance payment from our credit card partner, offset in part by revenue under the credit card program. We increased our maintenance deposits by a net $10.6 million, primarily due to our reserve payments for future maintenance events, net of an adjustment from a change in estimate related to the expected timing of future maintenance events. Other non-current assets increased by $24.1 million primarily due to expensing rent on a straight-line basis at a rate that is lower than our cash payments during the period. Accounts payable increased by $12.0 million primarily due to payables related to routine maintenance, higher marketing expenses at year end and timing of payments for fuel. Other current liabilities increased by $18.7 million primarily due to decrease in margin call deposits and higher profit sharing and payroll payables resulting from the growth in headcount and average salaries.

During 2014, net cash flow provided by operating activities was $135.6 million. We had net income of $60.1 million adjusted for the following non-cash items: paid in-kind interest expense of $20.7 million, depreciation and amortization of $14.5 million and share-based compensation expense of $14.0 million. Our air traffic liability and credit card holdbacks contributed $92.0 million of operating cash flow, primarily due to a $100.0 million release of holdbacks in connection with the 2014 Recapitalization in exchange for a letter of credit issued by the Virgin Group on our behalf. We increased our maintenance deposits by $29.8 million, primarily due to our reserve payments for future maintenance events. Other non-current assets increased by $31.6 million primarily due to expensing rent on a straight-line basis at a rate that is lower than our cash payments during the period.

During 2013, net cash flow provided by operating activities was $50.6 million. We had net income of $10.1 million adjusted for the following non-cash items: paid in-kind interest expense of $54.3 million and depreciation and amortization of $14.0 million. We increased our maintenance deposits by $38.1 million and reduced other non-current liabilities by $8.5 million, primarily due to our aircraft lease amendments entered into in connection with the 2013 Recapitalization. Air traffic liability, net of credit card holdbacks, contributed $17.8 million of cash flow, primarily due to a $10.0 million advance payment received from our new co-branded credit card partner, increased credit card points deferrals and the timing of receipt of credit card settlements. Other current liabilities increased by $10.6 million, primarily due to the growth of our business, including the addition of three new airports, timing of payments and salary and wage increases.

Net Cash Flows Used In Investing Activities

During 2015, net cash flow used in investing activities was $254.6 million. We invested $248.8 million in five aircraft, flight equipment and software, and made $5.8 million in net pre-delivery payments for our aircraft scheduled to be delivered in 2016.

During 2014, net cash flow used in investing activities was $55.2 million. We invested $41.8 million in domestic airport operating rights, flight equipment and software and made $13.4 million in pre-delivery payments for our aircraft scheduled to be delivered in 2015 and 2016.

During 2013, net cash flow used in investing activities was $42.0 million. We invested $27.0 million in domestic airport operating rights, and $15.0 million in equipment, software, and aircraft improvements to improve our fleet efficiency and to comply with FAA requirements.

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Net Cash Flows Provided By Financing Activities

During 2015, net cash flow provided by financing activities was $158.8 million primarily as a result of $195.0 million financing for five aircraft purchases and a $7.6 million increase in proceeds of equity issuances due to stock option exercises during the year. We used $35.2 million to repay loans related to PDPs on the five 2015 aircraft purchases and $5.0 million for stock repurchases to satisfy minimum tax withholding requirements for the vesting of restricted stock.

During 2014, net cash flow provided by financing activities was $158.5 million primarily as a result of $277.6 million of net proceeds from our IPO, partially offset by $156.5 million of long-term debt repayments. We also borrowed $40.0 million under our April 2014 credit facility related to our purchase of domestic airport operating rights.

During 2013, net cash flow provided by financing activities was $71.0 million, primarily as a result of our related-party debt issuance of $75.0 million in connection with the 2013 Recapitalization.

Commitments and Contractual Obligations

The following table presents aggregate information about our contractual payment commitments as of December 31, 2015 and the periods in which payments are due (in thousands):

	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
Long-term debt including related-party (1)	$ 321,249	$ 48,843	$ 70,493	$ 81,243	$ 120,670
Aircraft and engine purchases (2)	211,867	211,867			
Aircraft and engine leases (3)	1,950,359	220,244	457,013	445,487	827,615
Maintenance deposits (4)	76,407	8,951	19,581	22,237	25,638
Other leases (5)	150,621	29,222	57,401	33,558	30,440
	$ 2,710,503	$ 519,127	$ 604,488	$ 582,525	$ 1,004,363

(1) Includes accrued interest, excludes future interest of $14.2 million to be accrued through November 2020.
(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. Commitment table includes expected rent payments for A321neo aircraft not yet in our fleet; for these A321neo aircraft to be received in 2017 and 2018, assumes that all ten aircraft will be leased, includes minimum lease payments and does not include amounts related to variable rent adjustments subject to interest rate fluctuations as defined in the contract.
(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 amended and restated license agreements 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 December 31, 2015, we were in compliance with all covenants under these agreements.

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Off-Balance Sheet Arrangements

In December 2015, we entered into lease agreements for ten 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 have significant obligations for aircraft and spare engines that are classified as operating leases and therefore are not reflected in our consolidated balance sheets. As of December 31, 2015, 53 aircraft in our fleet were subject to operating leases, as well as four of our five spare engines. The aircraft leases expire between 2019 and 2025. Aircraft rent expense related to operating leases, net of rebates earned during each of the periods, was $219.8 million, $184.4 million, and $202.1 million in 2015, 2014 and 2013, including expense of $37.8 million, $3.8 million, and $3.0 million in 2015, 2014 and 2013, for supplemental rent for maintenance related reserves required by our lessors because we do not expect to recover the deposits by performing the related maintenance.

Our contractual purchase commitments consist primarily of aircraft and spare engine acquisitions through manufacturers and aircraft leasing companies. As of December 31, 2015, our firm aircraft order consisted of five aircraft scheduled for delivery between January and June 2016. Committed expenditures for these aircraft and related flight equipment, including estimated amounts for contractual price escalations and pre-delivery payment commitments, will be approximately $211.9 million in 2016.

We have also made certain guarantees and indemnities to other unrelated parties that are not reflected on our consolidated balance sheets which we believe will not have a significant impact on our results of operations, financial condition or cash flows.

We have no other off-balance sheet arrangements.

Critical Accounting Estimates

We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. In doing so, we have to make estimates and assumptions that affect our reported amounts of assets, liabilities, revenue and expenses, as well as related disclosure of contingent assets and liabilities. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations would be affected. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. We refer to accounting estimates of this type as critical accounting estimates, which we discuss further below.

Revenue Recognition including Loyalty Programs

We generate the majority of our revenue from sales of passenger tickets. We initially defer ticket sales as air traffic liability and recognize passenger revenue when the passenger flight occurs. Passenger revenue also includes upgrade fees, which we recognize when the related flights occur.

Tickets expire one year from the date of issuance, if unused by the passenger. We also issue travel credits to passengers for certain changes to flights if a residual value exists after application of any applicable change fee. Travel credits also expire one year from the date of issuance. We estimate and record advanced breakage for tickets and travel credits we expect will expire unused. These estimates are based on our historical experience of expired tickets and travel credits and consider other facts, such as recent aging trends, program changes and modifications that could affect the ultimate expiration patterns of tickets and travel credits.

Other revenue consists of baggage fees, change fees, seat selection fees, passenger-related service fees and inflight meals and entertainment. We recognize revenue for baggage fees, seat selection fees and passenger-related service fees when the associated flight occurs. We recognize change fee revenues as they occur.

Our Elevate® loyalty program provides frequent flyer travel awards to program members based on accumulated points. Points are accumulated as a result of travel, purchases using the co-branded credit card and purchases from other participating partners. The program has an 18-month expiration period for unused points from the month of last account activity. For all points earned under the Elevate program, we have an obligation to provide future travel when these reward points are redeemed.

With respect to points earned as a result of travel, or flown points, we recognize a liability and a corresponding sales and marketing expense, representing the incremental cost associated with the obligation to provide travel in the future, as points are earned by passengers. We offer redemption of points for our Elevate program members through travel on our flights and our partner airlines. Incremental cost for points to be redeemed on our flights is estimated based on historical costs, which include the cost of fuel, passenger fees, complimentary beverages, insurance, miscellaneous passenger supplies and other airline payments. We adjust our liability periodically for changes in our estimate of incremental cost, average points to redeem and breakage estimates.

We account for member points sold to our partners, or sold points, including points related to our participation in other providers affinity loyalty programs and member purchases with partner credit card companies as multiple-element arrangements. These arrangements have historically consisted of two elements: transportation and brand marketing-related activities. The transportation element represents the fair value of the travel that we will ultimately provide when the sold points are redeemed. The brand and marketing element consists of brand marketing related activities that we conduct with participating partners.

For points earned from purchases through our original co-branded credit card agreement, we recorded deferred revenue using the residual method. The fair value of a point is estimated using the average points redeemed and the estimated value of purchased tickets. We recognize points redeemed as passenger revenue when the awards are redeemed and the related travel occurs. We recognized the residual portion, if any, upon sale of points as other revenue associated with the other marketing services delivered.

In 2013, we entered into a new co-branded credit card agreement with a new partner, which we refer to as the New Co-Brand Agreement. The New Co-Brand Agreement has a seven-year term beginning January 1, 2014, when the new co-branded card was introduced and services to our members began. Services with standalone value provided under this agreement include: (i) the points earned or the travel component; (ii) companion certificates for annual travel discounts up to $150; (iii) unlimited access to the use of our brand and customer list; (iv) advertising; (v) waived bag fees, which are limited to the first checked bag for the cardholder and their companion traveling on the same flight which must be purchased using the card; (vi) unlimited waived change fees provided the ticket is purchased using the premium card; and (vii) unlimited discounts on purchases made through our Red® inflight entertainment system using the co-branded credit card. Under the New Co-Brand Agreement, our partner is required to provide annual guaranteed advance payments over the contract term. Any unearned advance at the end of the calendar year is carried over to the following year until the contract expires. At the end of the contract, we have no obligation to refund any unearned advances to the partner. As of December 31, 2015, advances in excess of our revenue recognition model limits totaling $11.3 million were recorded as air traffic liability.

Under the revenue recognition rules for multiple element arrangements, we determine the best estimated selling price, or BESP, of each element and allocate the arrangement consideration using the relative selling price of each element. Based on our valuation of the New Co-Brand Agreement, the majority of the value is attributable to points or the travel component and brand and customer list, for which the BESP is determined using our own and market assumptions as well as other judgments necessary to determine the estimated selling

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price of each element. When developing the relative selling price allocation attributable to the points or travel component, we primarily considered the total number of points expected to be issued, the BESP for points (specifically the value at which points could be redeemed for free or discounted travel), the number of points expected to be redeemed and the timing of redemptions. The BESP for points is derived based on our estimate of the redemption rate used by our guests to convert points into the equivalent ticket value for travel with us or with one of our airline partners. For brand and customer list, we considered brand power, the size of our customer list and the market royalty rate for equivalent programs. Our estimates of the BESP will not change, but the allocation between elements may change based on changes in the ultimate volume of sales of each element during the term of the contract.

We recognize and record revenue for the majority of the travel-related elements in accordance with our existing policies for such services. Revenue for brand and advertising is recognized in other revenue as such services are provided ratably over the contract term. Revenue from making available unlimited services such as waived bag fees, waived change fees and inflight discounts is recognized in other revenue on a ratable basis over the contract term subject to a contract limitation based on the proportion of cumulative points issued to total contract points expected to be issued.

We estimate breakage for sold points using a redemption-based approach where we attempt to predict redemption behavior based on member type and past behavior. In addition, we also consider redemption trends by performing a weighted-average redemption rate calculation to evaluate the reasonableness of our calculated breakage rates. Breakage is recorded for sold points under the redemption method using points expected to be redeemed and our recorded deferred revenue balance to determine a weighted-average rate, which is then applied to actual points redeemed. A change in assumptions as to the period over which points are expected to be redeemed, the actual redemption patterns or the estimated fair value of points expected to be redeemed could have a material impact on our revenue in the year in which the change occurs as well as in future years. Our estimates could change in the future as our members behavior changes and more historical data is collected.

Aircraft and Engine Maintenance & Repair

Under our aircraft operating lease agreements and FAA operating regulations, we are obligated to perform all required maintenance activities on our fleet, including component repairs, scheduled air frame checks and major engine restoration events. We estimate the timing of the next major maintenance event based on assumptions including estimated usage, FAA-mandated maintenance intervals and average removal times as recommended by the manufacturer. The timing and the cost of maintenance are primarily based on third-party estimates, which can be impacted by changes in utilization of our aircraft (both flight hours and operating cycles, the latter measured as one take-off and landing), changes in government regulations and suggested manufacturer maintenance intervals. Major maintenance events represent six-year and 12-year airframe checks, engine restorations and overhauls to major components, including required replacement of engine life limited parts, or LLPs, at specified periods. We account for qualifying major engine maintenance under the deferral method wherein restoration costs and replacement of engine LLPs are capitalized and amortized as a component of depreciation and amortization expense up to the earlier of the lease end or the estimated date for the next engine overhaul. Regular airframe and other routine maintenance costs are expensed as incurred.

In connection with our aircraft operating lease agreements, we are required to make supplemental rent payments to our aircraft lessors, which represent maintenance reserves made to collateralize the lessor. Our lease agreements generally provide that maintenance reserves are reimbursable to us upon completion of the major maintenance event in an amount equal to the lesser of (i) the amount qualified for reimbursement from maintenance reserves held by the lessor associated with the specific major maintenance event or (ii) the qualifying costs related to the specific major maintenance event. We record the maintenance reserve payments that we expect to recover as aircraft maintenance deposits in the accompanying consolidated balance sheets. If it is not probable that these aircraft maintenance deposits held with our lessors will be recovered, we expense such amounts as a component of aircraft rent expense. Our determination of the probability of recovery is based on a more-likely-than-not threshold, in accordance with applicable authoritative guidance. When the underlying maintenance event is performed, the cost is either capitalized and amortized as a component of depreciation and amortization expense for qualified major engine maintenance or expensed for all other major maintenance, and the deposit is reclassified to a receivable in our consolidated balance sheet.

The terms of most of our aircraft lease agreements also provide that most maintenance reserves held by the lessor which relate to major maintenance events that fall outside of the lease term are nonrefundable to us at the expiration of the lease and will be retained by the lessor, although in some instances we may receive reimbursement for any maintenance costs we incur to meet return conditions under the related lease. We charge supplemental rent payments to aircraft rent expense in our consolidated statements of operations when it becomes less than probable that these amounts will be recovered.

We make certain assumptions at the inception of the lease and at each balance sheet date to determine the recoverability of maintenance deposits. Our assumptions are based on various factors such as the estimated timing of major maintenance events, including replacement of engine LLPs, the estimated cost of future maintenance events and the number of flight hours and cycles for which we estimate the aircraft will be utilized before it is returned to the lessor, and the estimated value of the recovered parts. We account for changes in estimates related to maintenance reserve payments on a prospective basis. However if we conclude it is not probable that the recorded value of deposits is recoverable, which would generally occur when it is determined that the event will not occur during the term of the lease, we would immediately charge the deposits to expense.

During completion of our annual assessment in the fourth quarter of 2015, we determined that it was no longer probable that certain planned replacement of LLPs on our shorter leases and certain other low cycle utilization aircraft would be performed during the lease term. This change in estimate with respect to the timing of these events resulted in $36.1 million of previously recorded LLP maintenance deposits and net lease incentives on 34 aircraft to be charged to aircraft rent expense as a change in estimate, as these deposits are no longer considered recoverable. This change was based on two predominant factors (1) our updated fleet and longer term network plan, including new aircraft commitments and (2) completion of a detailed economic analysis comparing current and future reserve payments to the estimated cost of late term LLP replacements. Given our new fleet plan and the remaining terms of these leases, it became clear that it is going to be more economically beneficial for our lessors to keep the maintenance deposits than for us to replace the LLPs during the lease term. Our estimates indicate that for these 34 aircraft, we are unlikely to have enough annual engine utilization to require LLP replacement before end of lease term, as had previously been expected. We believe that with a fleet plan that will afford more flexibility, we will also be able to manage our fleet so that these aircraft would still meet minimum lease return conditions, despite not replacing the LLPs. Although this change in estimate results in a write-off of LLP deposits, we expect a lower overall cost of maintenance on these aircraft over the lease term. We will expense future reserve payments related to these LLPs as incurred. This change in estimate does not impact our current assessment regarding recoverability of other engine maintenance reserves but our assessment as to the probability of their recovery could change based on estimates we make in the future. While future estimates may affect the treatment of LLP replacement events for the remainder of the fleet, we do not believe they will have an impact to these 34 aircraft as we have already made the decision to not replace LLPs unless unforeseen circumstances require it in order to operate the aircraft.

For regular maintenance of our leased aircraft, we have maintenance-cost-per-hour contracts for management and repair of certain rotable parts to support scheduled and unscheduled airframe and engine maintenance and repair. These agreements require us to make monthly payments based on utilization, such as flight hours, cycles and age of the aircraft, and in turn, the agreements transfer certain risks related to the supply and repair of component parts to the third-party service provider. We recognize expense based on the contractual payments, which substantially match the service being received over the contract period. In addition, we have an engine service agreement under which a third party is required to perform major engine restoration maintenance for substantially all of our aircraft engines. Under this agreement, we have an agreed rate with the maintenance provider based on engine utilization, which applies when the engines are inducted into an overhaul.

2014 Recapitalization

In connection with the 2014 Recapitalization, we and certain entities affiliated with the Virgin Group entered into amended and restated license agreements related to our use of the Virgin name and brand, which provided for, among other things, an increase in the license fee that we pay to the Virgin Group from 0.5% to 0.7% of total revenue commencing in the first quarter of 2016 until our annual revenue exceeds $4.5 billion. We recorded the fair value of the increase in the license fee as a component of the 2014 Recapitalization with an offsetting increase in other long-term liabilities as it constituted part of the consideration to the Virgin Group for completing the 2014 Recapitalization. We estimated the incremental license fee obligation based on the present value of the additional cash flows of 0.2% of estimated total revenue over the estimated period required to reach the $4.5 billion cap. We estimated the discount rate based on airline specific weighted average cost of capital, factoring in a judgmental risk spread based on a variety of cash flow estimates. In 2016, we will begin amortizing the license fee liability in proportion to forecast revenues over the 12 year estimated life of the increased royalty rate.

Also in connection with the 2014 Recapitalization, the Virgin Group arranged for the $100.0 million Letter of Credit Facility issued on our behalf to certain companies that process substantially all of our credit card transactions. Refer to Note 2 to our consolidated financial statements included elsewhere in this Annual Report on Form-10-K for more information. The Letter of Credit Facility was provided for a period of up to five years from November 18, 2014 and contained an annual commitment fee equal to 5% per annum of the daily maximum amount available to be drawn, accruing on a daily basis from the date of issuance. The fee was payable quarterly by us to the Virgin Group. The Letter of Credit Facility would only become an obligation if one or both of its credit card processors were to draw on the Letter of Credit Facility upon a default by us under our credit card processing agreements. We are restricted from incurring any future secured indebtedness related to our unencumbered assets, unless the reimbursement obligations to the Virgin Group are secured on a *pari passu* basis with such secured debt. As the fee was provided as part of a transaction with a related party, we evaluated whether the fee was at fair value by comparing it to rates that have been obtained in similar transactions that were made at arm s length. We concluded that the contractual rate for the fee was reasonably comparable to a rate that would be obtained from a third party, and as a result, we recorded the fee on monthly basis as related-party expense in other income (expense) in the accompanying consolidated statement of operations.

Lease Amendments

In connection with the 2013 Recapitalization, we amended most of our lease agreements with our existing aircraft lessors to provide us with a reduction in monthly base rent and/or maintenance deposits through monthly cash rent rebates, which we refer to as the Lease Rebates. In certain cases, we also extended the lease terms by three to five years. Payment of future Lease Rebates are contingent on us maintaining $75.0 million of unrestricted cash and cash equivalents as of the last day of each month.

We recognize rent expense on a straight-line basis over the non-cancelable lease term, using rates specified in the contract and for certain leases, estimated fixed rates based upon the fair market value of the aircraft as determined by a qualified appraisal at the start of the lease extension period if not specified in the contract. We estimated the extension rates utilizing current independent aircraft appraisals, current market lease rates, and factored in future demand for the leased aircraft while giving consideration to newer, more fuel efficient aircraft expected to be delivered in the marketplace during the extension period. We periodically review and update our estimates of the rental rates as required if significant adjustments become necessary. No material adjustments were necessary as of December 31, 2015. We accounted for Lease Rebates received at the start of the amended leases as an incentive to be recorded as a reduction of rent expense on a straight-line basis over the lease term. Future Lease Rebates are considered contingent and are recognized as a reduction in rent expense when the liquidity requirement is met. Under the amended lease agreements, we receive $1.6 million in Lease Rebates on a monthly basis and we are obligated to refund 25.0% of substantially all the Lease Rebates from monthly base rent received through December 31, 2016 in the first quarter of 2017 or on a pro-rata basis with any debt repayment occurring prior to the first quarter of 2017. Therefore, we accrue 25.0% of the Lease Rebates as a component of the deferred rent balance in our consolidated financial statements.

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In addition, as a certain number of our lease terms are now extended, certain major aircraft and engine maintenance events are expected to occur within the extended lease terms. As a result, we recorded lease incentives associated with previously expensed supplemental rent payments that we now expect to be recoverable by virtue of the lease term extensions. We recorded these lease incentives as an increase to aircraft maintenance deposits and an increase to other liabilities in our consolidated balance sheet. We determined that a lease incentive resulted from the lease extension when the amount that we expect to be reimbursed in the future exceeds the amount of maintenance deposit currently on our balance sheet plus any future payments to be made through the date of the qualifying maintenance event. We recorded any excess amount as an incentive to the extent there were supplemental rent payments made during the lease term that had previously been expensed. We calculated our lease incentives on a maintenance event by maintenance event basis, consistent with the manner in which supplemental rent payments are made to our lessors.

In the fourth quarter of 2015, we made a change in estimate for certain engine maintenance events where we no longer believe it is probable that the events will occur in the extended lease term and that the related maintenance deposits would be recoverable. As a result, we charged $36.1 million of maintenance deposits to aircraft rent expense, of which $2.6 million related to net lease incentives. For more information, see Critical Accounting Estimates Aircraft and Engine Maintenance and Repairs.

Intangible Assets

Our purchased intangible assets consist of take-off and landing slots at LaGuardia Airport (LGA) and Ronald Reagan Washington National Airport (DCA) acquired in 2013 and in 2014. Slots are rights to take-off or land at a slot-controlled airport during a specific time period during the day and are a means by which the FAA manages airspace/airport congestion. The FAA controls slots at four airports, including LGA and DCA. The slots at DCA do not have a stated expiration date. Although the slots at LGA have expiration dates coinciding with the expiration date of the FAA s slot orders, the FAA s practice has been to renew the FAA slot orders, and we can continue to hold and use the slots as long as we comply with the FAA s minimum use requirements. Unlike other assets at slot-controlled airports that are generally depreciated over their expected useful lives, slots require no maintenance and do not have an established residual value. As the demands for air travel at these airports have remained very strong, we expect to use these slots in perpetuity and have determined our slots to be indefinite-lived intangible assets. Intangible assets with indefinite lives are not amortized but rather tested for impairment annually, or more frequently when events and circumstances indicate that impairment may exist.

We apply a fair value based impairment test to the carrying value of indefinite-lived intangible assets on an annual basis during the fourth quarter, or more frequently if certain events or circumstances indicate that an impairment loss may have been incurred. The FASB standard Testing Indefinite-Lived Intangible Assets for Impairment gives companies the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired rather than calculating the fair value of the indefinite-lived intangible asset. For the year ended December 31, 2015, we used the quantitative approach to assess fair value and impairment. Our valuation utilized a multi-period excess earnings methodology under the income approach to measure the fair value of our intangible assets. Based on the analysis, we concluded our slot values are not impaired.

As a result of our quantitative analysis performed during 2015 , we concluded it was more likely than not that the fair values of our indefinite-lived intangible assets was greater than the carrying value. Thus as a result of the annual impairment test conducted during fourth quarter 2015, no impairment was noted.

Income Taxes

We account for income taxes using the asset and liability method. We record deferred taxes based on differences between the financial statement basis and tax basis of assets and liabilities and available tax loss and credit carryforwards. In evaluating our ability to utilize our deferred tax assets, we consider available evidence, both positive and negative, in determining future taxable income on a jurisdiction-by-jurisdiction basis. We record a valuation allowance against deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Judgment is required in evaluating our ability to utilize our deferred tax assets, assessing our uncertain tax positions and determining our provision for income taxes. Although we believe our estimates are reasonable, we cannot assure you that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals.

During the fourth quarter of 2015, after considering all positive and negative evidence and the four sources of taxable income, we concluded that our deferred income tax assets are more likely than not to be realized. In evaluating the likelihood of utilizing our net federal and state deferred tax assets, the significant relevant factors that we considered were (1) our recent history of and forecasted profitability; (2) tax planning strategies; and (3) future impact of taxable temporary differences. In 2015, we were no longer in a three year pretax cumulative loss position. Additionally, we are projecting significant pretax income in 2016 and beyond even after stress testing for various levels of fuel price, PRASM and CASM. Therefore, we recognized a $173.5 million benefit in the fourth quarter 2015 in connection with releasing all of our valuation allowance, resulting in a $172.4 million net benefit in our provision for income taxes.

Section 382 of the Internal Revenue Code, or Section 382, imposes limitations on a corporation s ability to utilize net operating loss carryforwards, or NOLs, if it experiences an ownership change. In general terms, an ownership change results from a cumulative change in the equity ownership of certain stockholders by more than 50 percentage points over a rolling three-year period. In the event of an ownership change, utilization of our pre-change NOLs would be subject to annual limitation under Section 382 determined by multiplying the value of our stock at the time of the ownership change by the applicable long-term tax-exempt rate, increased in the five-year period following such ownership change by recognized built-in gains under certain circumstances. Multiple Section 382 limitations can be created by multiple ownership changes. In cases of multiple ownership changes, a subsequent ownership change can reduce, but not increase, the size of the Section 382 limitation that applies to pre-change losses from an earlier ownership change.

As a result of a January 2010 equity restructuring, we experienced a Section 382 ownership change. We have $329.7 million of federal NOLs generated prior to the change that are subject to limitation as a result of this change. As a result of the 2014 Recapitalization and our IPO, we experienced another Section 382 ownership change. We have $315.3 million of federal NOLs generated prior to the 2014 ownership change but after the 2010 change, that may be subject to the 2014 Section 382 limitation. As of December 31, 2015, we had $691.0 million of federal NOLs available, which includes $329.7 million of NOLs generated prior to the 2010 change that are now subject to multiple limitations and $46.0 million of NOLs that are unlimited. Based on the most restrictive limitation as of December 31, 2015, $341.0 million of federal NOLs (including unlimited NOLs) are available to offset taxable income in 2016. The limitation will increase annually such that by 2019 substantially all available NOLs as of December 31, 2015 will be available to be used to offset taxable income. Therefore, we do not believe we will be prevented from realizing the benefit of all NOLs based on projections of future taxable income and the annual limitations.

We had NOLs of approximately $691.0 million and $359.3 million for federal and state income tax purposes at December 31, 2015. Our federal NOLs expire between 2027 and 2035. A total of $20.5 million of the federal net operating loss and $10.8 million of the state net operating loss carryforward are related to excess tax benefits as a result of stock option exercises, and therefore will be recorded in additional paid-in capital in the period that they become realized.

During the year ended December 31, 2015, the Company did not realize any excess tax benefits as a result of stock option exercises, therefore, there were no amounts recorded to additional paid-in capital.

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ITEM 7A. 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 years ended December 31, 2015, 2014 and 2013 represented approximately 25.7%, 35.8%, and 37.7% 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 December 31, 2015 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, net of our hedge portfolio, by approximately $14.7 million. To manage economic risks associated with the fluctuations of aircraft fuel prices, we have historically entered into fixed forward price contracts, or FFPs, forward swaps, call options for crude oil and collar contracts for heating oil. As of December 31, 2015, we had entered into fuel derivative contracts and FFPs that fixed or established a floor on the price associated with 35% of our forecasted aircraft fuel requirements for the next twelve months at an approximate cost per gallon of $1.59, 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 third quarter of 2016.

The fair value of our fuel derivative contracts as of December 31, 2015 was a net liability of $27.6 million offset by margin call deposits of $9.7 million, resulting in an overall net liability of $17.9 million. As of December 31, 2014, our fuel hedge net liability was $27.1 million offset by margin call deposits of $14.4 million, resulting in an overall net liability of $12.7 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 December 31, 2015, 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 in 2015 would have had an immaterial effect on total interest expense in 2015.

Our long-term debt consists of fixed rate notes payable. A hypothetical 10% change in market interest rates as of December 31, 2015 would have no effect on our interest expense but would increase or reduce the fair value of our fixed-rate debt instruments by approximately $6.0 million.

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GLOSSARY OF AIRLINE TERMS

Set forth below is a glossary of industry terms used in this Annual Report on Form 10-K:

Airbus A320-family includes A318, A319, A320 and A321 aircraft manufactured by the Airbus Group. The Airbus A320-family have common engine, airframe and cockpit design, leading to shared maintenance and flight operations procedures. We currently operate A319ceo and A320ceo aircraft.

Ancillary revenue means the amount of non-ticket revenue received from passengers, including baggage fees, change fees, seat selection fees, on-board sales and other revenue, including charter revenue

Ancillary revenue per passenger means the total ancillary revenue divided by passengers.

ASMs, or available seat miles, refer to the number of seats available for passengers multiplied by the number of miles the seats are flown. **Average fare** means total passenger revenue divided by passengers.

Block hours means the hours during which the aircraft is in revenue service, measured from the time of gate departure before take-off until the time of gate arrival at the destination.

CASM, or cost per available seat mile, means the airline s total operating costs divided by available seat miles.

CASM, excluding fuel, or CASM ex-fuel, means operating costs less aircraft fuel expense divided by ASMs.

CASM, excluding fuel and profit sharing means operating costs less aircraft fuel expense and profit sharing expense divided by ASMs. Under our annual profit sharing program, we accrue 15% of cumulative year-to-date income before income taxes and profit sharing for the benefit of our eligible teammates each quarter to the extent that we have cumulative year-to-date pre-tax income.

Codeshare refers to a type of arrangement where two or more airlines share the same flight and where a seat can be purchased through one airline but actually operated by a cooperating airline under a different flight number or code.

Fleet utilization, or aircraft utilization, means block hours in the period divided by average number of aircraft in our fleet divided by number of days in the period.

Flight equipment means all types of property and equipment used in the inflight operation of aircraft.

Flight hours means the total time an aircraft is in the air between an origin-destination airport pair, i.e. from wheels-up at the origin airport to wheels-down at the destination airport.

Hub-and-spoke network refers to a method of organizing an airline network in which one major airport is used as a connecting point for passengers traveling to other destinations, including smaller local airports and international destinations.

Interline refers to a type of agreement among airline partners that allow guests to create itineraries connecting from one airline to another.

Lease Rebates refers to reductions to base monthly rent, maintenance deposits or both through monthly cash rebates.
Load factor means the proportion of airline capacity (ASMs) that is actually consumed, calculated by dividing RPMs

by ASMs.

Passenger revenue means revenue received by the airline from the carriage of passengers in scheduled operations.

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Passengers means the total number of passengers flown on all flight segments.

PDP means pre-delivery payments, which are payments required by aircraft manufacturers in advance of delivery of the aircraft; typically aircraft-specific payments begin 24 months prior to aircraft delivery.

Pitch, or seat pitch, means the measure of distance between seat rows on an aircraft, measured in inches from the middle of one seat to the middle of the seat directly in front of it.

Point-to-point network means a method of organizing an airline network in which flights travel directly to a destination rather than going through a central hub.

PRASM, or passenger revenue per available seat mile, refers to a measure of passenger unit revenue calculated by dividing passenger revenue by available seat miles, or ASMs.

RASM, revenue per available seat mile or unit revenue refers to a measure of unit revenue calculated by dividing the airline s total revenue by available seat miles, or ASMs.

RPMs, or revenue passenger miles, means the number of miles flown by revenue passengers.

Seat-weighted stage length means the average distance flown, measured in statute miles, per seat, calculated by dividing total ASMs by the number of total seats flown.

Stage length means the average distance flown, measured in statute miles, per aircraft departure, calculated by dividing total aircraft miles flown by the number of total aircraft departures performed.

Stage length adjusted CASM means CASM adjusted for a seat-weighted stage length.

Stage-length adjustment refers to an adjustment to enable comparison of CASM and RASM across airlines. All other things being equal, the same airline will have lower CASM and RASM as stage length increases since fixed and departure related costs are spread over increasingly larger average flight lengths. Therefore, to properly compare these quantities across airlines (or even across the same airline for two different periods if the airline s average stage length has changed significantly) requires settling on a common assumed stage length and then adjusting CASM and RASM appropriately. This requires some judgment and different observers may use different stage-length adjustment techniques. We adjust for stage-length using the MIT Global Airline Industry Program s methodology for adjusting both PRASM and CASM, which we believe to be the most commonly accepted methodology in the industry. For comparisons in this Annual Report on Form 10-K in which CASM is stage-length adjusted, the stage-length being utilized is a seat-weighted distance, or the average of the distances flown by each seat divided by total seats flown. For comparisons where PRASM is stage-length adjusted, the stage being utilized is the passenger-weighted distance, or the average of the individual distances flown by the airlines passengers.

U.S. citizen means a citizen of the United States as that term is defined in 49 U.S.C. §40102(a)(15).

Yield refers to a measure of average fare paid per mile per passenger, calculated by dividing passenger revenue by revenue passenger miles.

Virgin America Destinations:

AUS Austin-Bergstrom International Airport (Austin, Texas).

BOS General Edward Lawrence Logan International Airport (Boston, Massachusetts).

CUN Cancún International Airport (Cancún, Mexico).

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DAL Dallas Love Field (Dallas, Texas).

DCA Ronald Reagan Washington National Airport (Washington, D.C.).

DEN Denver International Airport (Denver, Colorado).

EWR Newark Liberty International Airport (Newark, New Jersey).

FLL Fort Lauderdale-Hollywood International Airport (Fort Lauderdale, Florida).

HNL Honolulu International Airport (Honolulu, Hawaii).

IAD Washington Dulles International Airport (Dulles, Virginia).

JFK John F. Kennedy International Airport (Jamaica, New York).

LAS McCarran International Airport (Las Vegas, Nevada).

LAX Los Angeles International Airport (Los Angeles, California).

LGA LaGuardia Airport (New York, New York).

MCO Orlando International Airport (Orlando, Florida).

OGG Kahului Airport (Kahului, Hawaii).

ORD Chicago O Hare International Airport (Chicago, Illinois).

PDX Portland International Airport (Portland, Oregon).

PSP Palm Springs International Airport (Palm Springs, California).

PVR Licenciado Gustavo Díaz Ordaz International Airport (Puerto Vallarta, Mexico).

SAN San Diego International Airport (San Diego, California).

SEA Seattle Tacoma International Airport (Seattle, Washington).

SFO San Francisco International Airport (San Francisco, California).

SJD Los Cabos International Airport (Los Cabos, Mexico).

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Virgin America Inc.

We have audited the accompanying consolidated balance sheets of Virgin America Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, convertible preferred stock and stockholders equity (deficit), and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Virgin America Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Virgin America Inc. s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young

San Francisco, California

February 29, 2016

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Virgin America Inc.

We have audited Virgin America Inc. s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Virgin America Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Virgin America Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Virgin America Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, convertible preferred stock and shareholders equity (deficit) and cash flows for each of the three years in the period ended December 31, 2015 of Virgin America Inc. and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young

San Francisco, California

February 29, 2016

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Virgin America Inc.

Consolidated Balance Sheets

(in thousands, except share and per share data)

	December 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 496,349	$ 394,643
Receivables, net	19,556	23,414
Prepaid expenses and other assets	10,675	8,283
Total current assets	526,580	426,340
Property and equipment:		
Flight equipment	373,199	76,724
Ground and other equipment	85,471	70,754
Less accumulated depreciation and amortization	(92,173)	(74,271)
	366,497	73,207
Pre-delivery payments for flight equipment	72,402	94,280
Total property and equipment, net	438,899	167,487
Aircraft maintenance deposits	216,207	211,946
Aircraft lease deposits	58,330	50,758
Deferred income taxes	171,443	
Restricted cash	19,800	18,775
Other non-current assets	137,272	112,279
	603,052	393,758
Total assets	$ 1,568,531	$ 987,585

See accompanying notes to the consolidated financial statements.

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Virgin America Inc.

Consolidated Balance Sheets

(in thousands, except share and per share data)

	December 31, 2015	December 31, 2014
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 76,603	$ 52,821
Air traffic liability	174,853	150,479
Other current liabilities	117,135	100,723
Long-term debt-current portion	48,843	33,824
Total current liabilities	417,434	337,847
Long-term debt-related parties	42,421	38,848
Long-term debt	216,477	57,015
Other long-term liabilities	84,052	94,622
Total liabilities	760,384	528,332
Contingencies and commitments (Note 8)		
Stockholders equity		
Preferred stock, $0.01 par value per share. 10,000,000 shares authorized, 0 shares issued and outstanding as of December 31, 2015 and 2014		
Common stock, $0.01 par value. Authorized: 750,000,000 (Voting 650,000,000, Non-Voting 100,000,000) shares as of December 31, 2015 and 2014; Issued: 44,660,239 (Voting 37,807,501; Non-Voting 6,852,738) shares as of December 31, 2015; 43,119,886 (Voting 36,267,148, Non-Voting 6,852,738) shares as of December 31, 2014; Outstanding: 44,177,966 (Voting 37,325,228; Non-Voting 6,852,738) shares as of December 31, 2015; 43,119,886 (Voting 36,267,148, Non-Voting 6,852,738) shares as of December 31, 2014	442	431
Treasury stock, 168,449 and 0 shares repurchased as of December 31, 2015 and 2014, respectively	(5,038)	
Additional paid-in capital	1,251,524	1,237,944
Accumulated deficit	(412,479)	(753,016)
Accumulated other comprehensive loss	(26,302)	(26,106)
Total stockholders equity	808,147	459,253
Total liabilities and stockholders equity	$ 1,568,531	$ 987,585

See accompanying notes to the consolidated financial statements.

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Virgin America Inc.

Consolidated Statements of Operations

(in thousands, except per share data)

	Year Ended December 31, 2015	2014	2013
Operating revenues:			
Passenger	$ 1,362,871	$ 1,334,088	$ 1,296,929
Other	166,713	155,879	127,749
Total operating revenues	1,529,584	1,489,967	1,424,678
Operating expenses:			
Aircraft fuel	347,676	499,102	507,035
Salaries, wages and benefits	289,635	257,367	196,477
Aircraft rent	219,770	184,357	202,071
Landing fees and other rents	143,842	133,128	122,621
Sales and marketing	124,771	113,203	106,599
Aircraft maintenance	57,307	60,069	61,854
Depreciation and amortization	18,637	14,486	13,963
Other operating expenses	150,707	131,840	133,177
Total operating expenses	1,352,345	1,393,552	1,343,797
Operating income:	177,239	96,415	80,881
Other income (expense):			
Interest expense-related-party	(3,572)	(33,708)	(68,439)
Interest expense	(7,286)	(3,811)	(2,854)
Capitalized interest	4,220	2,668	534
Interest income and other	(2,451)	(276)	339
Total other expense	(9,089)	(35,127)	(70,420)
Income before income tax	168,150	61,288	10,461
Income tax expense (benefit)	(172,387)	1,179	317
Net income	340,537	$ 60,109	$ 10,144
Net income per share:			
Basic	$ 7.82	$ 8.42	$ 5.60
Diluted	$ 7.66	$ 7.13	$ 3.68

Shares used for computation:			
Basic	43,547	6,176	702
Diluted	44,466	7,470	1,647

See accompanying notes to the consolidated financial statements

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Virgin America Inc.

Consolidated Statements of Comprehensive Income

(In thousands)

	Year Ended December 31,		
	2015	**2014**	**2013**
Net income	$ 340,537	$ 60,109	$ 10,144
Fuel derivative financial instruments:			
Change in unrealized (losses) gains on fuel derivatives, net of tax benefit (expense) of ($164), $0, and $0 for fiscal 2015, 2014, 2013, respectively	(38,792)	(33,230)	307
Net fuel derivative losses reclassified into earnings	39,003	5,468	2,557
Interest rate swap derivative financial instruments:			
Change in unrealized (losses) on interest rate swaps, net of tax benefit (expense) of $246, $0, and $0 for fiscal 2015, 2014, 2013, respectively	(419)		
Interest rate swap losses reclassified into earnings	12		
Other comprehensive income (loss)	(196)	(27,762)	2,864
Total comprehensive income	$ 340,341	$ 32,347	$ 13,008

See accompanying notes to the consolidated financial statements

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Virgin America Inc.

Consolidated Statements of Convertible Preferred Stock and Stockholders Equity (Deficit)

(In thousands, except share data)

	Convertible preferred stock		Common stock		Treasury stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholde equity (deficit)
	Shares	Amount	Shares	Amount	Shares	Amount				
lances at cember 31, 12	1,109,811	$ 21,406	809,046	$ 8		$	$ 193,545	$ (823,269)	$ (1,208)	$ (630,92
t income		$						10,144		10,14
are-based mpensation d issuance of ass G mmon stock			3,906				386			38
her mprehensive n									2,864	2,86
in on debt tructuring							150,490			150,49
uance of ass C warrants							83,361			83,36
her							(348)			(34
lances at cember 31, 13	1,109,811	$ 21,406	812,952	$ 8		$	$ 427,434	$ (813,125)	$ 1,656	$ (384,02
t income								60,109		60,10
uance of ass G mmon stock, e-IPO			28,213				24			2
nversion of ass D and F mmon stock d cancellation Class E mmon stock, e-IPO			(39)							
	(1,109,811)	(21,406)	29,051,006	291			521,194			521,48

14 capitalization									
uance of mmon Stock on IPO, net of s		13,106,377	131			277,466			277,59
are-based mpensation		121,377	1			11,826			11,82
her mprehensive s								(27,762)	(27,76
lances at cember 31, 14	$	43,119,886	$ 431		$	$ 1,237,944	$ (753,016)	$ (26,106)	$ 459,25
t income							340,537		340,53
uance of mmon stock		1,058,080	11			7,642			7,65
ares purchased for withholdings vesting of tricted stock its				168,449	(5,038)				(5,03
are-based mpensation									