

Virgin America Inc.  
Form 10-Q  
April 30, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended March 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**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**20-1585173**  
**(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)**

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

Indicate by check mark whether the registrant has submitted electronically 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  No

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

Large accelerated filer  Accelerated filer   
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

As of April 30, 2015, the registrant had 43,187,040 shares of common stock outstanding.

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**Virgin America Inc.**

**FORM 10-Q**

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**Table of Contents****PART 1. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****Virgin America Inc.****Condensed Consolidated Balance Sheets****(in thousands)**

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
	(unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 418,263	\$ 394,643
Credit card holdbacks and receivables	51,525	9,563
Other receivables, net	12,955	13,851
Prepaid expenses and other assets	33,809	20,874
<b>Total current assets</b>	<b>516,552</b>	<b>438,931</b>
Property and equipment:		
Flight equipment	80,631	76,724
Ground and other equipment	73,510	70,754
Less accumulated depreciation and amortization	(78,365)	(74,271)
	75,776	73,207
Pre-delivery payments for flight equipment	103,568	94,280
<b>Total property and equipment, net</b>	<b>179,344</b>	<b>167,487</b>
Aircraft maintenance deposits	213,753	211,946
Aircraft lease deposits	50,005	50,758
Restricted cash	18,775	18,775
Other non-current assets	120,579	112,279
	403,112	393,758
<b>Total assets</b>	<b>\$ 1,099,008</b>	<b>\$ 1,000,176</b>

*See accompanying notes to the condensed consolidated financial statements.*

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**Virgin America Inc.**  
**Condensed Consolidated Balance Sheets**  
(in thousands)

	March 31, 2015 (unaudited)	December 31, 2014
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable	\$ 51,735	\$ 52,821
Air traffic liability	230,220	150,479
Other current liabilities	87,367	100,723
Long-term debt-current portion	47,757	33,824
<b>Total current liabilities</b>	<b>417,079</b>	<b>337,847</b>
Long-term debt-related parties	39,655	38,848
Long-term debt	50,450	57,416
Other long-term liabilities	106,183	106,812
<b>Total liabilities</b>	<b>613,367</b>	<b>540,923</b>
Contingencies and commitments (Note 4)		
Stockholders equity		
Preferred stock		
Common stock	432	431
Additional paid-in capital	1,239,328	1,237,944
Accumulated deficit	(740,230)	(753,016)
Accumulated other comprehensive loss	(13,889)	(26,106)
<b>Total stockholders equity</b>	<b>485,641</b>	<b>459,253</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 1,099,008</b>	<b>\$ 1,000,176</b>

*See accompanying notes to the condensed consolidated financial statements.*

**Table of Contents****Virgin America Inc.****Consolidated Statements of Operations****(in thousands, except per share data)**

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
	(unaudited)	(unaudited)
Operating revenues:		
Passenger	\$ 289,364	\$ 278,040
Other	36,987	35,350
Total operating revenues	326,351	313,390
Operating expenses:		
Aircraft fuel	88,558	115,760
Salaries, wages and benefits	64,733	53,824
Aircraft rent	44,982	46,496
Landing fees and other rents	33,983	32,221
Sales and marketing	26,379	24,562
Aircraft maintenance	13,834	19,044
Depreciation and amortization	4,103	3,269
Other operating expenses	34,396	31,345
Total operating expenses	310,968	326,521
Operating income (loss):	15,383	(13,131)
Other income (expense):		
Interest expense-related-party	(806)	(9,345)
Interest expense	(1,216)	(570)
Capitalized interest	1,067	481
Other income (expense), net	(1,318)	260
Total other expense	(2,273)	(9,174)
Income (loss) before income tax	13,110	(22,305)
Income tax expense	324	49
Net income (loss)	\$ 12,786	\$ (22,354)
Net income (loss) per share:		
Basic	\$ 0.30	\$ (31.86)
Diluted	\$ 0.29	\$ (31.86)

Shares used for computation:

Basic	43,184	702
Diluted	44,618	702

*See accompanying notes to the condensed consolidated financial statements*

Table of Contents**Virgin America Inc.****Consolidated Statements of Comprehensive Income (Loss)****(In thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Net income (loss)</b>	\$ 12,786	\$ (22,354)
Fuel derivative financial instruments, net of tax:		
Change in unrealized losses	(3,018)	(2,745)
Net losses reclassified into earnings	\$ 15,235	17
Other comprehensive income (loss)	12,217	(2,728)
<b>Total comprehensive income (loss)</b>	<b>\$ 25,003</b>	<b>\$ (25,082)</b>

*See accompanying notes to the condensed consolidated financial statements*



**Table of Contents****Virgin America Inc.****Condensed Consolidated Statements of Cash Flows****(in thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
	(unaudited)	(unaudited)
Cash flows from operating activities:	\$ 33,078	\$ 4,330
Cash flows from investing activities:		
Acquisition of property and equipment and intangible assets	(7,137)	(27,111)
Pre-delivery payments for flight equipment	(2,322)	
Net cash used in investing activities	(9,459)	(27,111)
Cash flows from financing activities:		
Net proceeds of equity issuance	1	8
Net cash provided by (used in) financing activities	1	8
Net increase (decrease) in cash and cash equivalents	23,620	(22,773)
Cash and cash equivalents, beginning of period	394,643	155,659
Cash and cash equivalents, end of period	\$ 418,263	\$ 132,886
<b>Supplemental disclosure:</b>		
Cash paid during the period for:		
Interest	\$ 1,174	\$ 3,701
Income tax	251	
<b>Non-cash transactions:</b>		
Non-cash loan borrowings on pre-delivery payments for flight equipment	6,966	

*See accompanying notes to the condensed consolidated financial statements*

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**Table of Contents****Notes to the Condensed Consolidated Financial Statements****(1) Basis of Presentation**

The condensed consolidated financial statements of Virgin America Inc. (the Company) for the three months ended March 31, 2014 include the accounts of the Company and its variable interest entity, VX Employee Holdings LLC, for which it was the primary beneficiary until all of the shares held by VX Employee Holdings LLC were sold to the public as part of the Company's initial public offering (the IPO) in November 2014 as discussed below. These unaudited condensed consolidated financial statements and related notes should be read in conjunction with the Company's 2014 audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (2014 Form 10-K).

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

In November 2014, concurrent with the pricing of the IPO, the Company entered into a recapitalization agreement (the 2014 Recapitalization) with certain security-holders to exchange or extinguish the majority of its then outstanding related-party debt and accrued interest (the Related-Party Notes) with contractual value of \$684.8 million at the time and all of its convertible preferred stock and outstanding warrants. The Company repaid \$156.5 million of certain Related-Party Notes with \$56.5 million from the proceeds of the IPO and \$100.0 million from the release of cash collateral to the Company in connection with a \$100.0 million letter of credit facility issued on its behalf to certain of its credit card processors by the Virgin Group. The Company issued a new \$50.0 million note to the Virgin Group (the Post-IPO Note) in exchange for the cancellation of \$50.0 million of certain Related-Party Notes previously outstanding and held by the Virgin Group. The Company recorded the Post-IPO Note at the estimated fair value of \$38.5 million. The Company exchanged the remainder of the Related-Party Notes for 22,159,070 shares of 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 secured notes issued in December 2011 (the FNPA Notes) and certain secured notes issued in May 2013 (the FNPA II Notes) both held by Cyrus Capital, which were converted at a premium of 117% of the outstanding contractual value. The Company also converted each of 1,950,937 shares of convertible preferred stock and Class A, Class A-1, Class B, Class C and Class G common stock into shares of common stock on a one-to-one basis and exchanged related-party warrants to purchase 26,067,475 shares of common stock for 5,742,543 shares of common stock with the remaining related-party warrants to purchase 16,175,126 shares of common stock canceled in their entirety. For additional information, see the consolidated financial statements included in the 2014 Form 10-K.

***Credit Card Holdbacks and Receivables***

Credit card holdbacks and receivables are amounts due from credit card processors associated with sales for future travel and are carried at cost. Under the terms of the Company's credit card processing agreements, certain proceeds from advance ticket sales are held back to serve as collateral by the credit card processors, due to the Company's credit and in part to cover any possible refunds or chargebacks that may occur. These holdbacks are short-term, as the travel

for which they relate occurs within twelve months. As of March 31, 2015, the Company recorded \$32.5 million in credit card holdbacks and \$19.0 million in credit card receivables. The holdback amounts are net of the \$100.0 million letter of credit facility issued on the Company's behalf to certain of its credit card processors by the Virgin Group. As of December 31, 2014 the Company had no net holdbacks outstanding and \$9.6 million of credit card receivables.

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***New Accounting Standards***

In February 2015, the Financial Accounting Standards Board (FASB) issued an accounting standards update that eliminates the deferral of FAS 167, which has allowed entities with interests in certain investment funds to follow the previous consolidation guidance in FIN 46(R), and makes other changes to both the variable interest model and the voting model. In some cases, consolidation conclusions will change. In other cases, reporting entities will need to provide additional disclosures about entities that currently aren't considered variable interest entities (VIEs) but will be considered VIEs under the new guidance provided they have a variable interest in those VIEs. The guidance will be effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. The Company does not expect this accounting standards update to have a material impact on the consolidated financial statements.

In April 2015, the FASB issued an accounting standards update that simplifies the guidance related to presentation of debt issuance costs. The guidance requires presentation of debt issuance costs on the balance sheet as a direct deduction from the face amount of that note, consistent with debt discounts. The guidance is to be applied retrospectively to the financial periods presented as a change in accounting principle. The guidance will be effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. The Company does not expect this accounting standards update to have a material impact on the consolidated financial statements.

**(2) Fair Value**

The accounting guidance establishes a fair value hierarchy as follows:

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

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The following is a listing of the Company's assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the fair value hierarchy as of March 31, 2015 and December 31, 2014 respectively (in thousands):

	March 31, 2015 (unaudited)			Total
	Level 1	Level 2	Level 3	
<b>Assets (Liability)</b>				
Cash equivalents	\$ 336,065	\$	\$	\$ 336,065
Restricted cash	18,775			18,775
Heating oil collars - fuel derivative instruments		(11,768)		(11,768)
Brent calls - fuel derivative instruments		(181)		(181)
Heating oil swaps - fuel derivative instruments		(615)		(615)
Jet fuel swaps - fuel derivative instruments		(636)		(636)
	\$ 354,840	\$ (13,200)	\$	\$ 341,640

	December 31, 2014			Total
	Level 1	Level 2	Level 3	
<b>Assets (Liability)</b>				
Cash equivalents	\$ 339,211	\$	\$	\$ 339,211
Restricted cash	18,775			18,775
Heating oil collars - fuel derivative instruments		(27,170)		(27,170)
Brent calls - fuel derivative instruments		50		50
	\$ 357,986	\$ (27,120)	\$	\$ 330,866

A portion of the Company's debt is privately negotiated with related parties. The estimated fair value of related-party debt was \$39.7 million and \$38.8 million at March 31, 2015 and December 31, 2014, respectively. The estimated fair value of the non-related party debt includes financing associated with aircraft pre-delivery payments of \$58.2 million and \$51.2 million at March 31, 2015 and December 31, 2014 and a \$40.0 million financing of airport slots. The Company uses significant unobservable inputs in determining discounted cash flows to estimate the fair value, and therefore, such amounts are categorized as Level 3 in the fair value hierarchy.

**(3) Financial Derivative Instruments and Risk Management**

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

The Company utilizes FFP contracts with its fuel service provider as part of its risk management strategy, wherein fixed prices are negotiated for set volumes of future purchases of fuel. The Company takes physical delivery of the future purchases. The Company has applied the normal purchase and normal sales exception for these commitments. As of March 31, 2015, the total commitment related to FFP contracts was \$41.0 million, for which the related fuel will be purchased during 2015.

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

The following tables present the fair value of derivative assets and liabilities that are designated and not designated as hedging instruments, as well as the location of the asset and liability balances within the condensed consolidated balance sheets as of March 31, 2015 and December 31, 2014 (in thousands):

Derivatives designated as cash flow hedges	Consolidated balance sheet location	Fair value of derivatives as of	
		March 31, 2015	December 31, 2014
		(unaudited)	
Fuel derivative instruments Heating oil collars	Current liabilities	(9,296)	(24,762)
Fuel derivative instruments Brent calls	Current liabilities		(84)
Fuel derivative instruments Heating oil swaps	Current liabilities	(524)	
Fuel derivative instruments Jet fuel swaps	Current liabilities	(636)	
Total current assets (liabilities)		\$ (10,456)	\$ (24,846)

Derivatives not designated as cash flow hedges	Consolidated balance sheet location	Fair value of derivatives as of	
		March 31, 2015	December 31, 2014
		(unaudited)	
Fuel derivative instruments Heating oil collars	Current liabilities	(2,472)	(2,408)
Fuel derivative instruments Brent calls	Current liabilities	(181)	134
Fuel derivative instruments Heating oil swaps	Current liabilities	(91)	
Total current assets (liabilities)		\$ (2,744)	\$ (2,274)

As of March 31, 2015 and December 31, 2014, the Company has deposited \$5.3 million and \$14.4 million as collateral with one of its counterparties to comply with margin call requirements related to derivative losses that exceed the portfolio's credit limit. The Company has recorded the margin call deposits in other current liabilities in the accompanying condensed consolidated balance sheet as of March 31, 2015 and December 31, 2014, offsetting the net hedge liability of \$13.2 million and \$27.1 million. Thus the total net current liability related to hedges was \$7.9 million at March 31, 2015 and \$12.7 million at December 31, 2014.





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The following table summarizes the effect of fuel derivative instruments in the condensed consolidated statements of operations for the three months ended March 31, 2015 and 2014 (in thousands):

<b>Derivatives accounted for as hedging instruments under ASC 815</b>	<b>Consolidated financial statement location</b>	<b>Gains (losses) on derivative contracts for the three months ended</b>	
		<b>March 31, 2015 (unaudited)</b>	<b>March 31, 2014 (unaudited)</b>
Fuel derivative instruments	Aircraft fuel expense	\$ (15,215)	\$ (128)
Total impact to the consolidated statements of operations		\$ (15,215)	\$ (128)

<b>Derivatives not accounted for as hedging instruments under ASC 815</b>	<b>Consolidated financial statement location</b>	<b>Gains (losses) on derivative contracts for the three months ended</b>	
		<b>March 31, 2015 (unaudited)</b>	<b>March 31, 2014 (unaudited)</b>
Fuel derivative instruments	Aircraft fuel expense	\$ (447)	\$ (452)
Total impact to the consolidated statements of operations		\$ (447)	\$ (452)

At March 31, 2015, the Company estimates that approximately \$13.9 million of net derivative losses related to its cash flow hedges included in accumulated other comprehensive income will be reclassified into earnings within the next nine months.

The effect of fuel derivative instruments designated as cash flow hedges and the underlying hedged items on the condensed consolidated statements of operations for the three months ended March 31, 2015 and 2014, respectively, is summarized as follows (in thousands):

	<b>Amount of gain (loss) recognized in AOCI on derivatives (Effective portion)</b>	<b>Gain (loss) reclassified from AOCI into income (Fuel expense) (Effective portion)</b>	<b>Amount of gain (loss) recognized into income (Ineffective portion)</b>
<b>Fuel derivatives designated as cash flow hedges</b>			

	<b>March 31, 2015 (unaudited)</b>	<b>March 31, 2014 (unaudited)</b>	<b>March 31, 2015 (unaudited)</b>	<b>March 31, 2014 (unaudited)</b>	<b>March 31, 2015 (unaudited)</b>	<b>March 31, 2014 (unaudited)</b>
Fuel derivative instruments	\$ (3,018)	\$ (2,745)	\$ (15,235)	\$ (17)	\$ 20	\$ (111)

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

	<b>March 31, 2015</b> <b>(unaudited)</b>	<b>December 31, 2014</b>
<b>Derivatives designated as hedging instruments:</b>		
Fuel derivative instruments Heating oil collars	16	36
Fuel derivative instruments Brent calls		16
Fuel derivative instruments Heating oil swaps	7	
Fuel derivative instruments Jet fuel swaps	7	
	30	52
<b>Derivatives not designated as hedging instruments:</b>		
Fuel derivative instruments Heating oil collars	3	3
Fuel derivative instruments Brent calls	24	13
Fuel derivative instruments Heating oil swaps	3	
Fuel derivative instruments Jet fuel swaps		
	30	16
<b>Total</b>	<b>60</b>	<b>68</b>

As of March 31, 2015, the Company had entered into fuel derivative contracts for approximately 29% of its forecasted aircraft fuel requirements for 2015 at a weighted-average cost per gallon of \$2.09.

The Company presents its fuel derivative instruments at net fair value in the accompanying condensed consolidated balance sheets. The Company's master netting arrangements with counterparties allow for net settlement under certain conditions. As of March 31, 2015 and December 31, 2014, information related to these offsetting arrangements was as follows (in thousands):

	<b>March 31, 2015 (unaudited)</b>					
	<b>Derivatives offset in consolidated balance sheet</b>			<b>Derivatives eligible for offsetting</b>		
	<b>Gross derivative amounts offset in</b>		<b>Net amount</b>	<b>Gross derivative amounts eligible</b>		<b>Net amount</b>
	<b>Gross derivative amounts</b>	<b>consolidated balance sheet</b>		<b>Gross derivative amounts</b>	<b>for offsetting</b>	
Fair value of assets	\$ 133	\$ (133)	\$	\$ 133	\$ (133)	\$
Fair value of liabilities	(13,333)	133	(13,200)	(13,333)	133	(13,200)
Margin call deposits			5,300			5,300
<b>Total</b>			<b>\$ (7,900)</b>			<b>\$ (7,900)</b>

**December 31, 2014**

	<b>Derivatives offset in consolidated balance sheet</b>			<b>Derivatives eligible for offsetting</b>		
	<b>Gross derivative amounts offset in</b>			<b>Gross derivative amounts eligible</b>		
	<b>Gross derivative amounts</b>	<b>consolidated balance sheet</b>	<b>Net amount</b>	<b>Gross derivative amounts</b>	<b>for offsetting</b>	<b>Net amount</b>
Fair value of assets	\$ 256	\$ (256)	\$ 0	\$ 256	\$ (256)	\$ 0
Fair value of liabilities	(27,376)	256	(27,120)	(27,376)	256	(27,120)
Margin call deposits			14,390			14,390
Total			(12,730)			(12,730)

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The fuel derivative agreements the Company has with its counterparties may require the Company to pay all, or a portion of, the outstanding loss positions related to these contracts in the form of a margin call prior to their scheduled maturities. The amount of collateral posted, if any, is adjusted based on the fair value of the fuel hedge derivatives. The Company had \$5.3 million and \$14.4 million of collateral posted related to outstanding fuel hedge contracts at March 31, 2015 and December 31, 2014, which is reflected in the table above.

**(4) Contingencies and Commitments****(a) Contingencies**

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

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

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

**(b) Commitments*****Pre-Delivery Payments for Flight Equipment***

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

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

anticipated purchase of aircraft in future periods and determined them to be recoverable. If the Company ultimately exercises its cancellation rights for up to 30 aircraft, it would incur a loss of deposits and credits of up to \$26.0 million as a cancellation fee. Because the Company concluded that the deposits and credits are recoverable and that it is not likely to incur cancellation fees, the Company did not record such fees. The Company maintains \$103.6 million of pre-delivery payments, of which \$77.6 million relates to the next 10 and \$26.0 million to the last 30 aircraft, in its accompanying condensed consolidated balance sheets as of March 31, 2015, \$58.2 million of which was financed by a third party and all of which is payable in 2015 and 2016.

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Committed expenditures not subject to cancellation rights for these aircraft and separately sourced spare engines, including estimated amounts for contractual price escalations and pre-delivery payment deposits, will total approximately \$202.6 million in 2015 and \$184.2 million in 2016. The Company believes that its cash resources and commercially available aircraft financing will be sufficient to satisfy these purchase commitments. For six out of the first 10 aircraft deliveries, the Company has obtained a manufacturer backstop debt financing commitment, which it does not expect to utilize.

***Letter of Credit Facility***

In connection with the 2014 Recapitalization, the Virgin Group arranged for a \$100.0 million Letter of Credit Facility issued on behalf of the Company to certain companies that process substantially all of the Company's credit card transactions. The Letter of Credit Facility would only become an obligation of the Company if one or both of its credit card processors were to draw on the Letter of Credit Facility.

**(5) Related-Party Transactions**

The Company licenses the use of its brand name from certain entities affiliated with Virgin Enterprises Limited, a company incorporated in England and Wales (VEL). VEL is an affiliate of one of the Company's largest stockholders, the Virgin Group, which has one designee on the Company's board of directors. The Company paid license fees of \$1.6 million and \$1.6 million during the three months ended March 31, 2015 and 2014, respectively. The Company has accrued unpaid royalty fees of \$1.6 million and \$1.8 million at March 31, 2015 and December 31, 2014.

As of March 31, 2015 the Virgin Group, through its affiliates including VX Holdings L.P., owns approximately 19.0% of the Company's issued and outstanding voting stock and all of the outstanding related-party debt. In order to comply with requirements under U.S. law governing the ownership and control of U.S. airlines, at least 75% of the voting stock of the Company must be held by U.S. citizens and at least two-thirds of the Company's board of directors must be U.S. citizens. U.S. citizen investors own over 75% of the voting stock of the Company, of which Cyrus Aviation Holdings, LLC, the largest single U.S. investor, owns approximately 28.9% as of March 31, 2015.

As of March 31, 2015, 28.8% of the Company's \$137.9 million debt is held by related-party investors. In connection with the 2014 Recapitalization, the Company reduced related-party debt with a carrying value of \$728.3 million to \$38.5 million. The Company incurred \$0.8 million and \$9.3 million of related-party interest expense for the three months ended March 31, 2015 and 2014. Commencing in November 2014, the Company began to incur an annual commitment fee on the \$100.0 million Letter of Credit Facility issued by the Virgin Group. The fee is equal to 5.0% per annum of the daily maximum amount available to be drawn, accruing on a daily basis from the date of issuance and is payable quarterly. For the three months ended March 31, 2015 the Company recorded \$1.4 million in commitment fees in the accompanying condensed consolidated statement of operations.

**(6) Income Taxes**

The Company's effective tax rates are lower than the federal statutory rate of 35% primarily because of the impact of changes to existing valuation allowances. The Company continues to provide a valuation allowance for its deferred tax assets in excess of deferred tax liabilities because the Company concluded that it is more likely than not that such deferred tax assets will ultimately not be realized.

**(7) Net Income Per Share**

Employee equity share options and unvested shares granted by the Company are treated as potential common shares outstanding in computing diluted earnings per share. Diluted shares outstanding include the dilutive effect of of in-the-money options, unvested restricted stock units, and ESPP. The dilutive effect of such equity awards is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are collectively assumed to be used to repurchase shares.



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Basic and diluted net income (loss) per share were computed using the two-class method for periods prior to the completion of the IPO, which is an allocation method that determines net income (loss) per share for common stock and participating securities.

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
	(unaudited)	(unaudited)
<b>BASIC:</b>		
Net income (loss)	\$ 12,786	\$ (22,354)
Less: net income allocated to participating securities		
Net income (loss) attributable to common shareholders	\$ 12,786	\$ (22,354)
Weighted-average common shares outstanding	43,184	702
Basic net income (loss) per share	\$ 0.30	\$ (31.86)
<b>DILUTED:</b>		
Net income (loss)	\$ 12,786	\$ (22,354)
Less: net income allocated to participating securities		
Net income (loss) attributable to common shareholders	\$ 12,786	\$ (22,354)
Weighted-average common shares outstanding-basic	43,184	702
Effect of dilutive potential common shares	1,434	
Weighted-average common shares outstanding-diluted	44,618	702
Diluted net income (loss) per share	\$ 0.29	\$ (31.86)

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
	(unaudited)	(unaudited)
Warrants to purchase common stock		42,243

**(8) Subsequent Events**

On April 29, 2015, the Company executed debt facility agreements to finance the Company's 2015 aircraft deliveries for \$195.0 million with three financing parties. This financing will represent approximately 80% of the net purchase price of the five A320 CEO aircraft. Each of the loans will be closed and funded on the date of the aircraft delivery from July through December 2015. The Company will finance \$168.6 million through senior debt facility agreements with 12 year terms and \$26.4 million through subordinate debt facility agreements with six year terms. Principal and interest will be payable quarterly in arrears. All of the debt will accrue interest which, if fixed at current rates, would average under 5.0%. The debt facility agreements have no financial covenants.

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**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Forward-Looking Statements**

This report contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. When used in this report, the words expect, estimate, plan, anticipate, indicate, believe, forecast, guidance, outlook, may, will, target and similar expressions are intended to identify forward-looking statements. Forward-looking statements represent our expectations and beliefs concerning future events, based on information available to us on the date of the filing of this report, and are subject to various risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the times at which or by which such performance or results will be achieved. Factors that could cause actual results to differ materially from those referenced in the forward-looking statements include those listed in Part I, Item 1A, Risk Factors of our 2014 Form 10-K and in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of this report. We disclaim any intent or obligation to update or revise any of the forward-looking statements, whether in response to new information, unforeseen events, changed circumstances or otherwise, except as required by applicable law.

**Overview**

Virgin America is a premium-branded, low-cost airline based in California that provides scheduled air travel in the continental United States and Mexico. We operate primarily from our focus cities of Los Angeles and San Francisco, with a smaller presence at Dallas Love Field, to other major business and leisure destinations in North America. We provide a distinctive offering for our passengers, whom we call guests, that is centered around our brand and our premium travel experience, while at the same time maintaining a low-cost structure through our point-to-point network and high utilization of our efficient, single fleet type. As of March 31, 2015, we provided service to 21 airports in the United States and Mexico with a fleet of 53 narrow-body aircraft.

**First Quarter 2015 Highlights**

Our pre-tax income for the first quarter of 2015 was \$13.1 million, an increase of \$35.4 million as compared to the first quarter of 2014. Several factors contributed to our significant improvement in earnings:

**Operating Revenue:** Total revenue increased \$13.0 million, or 4.1%, from an increase in capacity of 1.5% and increase in revenue per available seat mile (RASM) of 2.7%. Generally, most markets within our network showed improved revenue performance in the first quarter as compared to the first quarter of 2014. Our transcontinental flights from New York to Los Angeles and to San Francisco experienced high demand with lower average fares as a result of the introduction of additional capacity into the market by competitors. Our operations at Dallas Love Field are still new and not yet matured and established. These routes produce PRASM well below our average PRASM but are showing signs of improvement with increased load factors.

**Operating Cost:** Our total operating expenses declined \$15.6 million, or 4.8%, primarily from sharply lower fuel costs. Our average cost per gallon of jet fuel declined 24.6% from the first quarter of 2014, resulting in a decrease in aircraft fuel expense of \$27.2 million. In addition, our aircraft maintenance expenses declined

\$5.2 million due to decreased scheduled heavy airframe maintenance checks. Salaries, wages and benefits expense increased \$10.9 million from the first quarter of 2014, primarily from an increase in accrued profit-sharing and profit-sharing-related payroll taxes of \$2.1 million, increased equity related compensation of \$1.3 million and increases for teammate compensation, 401K contributions and benefits. We expect salaries, wages and benefits to increase throughout 2015 as we align compensation across most work groups with industry average pay rates. However, we expect the increases that we will experience in 2015 will moderate in 2016 and beyond and be more aligned with long-term domestic inflation trends.

**Net Other Expense:** Our net interest and other expense decreased \$6.9 million as a result of the decrease in related-party debt from the restructuring of our balance sheet in connection with our initial public offering in November 2014.

We operated a total fleet of 53 aircraft in both the first quarter of 2015 and 2014. Our capacity increased 1.5% due primarily to changes in our network. A number of severe winter storms that caused a higher than normal level of cancellations also affected our operations in both years and reduced our first quarter 2015 capacity by 1.5% versus our original plan.

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We plan to take delivery of five A320 aircraft in the second half of 2015 and five A320 aircraft in the first half of 2016, all of which are on order with Airbus. We expect to add new markets from this expansion as well as increase frequency in some of our existing markets. We currently expect to purchase these aircraft and finance the majority of the purchase price with long-term debt obtained from commercial banks. The lease on one of our currently operated A320 aircraft, which we may seek to extend, is currently set to expire in the first quarter of 2016.

In connection with our aircraft deliveries, in April 2015, we announced service from San Francisco to Honolulu and Maui, to begin in the fourth quarter of 2015. Hawaii markets from the west coast have many of the characteristics of markets where we have historically been successful, including very high demand with a large number of flights already operated by multiple competitors, average fares similar to those of long-haul markets where we currently have profitable operations and higher than those of other leisure markets in our network and a high level of origin passengers in California, where we have an established presence.

## **Results of Operations**

### ***Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014***

For the three months ended March 31, 2015, we had net income of \$12.8 million compared to a net loss of \$22.4 million for the same period in 2014. Our operating income of \$15.4 million for the three months ended March 31, 2015 increased by \$28.5 million from an operating loss of \$13.1 million for the three months ended March 31, 2014. Our operating margin increased by 8.9 points to 4.7% in the three months ended March 31, 2015 as compared to a 4.2% negative margin in the three months ended March 31, 2014.

Our operating capacity, as measured by ASMs, increased by 1.5% for the three months ended March 31, 2015 from the same period in 2014. Our number of passengers increased by 3.0% in the three months ended March 31, 2015 year-over-year, and our yield increased by 1.4%.

Our CASM decreased by 6.2% to 11.03 cents for the three months ended March 31, 2015 as compared to 11.28 cents for the same period in 2014. This was primarily a result of lower fuel costs, partially offset by increased salaries, wages and benefits.

In addition, interest expense for the three months ended March 31, 2015 decreased by \$7.9 million from the prior year period, primarily as a result of our 2014 Recapitalization.

**Table of Contents****Operating Revenues**

	Three Months Ended March 31,		Change	
	2015	2014	Amount	%
Operating revenues (in thousands):				
Passenger	\$ 289,364	\$ 278,040	\$ 11,324	4.1
Other	36,987	35,350	1,637	4.6
Total operating revenues	\$ 326,351	\$ 313,390	\$ 12,961	4.1
Operating statistics:				
Available seat miles (millions)	2,819	2,777	42	1.5
Revenue passenger miles (millions)	2,257	2,199	58	2.6
Average stage length (statute miles)	1,425	1,406	19	1.4
Load factor	80.1%	79.2%	0.9 pts	
Total revenue per available seat mile RASM (cents)	11.58	11.28	0.30	2.7
Total passenger revenue per available seat mile PRASM (cents)	10.27	10.01	0.26	2.6
Yield (cents)	12.82	12.64	0.18	1.4
Average fare	\$ 190.03	\$ 187.96	\$ 2.07	1.1
Passengers (thousands)	1,523	1,479	44	3.0

Passenger revenue for the three months ended March 31, 2015 increased 4.1% from the three months ended March 31, 2014 on a 1.5% increase in capacity as measured by our ASMs. First quarter 2015 PRASM increased 2.6% year-over-year due to a 1.4% increase in passenger yield and a 0.9 point increase in load factor. Total RASM for the three months ended March 31, 2015 increased 2.7% from the three months ended March 31, 2014, primarily from the increase in PRASM and 4.6% increase in other revenue.

Other revenue for the three months ended March 31, 2015 increased 4.6% from the three months ended March 31, 2014 primarily due to increased advertising and brand revenues on our co-branded consumer credit card program and higher Express fee revenue.

**Operating Expenses**

	Three Months Ended March 31,		Change		Cost per ASM		Change %
	2015	2014	Amount	%	2015	2014	
Operating expenses (in thousands):							
Aircraft fuel	\$ 88,558	\$ 115,760	\$ (27,202)	(23.5)	3.14	4.17	(24.7)
Salaries, wages and benefits	64,733	53,824	10,909	20.3	2.29	1.94	18.0
Aircraft rent	44,982	46,496	(1,514)	(3.3)	1.59	1.67	(4.8)
Landing fees and other rents	33,983	32,221	1,762	5.5	1.21	1.16	4.3

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Sales and marketing	26,379	24,562	1,817	7.4	0.94	0.88	6.8
Aircraft maintenance	13,834	19,044	(5,210)	(27.4)	0.49	0.69	(29.0)
Depreciation and amortization	4,103	3,269	834	25.5	0.15	0.12	25.0
Other operating expenses	34,396	31,345	3,051	9.7	1.22	1.13	8.0
Total operating expenses	\$ 310,968	\$ 326,521	\$ (15,553)	(4.8)	11.03	11.76	(6.2)

Operating statistics:

Available seat miles (millions)	2,819	2,777	42	1.5
Average stage length (statute miles)	1,425	1,406	19	1.4
Departures	13,828	13,825	3	
CASM (excluding fuel)	7.89	7.59	0.30	4.0
CASM (excluding fuel and profit sharing)	7.82	7.59	0.23	3.0
Fuel cost per gallon	\$ 2.39	\$ 3.17	(0.78)	(24.6)
Fuel gallons consumed (thousands)	37,026	36,547	479	1.3
Teammates (FTE)	2,429	2,426	3	0.1

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**Table of Contents***Aircraft fuel*

Aircraft fuel expense for the three months ended March 31, 2015, which includes the effect of our fuel hedges, decreased by \$27.2 million, or 23.5%, from the three months ended March 31, 2014. The decrease was primarily due to a decrease of \$0.78, or 24.6%, in the average fuel cost per gallon offset in part by a 1.3% increase in fuel consumption, and \$15.7 million net fuel hedge losses. The increased fuel consumption was substantially consistent with the increase in available seat miles.

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 March 31, 2015, we had entered into derivative hedging instruments and FFPs for approximately 46% of our then expected nine-month fuel requirements, with all of our then existing hedge contracts expected to settle by the end of the fourth quarter of 2015. Due in part to the impact of declining fuel prices, we recorded \$15.7 million in fuel hedge net losses in the three months ended March 31, 2015, which include the effect of \$2.3 million offsetting unrealized gains associated with fuel hedges that will mature after March 31, 2015.

*Salaries, wages and benefits*

Salaries, wages and benefits expense for the three months ended March 31, 2015 increased by \$10.9 million, or 20.3%, from the three months ended March 31, 2014. 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 three months ended March 31, 2015 included an increase of \$1.0 million in profit sharing expense and \$1.1 million in payroll tax expense on the payout for the 2014 profit sharing. Under our annual profit sharing program, we accrued a pro rata portion of our estimated 2015 total profit sharing, which is based on current internal projections of 2015 pre-tax income. Our profit sharing plan provides for profit sharing on pre-tax income above a threshold which is based on \$1.5 million times the weighted average number of aircraft in our fleet. For the full year 2015, we estimate the threshold to be approximately \$81.0 million. No profit sharing expense had been recorded in the three months ended March 31, 2014 because we had incurred a net loss.

Our overall benefit plan costs for the three months ended March 31, 2015 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.

We expect salaries, wages and benefit expense in 2015 to grow at a faster rate than our capacity as market and tenure-related adjustments continue. In 2015, we implemented a new employee stock purchase program under which employees may purchase our stock at a 10% discount of the market value at the end of each offering period. Also, a new discretionary 401(k) company contribution called 401(k) Plus went into effect, under which we make additional 401(k) contributions of 4.5% of salary for pilots and 1.5% for all other teammates, subject to approval by our Board of Directors annually.

Additionally, in 2015 we began incurring costs associated with hiring and training new teammates in connection with our new aircraft deliveries.

*Aircraft rent*

Aircraft rent expense remained relatively constant for the three months ended March 31, 2015 from the three months ended March 31, 2014.



*Landing fees and other rents*

Landing fees and other rents expense for the three months ended March 31, 2015 increased by \$1.8 million, or 5.5%, from the three months ended March 31, 2014, primarily as a result of rate increases for facilities at our destination airports.

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### *Sales and marketing*

Sales and marketing expense for the three months ended March 31, 2015 increased \$1.8 million, or 7.4%, from the three months ended March 31, 2014, primarily due to increases in credit card penetration and fee rates.

### *Aircraft maintenance*

Aircraft maintenance expense for the three months ended March 31, 2015 decreased by \$5.2 million, or 27.4% from the three months ended March 31, 2014. There were no significant heavy airframe maintenance events scheduled for the first quarter of 2015 while multiple maintenance events were completed in the same period in 2014.

### *Depreciation and amortization*

Depreciation and amortization expense increased by \$0.8 million, or 25.5%, for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014, primarily due to depreciation of our new software licenses and additional aircraft leasehold improvements.

### *Other operating expenses*

Other operating expense increased by \$3.1 million, or 9.7%, for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014, primarily related to consulting fees and legal costs.

## **Other Income (Expense)**

Other income (expense) for the three months ended March 31, 2015 decreased by \$6.9 million, or 75.2%, from the three months ended March 31, 2014, primarily due to the \$8.5 million reduction in related-party interest expense as a result of the 2014 Recapitalization. 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%. See our consolidated financial statements included in our 2014 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 2015 was largely offset by the release of a valuation allowance against net deferred tax assets. For the three months ended March 31, 2015, we recorded tax expense of \$0.3 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.

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The following table sets forth our operating statistics for the three months ended March 31, 2015 and 2014:

	<b>Three Months Ended March 31,</b>		<b>% Change</b>
	<b>2015</b>	<b>2014</b>	
<b>Operating Statistics (unaudited):</b>			
Available seat miles ASMs (millions)	2,819	2,777	1.5
Departures	13,828	13,825	
Average stage length (statute miles)	1,425	1,406	1.4
Aircraft in service end of period	53	53	
Fleet utilization	10.1	10.0	1.0
Passengers (thousands)	1,523	1,479	3.0
Average fare	\$ 190.03	\$ 187.96	1.1
Yield per passenger mile (cents)	12.82	12.64	1.4
Revenue passenger miles RPMs (millions)	2,257	2,199	2.6
Load factor	80.1%	79.2%	0.9 pts
Passenger revenue per available seat mile PRASM (cents)	10.27	10.01	2.6
Total revenue per available seat mile RASM (cents)	11.58	11.28	2.7
Cost per available seat mile CASM (cents)	11.03	11.76	(6.2)
CASM, excluding fuel (cents) (1)	7.89	7.59	4.0
CASM, excluding fuel and profit sharing (cents) (1)	7.82	7.59	3.0
Fuel cost per gallon	\$ 2.39	\$ 3.17	(24.6)
Fuel gallons consumed (thousands)	37,026	36,547	1.3
Teammates (FTE)	2,429	2,426	0.1

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

**Liquidity and Capital Resources**

As of March 31, 2015, our principal sources of liquidity were cash and cash equivalents of \$418.3 million. We also had restricted cash of \$18.8 million as of March 31, 2015. Restricted cash primarily represents cash collateral securing our letters of credit for airport facility leases. In addition, we had \$5.3 million of cash collateral posted with various third parties related to losses under our fuel hedging program.

As of March 31, 2015, we had \$47.8 million of short-term debt and \$90.1 million of long-term debt, of which \$39.7 million was related-party debt. Included in our long-term debt balance is 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 quarterly in arrears.

Currently our single largest capital expense is the acquisition cost of our aircraft. We operate all of our existing 53 aircraft under operating leases, which required a smaller up-front investment than if we had financed these aircraft with debt. Pre-delivery payments, or PDPs, relating to future deliveries under our agreement with Airbus, are required at various times prior to each aircraft's delivery date. As of March 31, 2015, we had paid \$103.6 million of PDPs to Airbus, \$58.2 million of which were financed by a third-party payable upon delivery of aircraft. We expect that

committed expenditures for ten future aircraft deliveries between July 2015 and June 2016, separately sourced spare engines and related aircraft equipment, including estimated amounts for contractual price escalations and PDPs, will total approximately \$202.6 million in 2015 and \$184.2 million in 2016. In April 2015, we entered into long-term debt financing agreements with three financing parties with respect to the first five aircraft to be delivered in 2015. We expect to finance approximately 80% of the net purchase price of these aircraft through these financing arrangements. We expect to enter into similar financing commitments with third-party lenders later this year for the five A320 aircraft to be delivered to us in 2016. 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 remaining 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.

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

***Cash Flows***

The following table presents information regarding our cash flows in the three months ended March 31, 2015 and 2014:

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net cash provided (used in) by operating activities	\$ 33,078	\$ 4,330
Net cash used in investing activities	(9,459)	(27,111)
Net cash provided by (used in) financing activities	1	8
Net increase (decrease) in cash and cash equivalents	23,620	(22,773)
Cash and cash equivalents, end of period	418,263	132,886

***Net Cash Flow Provided By (Used In) Operating Activities***

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

During the three months ended March 31, 2014, net cash flow provided by operating activities was \$4.3 million. We had a net loss of \$22.4 million adjusted for the following non-cash items: paid in-kind interest expense of \$5.6 million and depreciation and amortization of \$3.3 million. Air traffic liability, net of credit card holdbacks, contributed \$19.4 million of cash flow, primarily due to an advance payment from our new co-branded credit card partner received in January 2014, offset in part by the timing of credit card settlements. We increased our maintenance deposits by \$8.0 million, primarily due to our reserve payments for future maintenance events. Other current liabilities increased by \$12.2 million, primarily because of increased accruals due to the timing of invoicing by some of our major business partners.

***Net Cash Flows Used In Investing Activities***

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

During the three months ended March 31, 2014, net cash flow used in investing activities was \$27.1 million. We invested in domestic airport operating rights, flight equipment and software.

**Table of Contents***Net Cash Flows Provided By (Used In) Financing Activities*

Cash flow provided by financing was not material in the three months ended March 31, 2015 and the three months ended March 31, 2014. We expect to take delivery of five aircraft in the last half of 2015. We plan to fund the purchase of these aircraft through a mix of debt financing and operating cash. We finalized the debt financing arrangements for the 2015 aircraft deliveries in April 2015.

**Critical Accounting Estimates**

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Estimates included in our 2014 Form 10-K.

**Reconciliation of GAAP to Non-GAAP Financial Measures**

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

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

The following table provides the reconciliation of operating expense per ASM excluding fuel and profit sharing for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31, 2015		2014	
	\$ (in thousands)	per ASM (in cents)	\$ (in thousands)	per ASM (in cents)
Total operating expenses	\$ 310,968	11.03	\$ 326,521	11.76
Less: Aircraft fuel	88,558	3.14	115,760	4.17
Operating expenses, excluding fuel	222,410	7.89	210,761	7.59
Less: 2015 profit sharing and payroll taxes related to 2014 profit sharing	2,096	0.07		
Operating expense, excluding fuel and profit sharing	\$ 220,314	7.82	\$ 210,761	7.59





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**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

*Aircraft Fuel.* Our results of operations can vary materially, due to changes in the price and availability of aircraft fuel and are also impacted by the number of aircraft in use and the number of flights we operate. Aircraft fuel expense for the three months ended March 31, 2015 and 2014 represented approximately 28.5% and 35.5% of our operating expenses. Increases in aircraft fuel prices or a shortage of supply could have a material adverse effect on our operations and results of operations. Based on March 2015 aircraft fuel market prices and our projected 2015 fuel consumption, a 10% increase in the average price per gallon would increase our annual aircraft fuel expense, including the impact of our outstanding hedged positions, by approximately \$29.2 million. To manage economic risks associated with the fluctuations of aircraft fuel prices, we periodically enter into FFPs, forward swaps, call options for crude oil and collar contracts for heating oil. As of March 31, 2015, we had entered into fuel derivative contracts and FFPs that fixed or established a floor on the price associated with 46% of our forecasted aircraft fuel requirements for the next nine months at an approximate cost per gallon of \$2.00, which is in excess of current market prices. All of our currently existing fuel hedge contracts are expected to settle by the end of the fourth quarter of 2015.

The fair value of our fuel derivative contracts as of March 31, 2015 was a net liability of \$13.2 million offset by margin call deposits of \$5.3 million, resulting in an overall net liability of \$7.9 million. As of March 31, 2014, our fuel hedge net liability was \$1.4 million. We measure our fuel derivative instruments at fair value, which is determined using standard option valuation models that use observable market inputs including contractual terms, market prices, yield curves, fuel price curves and measures of volatility. Changes in the related commodity derivative instrument cash flows may change by more or less than the fair value based on further fluctuations in futures prices. Outstanding financial derivative instruments expose us to credit loss in the event of nonperformance by the counterparties to the agreements. As of March 31, 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 for the three months ended March 31, 2015 would have had an immaterial effect on total interest expense for the three months ended March 31, 2015.

Our remaining long-term debt consists of a fixed rate note payable. A hypothetical 10% change in market interest rates as of March 31, 2015 would have no effect on our interest expense but would reduce the fair value of our fixed-rate related-party debt instrument by \$2.3 million.

**ITEM 4. CONTROLS AND PROCEDURES***Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2015. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management

necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2015, our disclosure controls and procedures were effective at the reasonable assurance level in ensuring that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the "SEC") and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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### *Changes in Internal Control over Financial Reporting*

There have been no changes in our internal control over financial reporting that occurred during our fiscal quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART 2. OTHER INFORMATION**

### **ITEM 1. 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 1A. RISK FACTORS**

*Our business involves significant risks, some of which are described below. You should carefully consider these risks, as well as the other information in this report, including our financial statements and the related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations. The occurrence of any of the events or developments described below, as well as additional risks and uncertainties not presently known to us or that we currently deem immaterial, could materially adversely affect our business, results of operations, financial condition and growth prospects.*

***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 is our largest individual operating expense, accounting for 39.4%, 37.7% and 35.8% of our operating expenses for 2012, 2013, 2014. 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.

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*Our fuel hedging program may not be effective. We cannot assure you our fuel hedging program, including our 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.

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 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.



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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.

***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.

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

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

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

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

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

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***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.

***We have a limited operating history and have only recorded two 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 and 2014, 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.

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

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

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

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

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

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**Table of Contents*****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, and we have historically relied solely on lessors to provide financing for our aircraft acquisition needs. As of March 31, 2015, committed expenditures for these aircraft and spare engines, including estimated amounts for contractual price escalations and \$103.6 million of pre-delivery payment commitments, were approximately \$386.9 million. Because we may not have sufficient liquidity or creditworthiness to fund the purchase of aircraft and engines, including payment of PDPs, we expect to seek external financing for these expenses. There are a number of factors that may affect our ability to raise financing or access the capital markets, 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.

In addition, we may be unable to fully finance future aircraft acquisitions if the aircraft are perceived to be less valuable for any reason. We presently have ten Airbus A320-family, current engine option, or A320ceo, aircraft on order for delivery between July 2015 and June 2016. If Airbus's newer A320neo-family aircraft provide expected improvements in the fuel consumption and an increase in nautical mile range, the Airbus A320ceo-family aircraft may be perceived to be less valuable. [We have entered into agreements to finance our acquisition of the aircraft on order for delivery in 2015.] However, if we are unable to fully finance our acquisition of the aircraft on order for delivery in 2016, our business may be materially adversely affected.

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

On August 13, 2014, our inflight teammates (whom other airlines refer to as flight attendants), representing approximately 32% of our workforce at the time, voted for representation by the Transport Workers Union, or TWU. As a result, the TWU has been certified as the representative of our inflight teammates, and we will be engaged with the TWU in a collective bargaining process for a first contract for those teammates 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. On April 24, 2015, the National Mediation Board notified us that the Air Line Pilots Association (ALPA) had collected sufficient signature cards to schedule a vote to determine if our pilots want to form a union with ALPA as their representative. If we are not able to reach agreement with the TWU on the terms of the collective bargaining agreement for our inflight teammates, or if one or more of our other teammate groups, including our pilots, elects a union to represent them, it could create a risk of work stoppages, which could materially adversely affect our business.

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***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 2014, passengers to and from Los Angeles International Airport (LAX) and to and from SFO accounted for 43.2% and 54.1% 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 operate out of Terminal Three under an airport lease agreement that runs through 2019, subject to our completion of certain leasehold improvement projects. Under the LAX lease, we have the preferential use of six airport gates with the opportunity to build a new seventh gate with a jet-boarding bridge, and shared access with other airlines to additional common-use gates. At SFO, we primarily operate out of recently renovated Terminal Two, under an operating lease that runs through June 2021, with the occasional use of a gate in the international terminal for flights from Mexico. Under the SFO lease, we have preferential access to seven Terminal Two gates, shared access with other airlines to one common-use Terminal Two gate and shared access to international terminal gates. In the past, we have used SFO international gates for domestic flights. While gate space is limited at both LAX and SFO, we believe that our gate access at each airport is capable of handling our planned growth in operations for at least the next several years.

However, 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 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 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 all of our aircraft, and these leases contain provisions requiring the payment of monthly rent regardless of usage. As of March 31, 2015, we had undiscounted future operating lease obligations of approximately \$1.4 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 from Airbus and CFM for delivery over the next eight years. Under those agreements, we are obligated to make 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 ten aircraft scheduled for delivery between July 2015 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.



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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.

***Our credit card processors have the right to impose larger 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. Prior to our IPO, we had significant holdback requirements with our two primary credit card processors, Elavon Inc. for Visa/MasterCard and American Express. In connection with the IPO, 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. We had \$32.5 million in excess of the letter of credit held back as of March 31, 2015. Our outstanding receivable from our processors, which consists of amounts held back for future travel as well as ordinary course receivables, was \$51.5 million at March 31, 2015. If a credit card processor determines there is a material risk with respect to our business or liquidity, it has the right to increase the amount or duration of the holdback. Any increase in the amount or duration of our holdbacks may negatively impact our liquidity and materially adversely affect our business.

***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.

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As of March 31, 2015, the average age of aircraft in our fleet of Airbus A320-family aircraft was 6.1 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 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 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.

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***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 and the Ebola virus could significantly reduce demand for passenger traffic and result in travel restrictions. Any interruption in our ability to operate flights or reduction in airline passenger demand because of such events could have a material adverse effect on our business.

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

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

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

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

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

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

As of March 31, 2015, the Virgin Group and Cyrus Holdings own approximately 19.0% (which does not include the Virgin Group's non-voting common stock) and 24.4% of our outstanding 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.

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***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 Securities and Exchange Commission, or 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 will be required to assess our internal control over financial reporting on an annual basis, and any future 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, and beginning with our Annual Report on Form 10-K for the year ending December 31, 2015, our management will be 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. We are currently in the process of reviewing, documenting and testing 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 initial public offering in November 2014. Prior to that offering, there was no public market for shares of our common stock, and an active public market for our shares may not be sustained. From November 14, 2014, the first date of trading of our common stock, through March 31, 2015, the last reported sale price of our

common stock has fluctuated between \$29.29 and \$43.81 per share. In addition, 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;

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announcements concerning the availability of the type of aircraft we use;

general and industry-specific economic conditions;

changes in financial estimates or recommendations by securities analysts or failure to meet analysts performance expectations;

sales of our common stock or other actions by investors with significant shareholdings, including sales by our principal stockholders;

trading strategies related to changes in fuel or oil prices; and

general market, political and other economic conditions.

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

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

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

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

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

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

our board of directors is divided into three staggered classes, with each class serving a three-year term, which prevents stockholders from electing an entirely new board of directors at a single annual meeting;

actions to be taken by our stockholders may only be effected at an annual or special meeting of our stockholders and not by written consent;

special meetings of our stockholders can be called only by our board of directors, the Chairman of the Board, our chief executive officer or our president;

advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors and propose matters to be brought before an annual meeting of our stockholders may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company; and

our board of directors may, without stockholder approval, issue series of preferred stock, or rights to acquire preferred stock, that could dilute the interest of, or impair the voting power of, holders of our common stock or could also be used as a method of discouraging, delaying or preventing a change of control.



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***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 hold an aggregate of 17,399,966 shares of our voting common stock, or 48.0% of our voting common stock outstanding, and 56.2% of the total outstanding equity interests in our company as of March 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 March 31, 2015, non-U.S. citizens owned, in the aggregate, 7,586,368 shares of voting common stock (representing approximately 20.9% of the total voting rights and approximately 17.6% of the total outstanding equity interests in our company).

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.

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***We do not intend to pay cash dividends for the foreseeable future.***

We have never declared or paid cash dividends on our common stock. We currently intend to retain our future earnings, if any, to finance the further development and expansion of our business and do not intend to pay cash dividends in the foreseeable future. Any future determination to pay dividends will be at 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.

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

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

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

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

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

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

We incurred significant cumulative net taxable losses through 2014. 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. In addition, 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 have experienced ownership changes in the past, including in connection with our IPO and 2014 Recapitalization, that could limit our ability to use pre-change NOLs to offset future taxable income. In addition, 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.

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

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

**Use of Proceeds from Initial Public Offering of Common Stock**

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

There has been no material change in the planned use of proceeds from the offering as described in the Registration Statement and in our 2014 Form 10-K.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS**

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

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**SIGNATURES**

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

Dated: April 30, 2015

**VIRGIN AMERICA INC.**

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

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Exhibit Number	Exhibit Description	Incorporated by Reference			Provided Herewith
		Form	Exhibit No.	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of Virgin America Inc.	8-K	3.1	11/19/14	
3.2	Amended and Restated Bylaws of Virgin America Inc.	8-K	3.2	11/19/14	
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1**	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.INS	XBRL Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				X

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