

Virgin America Inc.  
Form S-1  
March 16, 2015  
Table of Contents

As filed with the Securities and Exchange Commission on March 16, 2015

Registration No. 333-

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM S-1**  
**REGISTRATION STATEMENT**

UNDER

THE SECURITIES ACT OF 1933

**VIRGIN AMERICA INC.**

(Exact name of registrant as specified in its charter)

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>4512</b> (Primary Standard Industrial Classification Code Number) <b>555 Airport Boulevard</b>	<b>20-1585173</b> (I.R.S. Employer Identification Number)
--	--	---

**Burlingame, California 94010**

**(650) 762-7000**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**C. David Cush**

**President and Chief Executive Officer**

**Virgin America Inc.**

**555 Airport Boulevard, Burlingame, California 94010**

**(650) 762-7000**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Edgar Filing: Virgin America Inc. - Form S-1

Copies To:

<p><b>Tad J. Freese</b>   <b>Latham &amp; Watkins LLP</b>   <b>140 Scott Drive</b>   <b>Menlo Park, California 94025</b>   <b>(650) 328-4600</b></p>	<p><b>John J. Varley</b>   <b>Senior Vice President and General Counsel</b>   <b>Virgin America Inc.</b>   <b>555 Airport Boulevard</b>   <b>Burlingame, California 94010</b>   <b>(650) 762-7000</b></p>	<p><b>Alan F. Denenberg</b>   <b>Davis Polk &amp; Wardwell LLP</b>   <b>1600 El Camino Real</b>   <b>Menlo Park, California 94025</b>   <b>(650) 752-2000</b></p>
--	---	---

**Approximate date of commencement of the proposed sale to the public:**

**As soon as practicable after this Registration Statement becomes effective.**

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

**CALCULATION OF REGISTRATION FEE**

Title of Each Class of Securities to be Registered	Amount to be Registered (1)	Proposed Maximum Offering Price Per Share (2)	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee (3)
Common Stock, par value \$0.01 per share	5,580,883	\$34.56	\$192,875,316.48	\$22,412.12

- (1) Includes shares of common stock subject to the underwriters' option to purchase additional shares.
- (2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457 under the Securities Act of 1933, as amended.
- (3) Calculated pursuant to Rule 457(c) under the Securities Act of 1933, as amended, based on the average of the high and low trading prices for the common stock on The NASDAQ Global Select Market on March 12, 2015.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a),**

may determine.

---

**Table of Contents**

**The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

Subject to Completion, dated March 16, 2015.

4,852,942 Shares

Common Stock

The selling stockholders identified in this prospectus are offering 4,852,942 shares of our common stock. The selling stockholders will receive all of the net proceeds from the sale of the shares of our common stock in this offering.

Our common stock is listed on the NASDAQ Global Select Market under the symbol VA. On March 13, 2015, the last sale price of the shares on the NASDAQ Global Select Market was \$34.77 per share.

*Investing in the common stock involves risks. See Risk Factors beginning on page 16 of this prospectus.*

	<b>Per Share</b>	<b>Total</b>
Price to the Public	\$	\$
Underwriting discounts and commissions (1)	\$	\$
Proceeds to selling stockholders (before expenses)	\$	\$

(1) We refer you to Underwriting beginning on page 130 of this prospectus for additional information regarding underwriting compensation. The selling stockholders have granted the underwriters an option to purchase up to 727,941 additional shares of common stock. Such selling stockholders will receive the net proceeds from any shares sold pursuant to the underwriters' option to purchase additional shares, if such option is exercised.

Neither the Securities and Exchange Commission nor any state securities commission nor any other regulatory body has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on or about March , 2015.

**Barclays**

**Deutsche Bank Securities**

**Cowen and Company**

**Imperial Capital**  
March , 2015

**Raymond James**

Table of Contents

## TABLE OF CONTENTS

<u>SUMMARY</u>	1
<u>GLOSSARY OF AIRLINE TERMS</u>	13
<u>RISK FACTORS</u>	16
<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	31
<u>USE OF PROCEEDS</u>	32
<u>PRICE RANGE OF OUR COMMON STOCK AND DIVIDEND POLICY</u>	33
<u>CAPITALIZATION</u>	34
<u>UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS</u>	35
<u>SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA</u>	38
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	42
<u>INDUSTRY BACKGROUND</u>	71
<u>BUSINESS</u>	73
<u>MANAGEMENT</u>	89
<u>EXECUTIVE COMPENSATION</u>	99
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	112
<u>PRINCIPAL AND SELLING STOCKHOLDERS</u>	116
<u>DESCRIPTION OF CAPITAL STOCK</u>	119
<u>SHARES ELIGIBLE FOR FUTURE SALE</u>	124
<u>MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS</u>	126
<u>UNDERWRITING</u>	130
<u>LEGAL MATTERS</u>	136
<u>EXPERTS</u>	137
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	138
<u>INDEX TO FINANCIAL STATEMENTS</u>	F-1

We are responsible for the information contained in this prospectus or contained in any free writing prospectus prepared by or on behalf of us to which we have referred you. Neither we, any of the selling stockholders nor the underwriters, have authorized anyone to provide you with additional information or information different from that contained in this prospectus or in any free writing prospectus filed with the Securities and Exchange Commission, and we take no responsibility for any other information that others may give you. The selling stockholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock. Our business, results of operations or financial condition may have changed since such date.

*For investors outside the United States:* Neither we, any of the selling stockholders nor any of the underwriters have taken any action that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

---

**Table of Contents**

**SUMMARY**

*This summary highlights selected information about us and the common stock being offered by the selling stockholders. It may not contain all of the information that is important to you. Before investing in our common stock, you should read this entire prospectus carefully for a more complete understanding of our business and this offering, including our financial statements and the accompanying notes and the sections entitled Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations.*

**Overview**

Virgin America is a premium-branded, low-cost airline based in California that provides scheduled air travel in the 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 (DAL), to other major business and leisure destinations in North America. We provide a distinctive offering for our passengers, whom we call guests, that is centered around our brand and our premium travel experience, while at the same time maintaining a low-cost structure through our point-to-point network and high utilization of our efficient, single fleet type, consisting of Airbus A320-Family aircraft. Our distinctive business model allows us to offer a product that is attractive to guests who historically favored legacy airlines but at a lower cost than that of legacy airlines. This business model enables us to compete effectively with other low-cost carriers, or LCCs, by generating a higher stage-length adjusted revenue per available seat mile. Conversely, while our lower density seating configuration and the cost of our premium services contribute to a higher stage-length adjusted cost per available seat mile than that of other LCCs, our underlying cost structure principally stemming from our single fleet type and point-to-point network is competitive within the industry. As of December 31, 2014, we provided service to 21 airports in the United States and Mexico with a fleet of 53 narrow-body aircraft.

Leveraging the reputation of the Virgin brand, a global brand founded by Sir Richard Branson, we target guests who value the experience associated with the Virgin brand and the high-quality product and service that we offer. Our employees, whom we call teammates, provide a personalized level of service to our guests that is a key component of our product. Other elements of our premium product available fleetwide include power outlets adjacent to every seat, inflight wireless internet access, distinctive on-board mood lighting, leather seats, high-quality food and beverage offerings and our Red<sup>®</sup> inflight entertainment system, which we believe is industry leading, featuring a nine-inch personal touch-screen interface with a variety of features available on-demand, including live television, movies, seat-to-seat text chat, games, interactive maps and music. We have won numerous awards for our product, including Best Domestic Airline in *Travel + Leisure Magazine's* World's Best Awards and Best Domestic Airline in *Condé Nast Traveler Magazine's* Readers' Choice Awards for the past seven consecutive years as well as Best U.S. Business/First Class Airline in *Condé Nast Traveler Magazine's* Business Travel Poll for the past six consecutive years.

LCCs in the United States generally operate point-to-point networks with a single fleet type, a single class of service with a relatively high density seating configuration, high degree of outsourced operational services and high aircraft utilization. While we have many of these characteristics, we differentiate ourselves from other LCCs in the United States with additional attributes that business and high-end leisure travelers value. In contrast to most LCCs, we have three classes of service onboard our aircraft. In addition to our Main Cabin economy product, we offer our guests a First Class product and a premium economy class product called Main Cabin Select. We also provide a number of other amenities that are important to frequent travelers, including our Elevate<sup>®</sup> loyalty program with tiered benefits for our most loyal guests, lounge access in certain airports, including our own Virgin America Loft at Los Angeles International Airport (LAX), interline and codeshare partnerships with other airlines and a wide range of distribution channels and contractual travel discounts for over 250 major corporate customers and travel agents. While these amenities result in a higher cost per available seat mile, or CASM, than we could otherwise achieve with a more traditional LCC model, we believe that these

## **Table of Contents**

amenities, along with our premium on-board features, enabled us to realize the highest average passenger revenue per available seat mile, or PRASM, during the twelve months ended September 30, 2014, among U.S. LCCs within most of our markets.

Our disciplined cost control is also core to our strategy, and we maintain the cost simplicity of other LCCs. We operate one of the youngest fleets among U.S. airlines, comprised entirely of fuel-efficient Airbus A320-family aircraft. Our single fleet type allows us to avoid the operational complexities and cost disadvantages of carriers with multiple and older fleet types. In addition, our long-haul, point-to-point network results in high aircraft utilization and efficient scheduling of our aircraft and crews. We believe that our teammates are productive and attentive to our guests, contributing to our cost advantage while maintaining our high-quality travel experience. We also outsource many non-core functions, such as certain ground handling activities, major airframe and engine maintenance and call center functions, leading to efficient, cost-competitive services and flexibility in these areas.

Executing our strategy of providing a premium travel experience within a disciplined, competitive cost structure has led to improved financial results. For 2014, we recorded operating revenues of \$1.5 billion, operating income of \$96.4 million and net income of \$60.1 million. We increased our revenue per available seat mile, or RASM, in 2014 by 4.6% compared to 2013. Furthermore, our CASM of 11.38 cents increased by only 3.6% from 2013. In 2014, our stage-length adjusted CASM, excluding profit sharing, was competitive within the industry and below that of legacy airlines.

Our business model relies on attracting guests who value the premium product that we provide. Because we provide a high level of amenities to our guests, it generally requires a longer period of time for us to reach profitability in each new market that we enter than it might require for a traditional LCC that does not provide this higher level of service. However, we believe that in the long term, our business model enables us to have financially successful routes as evidenced by our PRASM premium over other LCCs in our markets and in part by our history of operating profitability in 2013 and 2014 after two years of rapid growth into new markets in 2011 and 2012.

### **Our Competitive Strengths**

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

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

***World-Class Virgin Brand.*** We believe that the Virgin brand is widely recognized in the United States and is known for being innovative, stylish, entrepreneurial and hip. We believe that the brand is recognized worldwide from the Virgin Group's offerings in music, air travel, wireless service and a wide variety of other products. We capitalize on the strength of the Virgin brand to target guests who value an enhanced travel experience and association with the Virgin brand. We believe that the Virgin brand has helped us to establish



## **Table of Contents**

ourselves as a premium airline in the domestic market in a short period of time. When we enter a new market, awareness of the Virgin brand generates interest from new guests. The power of the Virgin brand provides an opportunity for low-cost public relations events that generate extensive media coverage in new markets and has led to other cooperative marketing relationships for us with major companies. In addition to capitalizing on the Virgin brand strength, we are rapidly establishing Virgin America as a distinct and premium brand for air travel in the United States in its own right. We believe our guests associate the Virgin and Virgin America brands with a distinctive high-quality and high-value travel experience.

***Low-Cost, Disciplined Operating Structure.*** A core component of our business model is our disciplined cost structure. Key components of this low cost structure include our modern, fuel-efficient single-aircraft fleet, our high aircraft utilization, our point-to-point operations, our productive and engaged workforce, our outsourcing of non-core activities and our lean, scalable overhead structure. We are committed to maintaining this disciplined cost structure and believe we will continue to improve our competitive cost position in future years as we grow and further leverage our existing infrastructure. In 2014, the average stage-length adjusted domestic CASM of legacy airlines was 25% higher, and the average stage-length adjusted domestic CASM of LCCs was only 13% lower, than our stage-length adjusted CASM. We believe our lower seating density and three-class cabin configuration, which is a similar configuration to that of many legacy airlines, is the primary reason that our stage-length adjusted CASM was higher than that of other LCCs in 2014. However, our seating configuration with three classes of service was also a primary contributor to our higher stage-length adjusted PRASM for the twelve months ended September 30, 2014 when compared to other LCCs. For example, Spirit Airlines configures an Airbus A320 aircraft with 178 seats in a single class of service compared to our seating density of 146-149 seats for the same aircraft. We believe that Spirit Airlines' 19% higher seating density per aircraft contributed to a lower stage-length adjusted PRASM and lower stage-length adjusted CASM for the twelve months ended September 30, 2014 when compared to ours.

***Established Presence in Los Angeles and San Francisco.*** We have built our network around the Los Angeles and San Francisco metropolitan areas, the second- and third-largest domestic air travel markets in the United States in 2013. We believe that these two markets, with a combined population of approximately 27 million people and strong economic bases in the technology, media and entertainment industries, serve as an excellent platform for long-term growth. Los Angeles and San Francisco both have large populations of technologically savvy, entrepreneurial and innovative individuals who we believe value our brand and premium guest experience. We have made significant investments in these key markets since 2010, and as of December 31, 2014, we provide service to 18 destinations from Los Angeles and 20 destinations from San Francisco. These destinations include seven of the top ten domestic destinations served from LAX and nine of the top ten domestic destinations served from San Francisco International Airport (SFO), based on passenger volume. This investment provides greater network coverage across North America for travelers from these two focus markets, and we expect that this investment will allow us to continue to grow by leveraging the loyal guest base that we have established in each market.

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

---

## **Table of Contents**

### **Our Growth Strategy**

Our goal is to generate above-average RASM in each market we serve by providing the leading domestic air travel product through our brand and our premium guest experience, while at the same time maintaining our competitive cost structure through the efficient operations we have established. Key elements of our growth strategy include:

***Expand Our Route Network.*** We currently serve only 14 of the 50 largest metropolitan areas in the United States and three leisure destinations in Mexico. We believe there are significant opportunities to expand our service from our focus cities of Los Angeles and San Francisco to other large markets throughout the United States, Canada and Mexico. We have firm commitments to take delivery of ten Airbus A320-family aircraft from July 2015 through June 2016, and we expect to continue to grow at a measured, disciplined pace beyond 2016. While we expect most of our expansion in the next several years will focus on the opportunities we have at Los Angeles and San Francisco, we are also growing our presence in Dallas, Texas. Through the use of recently acquired slots at New York LaGuardia Airport (LGA) and Ronald Reagan Washington National Airport (DCA), we added service at DAL to these markets in October 2014. We also moved our service between Dallas and LAX and Dallas and SFO from Dallas/Fort Worth International Airport (DFW) to DAL. DAL is located in a growing, affluent section of the Dallas/Fort Worth metropolitan area and is the closest airport to downtown Dallas. In addition, the airline facilities at DAL are limited by federal law to only 20 gates, providing a structural barrier to entry. Our new service at DAL further diversifies our route network and allows us to provide service to LGA and DCA. In addition, we intend to expand our codeshare and interline relationships with other airlines that are complementary to our network, expanding travel destination options for our guests while adding new sources of revenue and more guests.

***Maintain Competitive Unit Operating Costs.*** We are highly focused on maintaining competitive unit operating costs. We expect to realize economies of scale as we continue to grow by leveraging our distribution, marketing and technology costs across our platform and by better utilizing our facilities and ground assets across a larger network. Our fleet is 100% financed by operating leases, of which 26 leases will expire between 2016 and 2022. As our leases expire, we expect to have the opportunity to lower our costs by renewing at lower lease rates or by opportunistically replacing these aircraft with new Airbus A320-family aircraft with lower operating costs sourced in the open market. In addition, we expect our cost structure will continue to benefit from our highly productive and flexible workforce as we grow our fleet and network.

***Continue to Grow Our Base of Frequent Travelers.*** We intend to continue to grow our share of business travelers, a focus that is uncommon among U.S. LCCs, because we believe this population of airline travelers allows us to achieve increased RASM. We target the business community by providing a premium travel service between our focus cities and many of the most important business destinations in North America, as well as key leisure destinations that we believe are important to business travelers when flying for leisure travel. We have already attracted a significant base of frequent business and premium leisure travelers who regularly fly with us and who we believe prefer our premium product attributes. We believe that these types of guests also value a larger route network and frequent flights within markets. As we grow our network from California and expand our interline and codeshare partnerships, we believe we will be well positioned to attract additional business and high-end leisure travelers. We consider guests who book within 14 days of departure as business travelers. Using this as a measure, we believe that approximately 29% of our guests in 2014 were business travelers, representing approximately 39% of our revenue from ticket sales in 2014.

***Continue to Enhance Our Product and Guest Experience.*** We believe our guest experience is unique in the industry and revolves around our teammates' focus on guest service, extensive entertainment options, compelling passenger comfort features and an association with our brand that would be difficult to replicate. We nevertheless are continually developing new enhancements to our product. For example, in early 2014, we further expanded our First Class food service on select flights to include enhanced gourmet food offerings and

## **Table of Contents**

linen service. In the second quarter of 2014, we launched a redesigned version of the Virgin America website, enhancing the ease of use and functionality as well as providing a more customized experience for our guests. In 2015, we plan to upgrade the monitors within our inflight entertainment system to include a swipe touch capability, similar to that found on many modern personal electronic devices. This upgrade will include a redesign of the software behind our Red inflight entertainment system, allowing for future software features to what we believe is already an industry-leading system. Additionally, we continually analyze new technologies for longer-term enhancements to our fleet, inflight product and airport experience.

### **Route Network**

We served 21 airports throughout North America as of December 31, 2014. The majority of our routes operate to and from our focus cities of Los Angeles and San Francisco, with a smaller presence located at DAL. Our current network is a mix of long-haul, transcontinental service combined with short-haul West coast service and select Mexico leisure destinations. Below is a route map of our network.

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

Our future network plans include growing from our focus cities of Los Angeles and San Francisco to other major markets in North America. By continuing to add destinations in select markets from Los Angeles and San Francisco, we can leverage our existing base of loyal guests and grow our share of revenue within these focus

## **Table of Contents**

cities while also expanding our customer base as we gain new guests in new markets. In 2014, we added service from DAL to LGA and DCA. We believe this DAL opportunity increased the diversity of our route network and provided growth into strategic airports that are limited by regulation.

### **Fleet**

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

We have a fleet of 53 Airbus single-aisle aircraft, consisting of ten Airbus A319s and 43 Airbus A320s. The average age of the fleet was 5.8 years at December 31, 2014. Our Airbus A319 aircraft accommodate 119 guests, and our Airbus A320 aircraft accommodate 146-149 guests. All of our existing aircraft are financed under operating leases.

We plan to grow our fleet with additional Airbus A320-family aircraft, and we currently have an order with Airbus for ten Airbus A320 aircraft to be delivered between July 2015 and June 2016 and 30 Airbus A320 new engine option, or A320neo, aircraft to be delivered between 2020 and 2022. We have an option to cancel our Airbus A320neo positions up to two years in advance of delivery in groups of five aircraft, but we could incur a loss of deposits and credits as a cancellation fee. We may elect to supplement these deliveries by additional acquisitions from Airbus or in the open market if demand conditions merit. Twenty-six of our existing operating leases will expire between 2016 and 2022, and we believe there will be an opportunity to extend these leases at a reduced lease rate or to replace them with new or used Airbus A320-family aircraft. Although we expect to grow our fleet as we increase our flights on our existing route network and expand our route network to new markets, we are only committed to grow to 63 aircraft. As a result, our fleet plan provides significant flexibility.

Our Airbus A320 aircraft deliveries in 2015 and 2016 will be equipped with sharklets, a new wingtip device that we believe will create up to 3.0% additional fuel efficiency in our network. In addition to lowering our average fuel cost per flight, the sharklets provide increased range. This will reduce technical stops on our transcontinental flights that occasionally occur during specific weather patterns as well as allow for the possibility of operations to the state of Hawaii. Operating to Hawaii will require additional Federal Aviation Authority, or FAA, certification for extended twin-engine over-water operations, and we are currently evaluating these markets and the additional operational requirements.

### **Recent Developments**

#### ***First Quarter 2015 Outlook***

Along with most of the U.S. airline industry, we experienced a high level of cancellations throughout January and February due to severe Northeast winter storms. We do not expect winter cancellations to result in a material change to the revenue we expect to generate in the first quarter of 2015 or the guidance we previously provided. However, we now believe that our capacity, as measured by available seat miles, will increase by approximately 1.5% to 2.0% for the first quarter of 2015, versus the 2.0% to 3.0% previously expected, as compared to the first quarter of 2014.

We have generally experienced stable revenue performance across most of our markets to date during the first quarter of 2015. The three exceptions are performance in our Dallas markets, New York City transcontinental markets and Seattle markets. There have been significant capacity increases at Dallas Love Field

## **Table of Contents**

(DAL) following the repeal of the Wright Amendment in October 2014. We believe this additional capacity at DAL has had a negative impact on unit revenue in a number of markets from the Dallas/Fort Worth metropolitan area, including the four markets that we serve from DAL. In addition, we believe that increased capacity on the JFK-LAX and JFK-SFO routes, particularly with respect to premium cabin capacity, has caused fares in these two markets to decrease. Finally, in the Seattle markets, we believe new flights added by other carriers in the LAX-SEA and SEA-SFO markets have continued to impact unit revenues negatively in these city pairs. Based on these current trends as well as generally stable trends in other markets that we serve, we currently expect PRASM for the first quarter of 2015 to range between a decrease of 1.0% and an increase of 1.0% versus the first quarter of 2014.

We believe that CASM, excluding fuel and profit sharing, for the first quarter of 2015 will increase between 1.0% and 3.0% versus the first quarter of 2014. We further believe that our economic fuel cost per gallon, which consists of our actual fuel costs, related fuel taxes and any gains or losses on any hedge instruments that settle during the quarter but excluding any gains or losses on hedges that will settle in future quarters, to average between \$2.45 and \$2.55 for the first quarter of 2015. This number may change depending on fluctuations in market prices for jet fuel during the remainder of the quarter.

Our projected results for the first quarter of 2015 are based on currently available information. Projections of results are inherently uncertain and subject to change. These projections may differ from actual results. We undertake no obligation to update or revise the projections set forth in this prospectus as a result of new information, future events or otherwise, except as otherwise required by law. Therefore, you should not place undue reliance upon these projections.

## **Risk Factors**

Our business is subject to numerous risks and uncertainties, including those highlighted in the section entitled "Risk Factors" immediately following this prospectus summary, that represent potential challenges we face in connection with the successful implementation of our strategy and the growth of our business. We expect a number of factors to cause our results of operations to fluctuate on a quarterly and annual basis, which may make it difficult to predict our future performance. Such factors include:

the price and availability of aircraft fuel;

our ability to compete in an extremely competitive industry;

the successful execution and implementation of our strategy;

security concerns resulting from any threatened or actual terrorist attacks or other hostilities;

our reliance upon technology and automated systems to operate our business;

our reputation and business being adversely affected in the event of an emergency, accident or similar incident;

changes in economic conditions;

our limited profitable operating history;

changes in governmental regulation; and

our ability to obtain financing or access capital markets.

**Corporate Information**

We were incorporated in the state of Delaware in 2004 as Best Air Holdings, Inc. We changed our name to Virgin America Inc. in November 2005. Our principal executive offices are located at 555 Airport Boulevard,

**Table of Contents**

Burlingame, California 94010. Our general telephone number is (650) 762-7000, and our website address is [www.virginamerica.com](http://www.virginamerica.com). We have not incorporated by reference into this prospectus any of the information on, or accessible through, our website, and you should not consider our website to be a part of this document. Our website address is included in this document for reference only.

Virgin America®, the Virgin America logo and the Virgin signature are trademarks of Virgin America Inc. in the United States and other countries by license from certain entities affiliated with the Virgin Group. This prospectus also contains trademarks and trade names of other companies.

**Table of Contents**

**THE OFFERING**

Common stock offered by the selling stockholders	4,852,942 shares
Shares outstanding after the offering	43,119,886 shares (1)
Underwriters' option to purchase additional shares	The selling stockholders have granted the underwriters an option to purchase up to 727,941 additional shares of common stock.
Use of proceeds	We will not receive any proceeds from the sale of common stock by the selling stockholders in this offering. The selling stockholders include our principal stockholders, affiliates of Virgin Group Holdings Limited, which we refer to in this prospectus collectively as the Virgin Group, and Cyrus Aviation Holdings, LLC, which we refer to as Cyrus Holdings and, together with CM Finance Inc, Cyrus Capital. Please see Principal and Selling Stockholders.
Risk factors	See Risk Factors and the other information included elsewhere in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our common stock.
NASDAQ Global Select Market symbol	VA

- (1) The number of shares outstanding after the offering is based on 43,119,886 shares of our common stock (including non-voting common stock) outstanding as of December 31, 2014, and excludes:

1,047,857 shares of common stock issuable upon the exercise of stock options outstanding as of December 31, 2014 at a weighted-average exercise price of \$15.95 per share, of which 115,839 are vested and exercisable;

295,779 shares of common stock issuable upon the vesting of restricted stock units, or RSUs, as of December 31, 2014 under our 2005 Stock Incentive Plan that vest once the price of our stock equals or exceeds \$30.20 per share on a daily moving-average basis over a 90-day period after May 18, 2015, the expiration date of the lockup agreements to which such RSUs are subject;

655,904 shares of common stock issuable upon the vesting of additional RSUs outstanding as of December 31, 2014, of which an aggregate of 604,384 shares vest only if the price of our stock meets certain price thresholds, which range from \$18.87 to \$37.74 per share, on a daily moving-average basis over a six-month period, (provided that 298,054 of such shares are also subject to additional service conditions which range from 12 to 36 months) and 51,520 of which have no stock price thresholds and vest over service terms ending between January 2015 and January 2017;

340,411 shares of common stock issuable upon the vesting of additional RSUs outstanding as of December 31, 2014, granted to certain of our executive officers, members of our board of directors and other management, which vest over a three-year service term;



## Edgar Filing: Virgin America Inc. - Form S-1

an aggregate of 1,017,570 shares of common stock reserved for issuance under our 2014 Equity Incentive Award Plan; and

an aggregate of 160,000 shares of common stock reserved for issuance under our 2014 Employee Stock Purchase Plan.

Except as otherwise indicated, information in this prospectus reflects or assumes no exercise of the underwriters' option to purchase additional shares of common stock from the selling stockholders.

**Table of Contents****SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA**

The following tables summarize the consolidated financial and operating data for our business for the periods presented. You should read this summary consolidated financial and operating data in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes, included elsewhere in this prospectus. We derived the summary consolidated statements of operations data for the years ended December 31, 2012, 2013 and 2014 and the summary consolidated balance sheet data as of December 31, 2013 and 2014 from our audited consolidated financial statements included in this prospectus. Our historical results are not necessarily indicative of the results to be expected in the future.

	Year Ended December 31,		
	2012	2013	2014
(in thousands, except per share data)			
<b>Consolidated Statements of Operations Data:</b>			
Operating revenues	\$ 1,332,837	\$ 1,424,678	\$ 1,489,967
Operating expenses	1,364,570	1,343,797	1,393,552
Operating income (loss)	(31,733)	80,881	96,415
Other expense	(113,640)	(70,420)	(35,127)
Net income (loss) before income tax	(145,373)	10,461	61,288
Income tax expense	15	317	1,179
Net income (loss)	\$ (145,388)	\$ 10,144	\$ 60,109
<b>Net income (loss) per share:</b>			
Basic (1)	\$ (207.20)	\$ 5.60	\$ 8.42
Diluted (1)	\$ (207.20)	\$ 3.68	\$ 7.13
<b>Shares used in per share calculation:</b>			
Basic (1)	701,671	701,671	6,175,186
Diluted (1)	701,671	1,646,821	7,470,396
<b>Non-GAAP Financial Data:</b>			
EBITDA (2)	\$ (20,473)	\$ 94,844	\$ 110,901
EBITDAR (2)	216,327	296,915	295,258

- (1) See Note 15 to our consolidated financial statements included elsewhere in this prospectus for an explanation of the method used to calculate basic and diluted earnings per share.
- (2) EBITDA is earnings before interest, income taxes, and depreciation and amortization. EBITDAR is earnings before interest, income taxes, depreciation and amortization and aircraft rent. EBITDA and EBITDAR are included as supplemental disclosure because we believe they are useful indicators of our operating performance. Derivations of EBITDA and EBITDAR are well recognized performance measurements in the airline industry that are frequently used by companies, investors, securities analysts and other interested parties in comparing the operating performance of companies in our industry. We also believe EBITDA is useful for evaluating performance of our senior management team. EBITDAR is useful in evaluating our operating performance compared to our competitors because its calculation isolates the effects of financing in general, the accounting effects of capital spending and acquisitions (primarily aircraft, which may be acquired directly, directly subject to acquisition debt, by capital lease or by operating lease, each of which is presented differently for accounting purposes) and income taxes, which may vary significantly between periods and for different companies for reasons unrelated to overall operating performance. However, because derivations of EBITDA and EBITDAR are not determined in accordance with GAAP, such measures are susceptible to varying calculations, and not all companies calculate the measures in the same

**Table of Contents**

manner. As a result, derivations of EBITDA and EBITDAR as presented may not be directly comparable to similarly titled measures presented by other companies.

These non-GAAP financial measures have limitations as an analytical tool. Some of these limitations are: they do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments; they do not reflect changes in, or cash requirements for, our working capital needs; they do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt; although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and these measures do not reflect any cash requirements for such replacements; and other companies in our industry may calculate EBITDA and EBITDAR differently than we do, limiting their usefulness as a comparative measure. Because of these limitations, EBITDA and EBITDAR should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP.

The following table represents the reconciliation of net income (loss) to EBITDA and EBITDAR for the periods presented below:

	Year Ended December 31,		
	2012	2013	2014
	(in thousands)		
Reconciliation:			
Net income (loss)	\$ (145,388)	\$ 10,144	\$ 60,109
Interest expense	116,110	71,293	37,519
Capitalized interest	(2,176)	(534)	(2,668)
Interest income	(294)	(339)	276
Income tax expense	15	317	1,179
Depreciation and amortization	11,260	13,963	14,486
EBITDA	\$ (20,473)	\$ 94,844	\$ 110,901
Aircraft rent	236,800	202,071	184,357
EBITDAR	\$ 216,327	\$ 296,915	\$ 295,258

**Table of Contents****OPERATING STATISTICS**

	Year Ended December 31,		
	2012	2013	2014
<b>Operating Statistics (unaudited): (1)</b>			
Available seat miles ASMs (millions)	12,514	12,243	12,240
Departures	56,362	58,215	58,432
Average stage length (statute miles)	1,567	1,474	1,466
Aircraft in service end of period	52	53	53
Fleet utilization	11.6	10.8	10.8
Passengers (thousands)	6,219	6,329	6,507
Average fare	\$ 195.38	\$ 203.70	\$ 204.27
Yield per passenger mile (cents)	12.26	13.14	13.19
Revenue passenger miles RPMs (millions)	9,912	9,814	10,074
Load factor	79.2%	80.2%	82.3%
Passenger revenue per available seat mile PRASM (cents)	9.71	10.53	10.86
Total revenue per available seat mile RASM (cents)	10.65	11.64	12.17
Cost per available seat mile CASM (cents)	10.90	10.98	11.38
CASM, excluding fuel (cents)	6.61	6.83	7.30
CASM, excluding fuel and profit sharing (in cents)	6.61	6.82	7.19
Fuel cost per gallon	\$ 3.32	\$ 3.18	\$ 3.08
Fuel gallons consumed (thousands)	161,404	159,326	161,791
Teammates (FTE)	2,395	2,482	2,492

(1) See Glossary of Airline Terms beginning on the next page of this prospectus for definitions of terms used in this table.

---

**Table of Contents**

**GLOSSARY OF AIRLINE TERMS**

Set forth below is a glossary of industry terms used in this prospectus:

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

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

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

**ASMs**, or available seat miles, refer to the number of seats available for passengers multiplied by the number of miles the seats are flown.

**Average fare** means total passenger revenue divided by passengers.

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

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

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

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

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

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

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

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

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

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

**Load factor** means the proportion of airline capacity (ASMs) that is actually consumed, calculated by dividing RPMs by ASMs.

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

## **Table of Contents**

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

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

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

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

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

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

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

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

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

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

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

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

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

**Table of Contents**

**Virgin America Destinations:**

- AUS** Austin-Bergstrom International Airport (Austin, Texas).
- BOS** General Edward Lawrence Logan International Airport (Boston, Massachusetts).
- CUN** Cancún International Airport (Cancún, Mexico).
- DAL** Dallas Love Field (Dallas, Texas).
- DCA** Ronald Reagan Washington National Airport (Washington, D.C.).
- EWR** Newark Liberty International Airport (Newark, New Jersey).
- FLL** Fort Lauderdale-Hollywood International Airport (Fort Lauderdale, Florida).
- IAD** Washington Dulles International Airport (Dulles, Virginia).
- JFK** John F. Kennedy International Airport (Jamaica, New York).
- LAS** McCarran International Airport (Las Vegas, Nevada).
- LAX** Los Angeles International Airport (Los Angeles, California).
- LGA** LaGuardia Airport (New York, New York).
- MCO** Orlando International Airport (Orlando, Florida).
- ORD** Chicago O Hare International Airport (Chicago, Illinois).
- PDX** Portland International Airport (Portland, Oregon).
- PSP** Palm Springs International Airport (Palm Springs, California).
- PVR** Licenciado Gustavo Díaz Ordaz International Airport (Puerto Vallarta, Mexico).
- SAN** San Diego International Airport (San Diego, California).
- SEA** Seattle Tacoma International Airport (Seattle, Washington).
- SFO** San Francisco International Airport (San Francisco, California).
- SJD** Los Cabos International Airport (Los Cabos, Mexico).

---

**Table of Contents**

**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 prospectus, 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 35.8%, 37.7%, and 39.4% of our operating expenses for 2014, 2013, and 2012. 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 by approximately forty percent, which benefits us by lowering our expenses. However, because fuel prices are highly volatile, the price of jet fuel may increase significantly at any time. We may be more susceptible to fuel-price volatility than most of our competitors since fuel represents a larger proportion of our total costs due to the longer average stage length of our flights.

*Availability of aircraft fuel may be low.* Our business is also dependent on the availability of aircraft fuel (or crude oil), which is not predictable. Weather-related events, natural disasters, terrorism, wars, political disruption or instability involving oil-producing countries, changes in governmental or cartel policy concerning crude oil or aircraft fuel production, labor strikes or other events affecting refinery production, transportation, taxes or marketing, environmental concerns, market manipulation, price speculation and other unpredictable events may drive actual or perceived fuel supply shortages. Shortages in the availability of, or increases in demand for, crude oil in general, other crude-oil-based fuel derivatives and aircraft fuel in particular could result in increased fuel prices and could materially adversely affect our business.

*Fare increases may not cover increased fuel costs.* We may not be able to increase ticket prices sufficiently to cover increased fuel costs, particularly when fuel prices rise quickly. We sell a significant number of tickets to passengers well in advance of travel, and, as a result, fares sold for future travel may not reflect increased fuel costs. In addition, our ability to increase ticket prices to offset an increase in fuel costs is limited by the competitive nature of the airline industry and the price sensitivity associated with air travel, particularly leisure travel, and any increases in fares may reduce the general demand for air travel.

*Our fuel hedging program may not be effective.* We cannot assure you our fuel hedging program, including our forward fixed price contracts, or FFPs, 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. For example, the recent decrease in the price of jet fuel has triggered unrealized losses on certain hedge positions of \$27.1 million at December 31, 2014. 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.



---

**Table of Contents**

*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.

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.

## **Table of Contents**

***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.

***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.

---

**Table of Contents**

***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.

***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.

---

**Table of Contents**

The FAA has broad authority to address airline safety issues, including inspection authority over our flight, technical and safety operations, and has the ability to issue mandatory orders relating to, among other things, the grounding of aircraft, installation of mandatory equipment and removal and replacement of aircraft parts that have failed or may fail in the future. Any decision by the FAA to require aircraft inspections, complete aircraft maintenance or ground aircraft types operated by us could materially adversely affect our business. For example, on January 4, 2014, the FAA's new and more stringent pilot flight and duty time requirements under Part 117 of the Federal Aviation Regulations took effect, which has increased costs and could further increase our costs in the future.

The FAA also has extensive authority to address airspace/airport congestion issues and has imposed limitations on take-off and landing slots at four airports: Ronald Reagan Washington National Airport (DCA), LaGuardia Airport (LGA), John F. Kennedy International Airport (JFK) and Newark Liberty International Airport (EWR). The FAA could reduce the number of slots allocated at these airports or impose new slot restrictions at other airports.

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

We are also subject to restrictions imposed by federal law that require that no more than 24.9% of our stock be voted, directly or indirectly, by persons who are not U.S. citizens, that no more than 49.9% of our outstanding stock be owned by persons who are not U.S. citizens and that our president and at least two-thirds of the members of our board of directors and senior management be U.S. citizens. For more information on these requirements, see "Our corporate charter and bylaws include provisions limiting voting and ownership by non-U.S. 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

---

**Table of Contents**

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.

***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 December 31, 2014, committed expenditures for these aircraft and spare engines, including estimated amounts for contractual price escalations and \$94.3 million of pre-delivery payment commitments, were approximately \$396.1 million. Because we may not have sufficient liquidity or creditworthiness to fund the purchase of aircraft and engines, including payment of pre-delivery payments, 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 technology 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 A320-family current-technology aircraft may be perceived to be less valuable. If we are unable to fully finance our acquisition of these aircraft, 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

---

**Table of Contents**

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. 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 elects a union to represent them, it could create a risk of work stoppages which could materially adversely affect our business.

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

Most of our current flights operate from our two focus cities of Los Angeles and San Francisco. In 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

---

**Table of Contents**

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 December 31, 2014, we had undiscounted future operating lease obligations of approximately \$1.5 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 pre-delivery payments 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 and 30 aircraft scheduled for delivery in 2020 through 2022 but that can be canceled by forfeiting amounts on deposit with Airbus.

The amount of our current and expected future fixed obligations could strain our cash flows from operations, reducing the availability of our cash flows to fund working capital, capital expenditures and other general corporate purposes and limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete. Our substantial fixed obligations could reduce our credit, which would negatively impact our ability to obtain additional financing and could place us at a competitive disadvantage compared to less leveraged competitors and competitors that have better access to capital resources or more favorable terms. We cannot assure you that we will be able to generate sufficient cash flows from our operations or from capital market activities to pay our debt and other fixed obligations as they become due or that we will be able to finance these obligations on favorable terms, or at all. If we are unable to generate sufficient cash flows for any reason, we may be unable to meet our fixed obligations, and our business may be materially adversely affected. In particular, if we are unable to make our required aircraft lease rental payments, we could lose access to one or more aircraft and forfeit our rent deposits, and our lessors could exercise their remedies under the lease agreements. Also, an event of default under any of our leases and our debt financing agreements could trigger cross-default provisions under other agreements.

***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 no amounts in excess of the letter of credit held back as of December 31, 2014. Our outstanding receivable from our processors, which consists of amounts held back for future travel as well as ordinary course receivables, was \$9.6 million at December 31, 2014. 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

---

**Table of Contents**

cause flight delays or cancellations or cause certain of our aircraft to be unavailable for a period of time. SFO, one of our two primary focus airports, is particularly vulnerable to air traffic constraints and other delays due to fog and inclement weather. Factors that cause flight delays frustrate passengers, and reduced aircraft availability could lead to customer dissatisfaction that harms our reputation. Additionally, if we are forced to cancel a flight due to an event within our control, we will be liable to re-accommodate our guests, including by purchasing tickets for them on other airlines. If one or more of our aircraft is unavailable to fly revenue service for any amount of time, our capacity will be reduced. Significant flight delays, cancellations or aircraft unavailability for any reason could have a material adverse effect on our business.

***Our maintenance costs will increase as our fleet ages.***

As of December 31, 2014, the average age of aircraft in our fleet of Airbus A320-family aircraft was 5.8 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



---

**Table of Contents**

handling, as well as certain administrative and support services. We are likely to enter into similar service agreements for new markets we enter, and we cannot assure you that we will be able to obtain the necessary services at acceptable rates. Moreover, although we do enter into agreements with many of our third-party service providers that define expected service performance, we do not directly control these third-party service providers. Any of these third-party service providers may fail to meet their service performance commitments to us, suffer disruptions to their systems that could negatively impact their services or fail to perform their services reliably, professionally or at the high standard of quality that we expect. Any such failure of our third-party service providers may prevent us from operating one or more flights or providing other services to our customers and may materially adversely affect our business. In addition, our business could be materially adversely affected if our customers believe that our services are unreliable or unsatisfactory.

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

Our operations may be materially adversely affected by factors beyond our control, including severe weather conditions, natural disasters and the outbreak of disease. Severe weather conditions, such as winter snowstorms, hurricanes or other weather events, can cause flight cancellations, turbulence or significant delays that may result in increased costs and reduced revenue. Also, our two focus cities, Los Angeles and San Francisco, and our headquarters in Burlingame, California, are located on or near active seismic faults, and an earthquake could occur at any time, which could disrupt our operations at those locations. Similarly, outbreaks of pandemic or contagious diseases, such as avian flu, severe acute respiratory syndrome (SARS), H1N1 (swine) flu 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.

***Security breaches involving a compromise of customer information or personal data could expose us to liability, damage our reputation and materially adversely affect our business.***

We are subject to laws relating to privacy of personal data. 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 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. Any security breach in which employee or customer data is improperly released or disclosed could result in the loss, disclosure or improper use of this data and subject us to regulatory penalties and litigation, disrupt our operation, damage our reputation 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 rectify a data security issue may result in fines and restrictions on our ability to accept credit cards as a form of payment.

---

**Table of Contents**

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

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

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

As of December 31, 2014, 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. After giving effect to this offering (and assuming no exercise of the option to purchase additional shares), and assuming conversions by the Virgin Group of certain shares of non-voting common stock to shares of voting common stock, while remaining within contractual limitations agreed to between the Virgin Group and us, the Virgin Group and Cyrus Holdings will own approximately 19.0% (which does not include the Virgin Group's non-voting common stock) and 19.9% 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.

***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

## **Table of Contents**

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 13, 2015, the last reported sale price of our common stock has fluctuated between \$30.00 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:

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;

changes in the price of aircraft fuel;

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.

## Edgar Filing: Virgin America Inc. - Form S-1

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.

## **Table of Contents**

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

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

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

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

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

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

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

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

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

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

Any future issuances or sales of our common stock by us will be dilutive to our existing common stockholders. Prior to this offering, 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 December 31, 2014 (which includes 6,852,738 shares of non-voting common stock held by the Virgin Group). After giving effect to this offering (and assuming no exercise of the option to purchase additional shares), and assuming conversions by the Virgin Group of certain shares of non-voting common stock to shares of voting common stock, while remaining within contractual limitations agreed to between the Virgin Group and us, Cyrus Holdings and the Virgin Group will hold an aggregate of 16,178,106 shares of our voting common stock, or 40.5% of our voting common stock outstanding, and 45.0% of our total outstanding equity interests in our company (which includes certain 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.



---

**Table of Contents**

***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 January 2, 2015, non-U.S. citizens owned, in the aggregate, 7,215,503 shares of voting common stock (representing approximately 19.9% of the total voting rights and approximately 16.7% 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.

***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

## **Table of Contents**

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 this offering or other 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.



**Table of Contents**

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus includes forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. 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. Forward-looking statements are based on information available at the time those statements are made and/or management's good-faith belief as of that time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

the price and availability of aircraft fuel;

our ability to compete in an extremely competitive industry;

the successful execution and implementation of our strategy;

security concerns resulting from any threatened or actual terrorist attacks or other hostilities;

our reliance upon technology and automated systems to operate our business;

our reputation and business being adversely affected in the event of an emergency, accident or similar incident;

changes in economic conditions;

our limited profitable operating history;

changes in governmental regulation; and

our ability to obtain financing or access capital markets.

Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments or to release publicly any revisions to these statements in order to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

**Table of Contents**

**USE OF PROCEEDS**

We will not receive any proceeds from the sale of shares of our common stock in this offering. We will pay substantially all of the expenses of the selling stockholders other than underwriting discounts and commissions.

**Table of Contents****PRICE RANGE OF OUR COMMON STOCK AND DIVIDEND POLICY**

Our common stock has been listed and traded on the NASDAQ Global Select Market under the symbol VA since November 14, 2014 when our IPO priced at \$23.00 per share. Prior to that time, there was no public market for our common stock. The following table shows, for the periods indicated, the high and low closing sales price per share for our common stock on the NASDAQ Global Select Market.

	High	Low
<b>Year ended December 31, 2014</b>		
Fourth Quarter	\$ 43.80	\$ 30.00
<b>Year ending December 31, 2015</b>		
First Quarter ( <i>through March 13, 2015</i> )	\$ 43.81	\$ 33.21

On March 13, 2015, the last sale price of our common stock as reported on the NASDAQ Global Select Market was \$34.77 per share. As of March 12, 2015, there were 65 holders of record of our common stock. Because many of our shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these recordholders. As of March 12, 2015, there was one holder of record of our non-voting common stock, which class is not listed or traded on any stock exchange.

We have never declared or paid, and do not anticipate declaring or paying, any cash dividends on our common stock in the foreseeable future. In addition, certain of our current debt instruments currently, and debt instruments we may enter into in the future may, contain covenants that restrict our ability to declare or pay dividends. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant.

**Table of Contents****CAPITALIZATION**

The following table sets forth our cash and cash equivalents, credit card holdbacks and capitalization as of December 31, 2014.

You should read this table together with our financial statements and the related notes appearing at the end of this prospectus, Management's Discussion and Analysis of Financial Condition and Results of Operations elsewhere in this prospectus and the other financial information included in this prospectus.

	<b>As of December 31, 2014</b>
	<b>(in thousands)</b>
Cash and cash equivalents	\$ 394,643
Long-term debt-current portion	\$ 33,824
Long-term debt-related parties	38,848
Long-term debt	57,416
<b>Total long-term debt</b>	<b>130,088</b>
Stockholders' equity:	
Preferred stock, \$0.01 par value per share. 10,000,000 authorized, no shares issued and outstanding	
Common stock, \$0.01 par value per share. 750,000,000 shares authorized, 43,119,886 shares issued and outstanding	431
Additional paid-in capital	1,237,944
Accumulated deficit	(753,016)
Accumulated other comprehensive income	(26,106)
<b>Total stockholders' equity</b>	<b>459,253</b>
<b>Total capitalization</b>	<b>\$ 589,341</b>

The above table is based on 43,119,886 shares of our common stock outstanding as of December 31, 2014, and excludes:

1,047,857 shares of common stock issuable upon the exercise of stock options outstanding as of December 31, 2014 at a weighted-average exercise price of \$15.95 per share, of which 115,839 are vested and exercisable;

636,190 shares of common stock issuable upon the vesting of RSUs outstanding as of December 31, 2014 under our 2005 Stock Incentive Plan and 2014 Equity Award Incentive Plan;

655,904 shares of common stock issuable upon the vesting of additional RSUs outstanding as of December 31, 2014;

an aggregate of 1,017,570 shares of common stock reserved for issuance under our 2014 Equity Incentive Award Plan; and

an aggregate of 160,000 shares of common stock reserved for issuance under our 2014 Employee Stock Purchase Plan.



**Table of Contents**

**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS**

The unaudited pro forma consolidated statement of operations is presented as if the recapitalization and our initial public offering, which we refer to as our IPO, both of which occurred in November 2014, and each of which are described below, had occurred on January 1, 2014, by applying adjustments to our historical consolidated statement of operations included elsewhere in this prospectus.

The unaudited pro forma consolidated statement of operations has been adjusted to illustrate the effect of our IPO and the agreement we entered into in connection with our recapitalization in 2014, which we refer to as the 2014 Recapitalization Agreement, and which effected the following transactions: (a) the repayment of \$156.5 million of certain secured related-party notes, which we refer to as the Related-Party Notes, including \$56.5 million from the proceeds of our IPO and \$100.0 million from the release of cash collateral to us in connection with a \$100.0 million letter of credit facility issued on our behalf to certain of our credit card processors by the Virgin Group, which we refer to as the Letter of Credit Facility, (b) the issuance of a new \$50.0 million note to the Virgin Group, which we refer to as 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, (c) the exchange of the remainder of the outstanding Related-Party Notes for 22.2 million shares of our common stock based on the IPO offering price and the remaining outstanding contractual value of the debt, except for principal and accrued interest under certain secured notes issued in December 2011, which we refer to as the FNPA Notes, and certain secured notes issued in May 2013, which we refer to as the FNPA II Notes, both held by Cyrus Capital, which were converted at a premium of 117% of the outstanding contractual value, (d) the exchange of certain related-party warrants, which we refer to as the Related-Party Warrants, for 5.7 million shares of our common stock without receipt of cash consideration and (e) the issuance of 13.1 million shares in connection with our IPO.

The unaudited pro forma consolidated statement of operations should be read in conjunction with the sections entitled Selected Consolidated Financial and Operating Data and Management's Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements and related notes included elsewhere in this prospectus.

**Table of Contents****Virgin America Inc.****Unaudited Pro Forma Statement of Operations****For the Year Ended December 31, 2014****(in thousands, except share and per share data)**

	Actual	Adjustments		Pro Forma (unaudited)
<b>Operating revenues:</b>				
Passenger	\$ 1,329,211			\$ 1,329,211
Other	160,756			160,756
<b>Total operating revenues</b>	<b>1,489,967</b>			<b>1,489,967</b>
<b>Operating expenses:</b>				
Aircraft fuel	499,102			499,102
Salaries, wages and benefits	257,367			257,367
Aircraft rent	184,357			184,357
Landing fees and other rents	133,128			133,128
Sales and marketing	113,203			113,203
Aircraft maintenance	60,069			60,069
Depreciation and amortization	14,486			14,486
Other operating expenses	131,840			131,840
<b>Total operating expenses</b>	<b>1,393,552</b>			<b>1,393,552</b>
<b>Operating income (loss):</b>	<b>96,415</b>			<b>96,415</b>
<b>Other income (expense):</b>				
Interest expense-related-party	(33,708)	33,414	(a)	(3,268)
		(2,974)	(b)	
Interest expense	(3,811)			(3,811)
Capitalized interest	2,668			2,668
Interest income and other	(276)	(4,877)	(c)	(5,153)
<b>Total other expense</b>	<b>(35,127)</b>	<b>25,563</b>		<b>(9,564)</b>
<b>Income (loss) before income tax</b>	<b>61,288</b>	<b>25,563</b>		<b>86,851</b>
Income tax expense	1,179		(d)	1,179
<b>Net income (loss)</b>	<b>\$ 60,109</b>	<b>\$ 25,563</b>		<b>\$ 85,672</b>
<b>Net income (loss) per share:</b>				
Basic	\$ 8.42	\$ (6.43)	(e)	\$ 1.99
Diluted	\$ 7.13	\$ (5.21)	(e)	\$ 1.92
<b>Shares used for computation:</b>				
Basic	6,175,786	36,944,100	(e)	43,119,886
Diluted	7,470,396	37,112,393	(e)	44,582,789

---

**Table of Contents**

**NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED**

**STATEMENT OF OPERATIONS**

**(1) Basis of Presentation**

The unaudited pro forma consolidated statement of operations and per share data for the year ended December 31, 2014 have been adjusted to illustrate the effect of the recapitalization in 2014, or the 2014 Recapitalization, and initial public offering, as if they had occurred on January 1, 2014.

The unaudited pro forma consolidated statement of operations has been presented for informational purposes only. The unaudited pro forma consolidated statement of operations does not purport to represent what our results of operations or financial condition would have been had the transactions to which the adjustments relate actually occurred as of the dates indicated. In addition, the unaudited pro forma consolidated statement of operations does not purport to project our future financial position or operating results for any future period or as of any future date.

The adjustments reflected give effect to events that are (1) directly attributable to transactions, (2) factually supportable, (3) expected to have a continuing impact on the consolidated results. The assumptions underlying the adjustments reflected are described in the accompanying notes, which should be read in conjunction with this unaudited pro forma consolidated statement of operations.

The pro forma consolidated statement of operations does not reflect the indirect effects of the transaction on our teammate annual profit sharing program, under which we pay 15% of profit before income taxes and profit sharing to substantially all of our teammates (other than officers and certain management teammates who are not eligible). The effects of stock compensation and other IPO related compensation of \$18.9 million from our initial public offering are reflected in the historical financial statements and have not been adjusted.

**(2) Pro Forma Adjustments**

- (a) Reflects the elimination of all historical interest expense on related-party debt of \$33.4 million. All of this indebtedness was repaid, converted to common stock or exchanged for the Post-IPO Note as part of the 2014 Recapitalization and initial public offering.
- (b) Reflects the addition of interest expense of \$3.3 million for the year ended December 31, 2014 on the \$50.0 million note, or the Post-IPO Note, issued in exchange for the cancellation of \$50.0 million of Related-Party Notes held by the Virgin Group, recorded at the estimated fair value of \$38.5 million, calculated using an effective interest rate of 8.5%, determined based on an estimated market rate for unsecured instruments with similar terms. The Post-IPO Note bears payment-in-kind interest at 5.0% per year, compounded annually, and is due in November 2022, or in November 2020 if the Company terminates the Letter of Credit Facility prior to its expiration
- (c) Reflects the annual commitment fee of 5.0% and estimated other fees of 0.48% associated with the issuance and maintenance of the \$100.0 million Letter of Credit Facility, the terms of which we believe approximate fair value.
- (d) As a result of our existing income tax loss carry-forwards in the United States, for which full valuation allowances have been provided, no deferred income taxes have been established and no income tax has been provided related to the pro forma adjustments for the 2014 Recapitalization.
- (e) The weighted-average number of shares used to compute pro forma basic and diluted earnings per share is calculated to give effect to the issuance of 42.3 million shares in connection with the 2014 Recapitalization and our initial public offering as if they had occurred as of the beginning of the period. Pro forma dilutive shares include the weighted average effect of 1,462,904 dilutive shares



associated with outstanding stock options and RSUs.

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA**

The following tables summarize the consolidated financial and operating data for our business for the periods presented. You should read this selected consolidated financial and operating data in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this prospectus.

We derived the selected consolidated statements of operations data for the years ended December 31, 2012, 2013 and 2014 and the selected consolidated balance sheet data as of December 31, 2013 and 2014 from our audited consolidated financial statements included elsewhere in this prospectus. We derived the selected consolidated statements of operations data for the years ended December 31, 2010 and 2011 and the selected consolidated balance sheet data as of December 31, 2010, 2011 and 2012 from our audited consolidated financial statements not included in this prospectus. Our historical results are not necessarily indicative of the results to be expected in the future.

	Year Ended December 31,				
	2010	2011	2012	2013	2014
	in thousands, except share and per share data				
<b>Consolidated Statements of Operations Data:</b>					
Operating revenues:					
Passenger	\$ 655,448	\$ 950,933	\$ 1,215,178	\$ 1,289,268	\$ 1,329,211
Other	68,598	86,175	117,659	135,410	160,756
Operating revenues	724,046	1,037,108	1,332,837	1,424,678	1,489,967
Operating expenses:					
Aircraft fuel (1)	246,699	417,815	537,501	507,035	499,102
Salaries, wages and benefits	108,901	138,276	176,216	196,477	257,367
Aircraft rent	138,422	187,876	236,800	202,071	184,357
Landing fees and other rents	69,036	87,133	110,165	122,621	133,128
Sales and marketing	59,990	81,901	107,136	106,599	113,203
Aircraft maintenance	23,017	34,596	58,934	61,854	60,069
Depreciation and amortization	10,530	10,155	11,260	13,963	14,486
Other operating expenses	79,888	106,752	126,558	133,177	131,840
Total operating expenses	736,483	1,064,504	1,364,570	1,343,797	1,393,552
Operating income (loss)	(12,437)	(27,396)	(31,733)	80,881	96,415
Other income (expense):					
Interest expense related party	(53,896)	(71,925)	(113,708)	(68,439)	(33,708)
Interest expense	(6,247)	(3,652)	(2,402)	(2,854)	(3,811)
Capitalized interest (2)	3,541	2,320	2,176	534	2,668
Interest income and other	227	264	294	339	(276)
Net income (loss) before income tax	(68,812)	(100,389)	(145,373)	10,461	61,288
Income tax expense	(137)	14	15	317	1,179
Net income (loss)	\$ (68,675)	\$ (100,403)	\$ (145,388)	\$ 10,144	\$ 60,109
Net income (loss) per share:					
Basic (3)	\$ (97.87)	\$ (143.09)	\$ (207.20)	\$ 5.60	\$ 8.42
Diluted (3)	\$ (97.87)	\$ (143.09)	\$ (207.20)	\$ 3.68	\$ 7.13
Shares used in per share calculation:					
Basic (3)	701,671	701,671	701,671	701,671	6,175,786
Diluted (3)	701,671	701,671	701,671	1,646,821	7,470,396
<b>Non-GAAP Financial Data (unaudited):</b>					
EBITDA (4)	\$ (1,907)	\$ (17,241)	\$ (20,473)	\$ 94,844	\$ 110,881

Edgar Filing: Virgin America Inc. - Form S-1

EBITDAR (4)	136,515	170,635	216,327	296,915	295,238
-------------	---------	---------	---------	---------	---------

**Table of Contents**

- (1) Aircraft fuel expense is the sum of (i) the cost of jet fuel and certain other charges such as fuel taxes and certain transportation and distribution costs; (ii) settlement gains and losses arising from fuel price hedging activity; and (iii) unrealized mark-to-market gains and losses associated with open fuel hedge contracts.
- (2) Interest attributable to funds used to finance the acquisition of new aircraft, including pre-delivery payments, or PDPs, is capitalized as an additional cost of the related asset approximately two years prior to the intended delivery date. Interest is capitalized at our weighted-average interest rate on long-term debt or, where applicable, the interest rate related to specific borrowings.
- (3) See Note 15 to our consolidated financial statements included elsewhere in this prospectus for an explanation of the method used to calculate basic and diluted earnings per share.
- (4) EBITDA is earnings before interest, income taxes, and depreciation and amortization. EBITDAR is earnings before interest, income taxes, depreciation and amortization and aircraft rent. EBITDA and EBITDAR are included as supplemental disclosure because we believe they are useful indicators of our operating performance. Derivations of EBITDA and EBITDAR are well recognized performance measurements in the airline industry that are frequently used by companies, investors, securities analysts and other interested parties in comparing the operating performance of companies in our industry. We also believe EBITDA is useful for evaluating performance of our senior management team. EBITDAR is useful in evaluating our operating performance compared to our competitors because its calculation isolates the effects of financing in general, the accounting effects of capital spending and acquisitions (primarily aircraft, which may be acquired directly, directly subject to acquisition debt, by capital lease or by operating lease, each of which is presented differently for accounting purposes) and income taxes, which may vary significantly between periods and for different companies for reasons unrelated to overall operating performance. However, because derivations of EBITDA and EBITDAR are not determined in accordance with GAAP, such measures are susceptible to varying calculations, and not all companies calculate the measures in the same manner. As a result, derivations of EBITDA and EBITDAR as presented may not be directly comparable to similarly titled measures presented by other companies.

These non-GAAP financial measures have limitations as an analytical tool. Some of these limitations are: they do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments; they do not reflect changes in, or cash requirements for, our working capital needs; they do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt; although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and these measures do not reflect any cash requirements for such replacements; and other companies in our industry may calculate EBITDA and EBITDAR differently than we do, limiting their usefulness as a comparative measure. Because of these limitations, EBITDA and EBITDAR should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP.

**Table of Contents**

The following table represents the reconciliation of net income (loss) to EBITDA and EBITDAR for the periods presented:

	2010	2011	As of December 31, 2012 (in thousands)	2013	2014
<b>Reconciliation:</b>					
Net income (loss)	\$ (68,675)	\$ (100,403)	\$ (145,388)	\$ 10,144	\$ 60,109
Interest expense	60,143	75,577	116,110	71,293	37,519
Capitalized interest	(3,541)	(2,320)	(2,176)	(534)	(2,688)
Interest income	(227)	(264)	(294)	(339)	276
Income tax expense	(137)	14	15	317	1,179
Depreciation and amortization	10,530	10,155	11,260	13,963	14,486
EBITDA	(1,907)	(17,241)	(20,473)	94,844	110,881
Aircraft rent	138,422	187,876	236,800	202,071	184,357
EBITDAR	\$ 136,515	\$ 170,635	\$ 216,327	\$ 296,915	\$ 295,238

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

	2010	2011	As of December 31, 2012 (in thousands)	2013	2014
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 29,904	\$ 159,815	\$ 76,018	\$ 155,659	\$ 394,643
Total assets	298,250	505,644	511,022	700,996	1,000,176
Long-term debt, including current portion	489,053	726,954	857,034	747,431	130,088
Convertible preferred stock	21,406	21,406	21,406	21,406	
Total stockholders' equity (deficit)	(393,025)	(484,473)	(630,924)	(384,027)	459,253

**Table of Contents****OPERATING STATISTICS**

	2010	2011	2012	2013	2014
<b>Operating Statistics (unaudited): (1)</b>					
Available seat miles ASMs (millions)	7,652	9,853	12,514	12,243	12,240
Departures	35,737	44,696	56,362	58,215	58,432
Average stage length (statute miles)	1,546	1,571	1,567	1,474	1,466
Aircraft in service end of period	33	44	52	53	53
Fleet utilization	12.7	12.1	11.6	10.8	10.8
Passengers (thousands)	3,909	5,030	6,219	6,329	6,507
Average fare	\$ 167.51	\$ 189.05	\$ 195.38	\$ 203.70	\$ 204.27
Yield per passenger mile (cents)	10.50	11.82	12.26	13.14	13.19
Revenue passenger miles RPMs (millions)	6,236	8,034	9,912	9,814	10,074
Load factor	81.5%	81.5%	79.2%	80.2%	82.3%
Passenger revenue per available seat mile PRASM (cents)	8.56	9.64	9.71	10.53	10.86
Total revenue per available seat mile RASM (cents)	9.46	10.53	10.65	11.64	12.17
Cost per available seat mile CASM (cents)	9.62	10.80	10.90	10.98	11.38
CASM, excluding fuel (cents)	6.40	6.56	6.61	6.83	7.30
CASM, excluding fuel and profit sharing (in cents)	6.40	6.56	6.61	6.82	7.19
Fuel cost per gallon	\$ 2.43	\$ 3.24	\$ 3.32	\$ 3.18	\$ 3.08
Fuel gallons consumed (thousands)	101,482	128,852	161,404	159,326	161,791
Teammates (FTE)	1,781	2,002	2,395	2,482	2,492

(1) See Glossary of Airline Terms elsewhere in this prospectus for definitions of terms used in this table.

---

**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS**

*The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this prospectus. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this prospectus, particularly in Risk Factors.*

**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 December 31, 2014, we provided service to 21 airports in the United States and Mexico with a fleet of 53 narrow-body aircraft.

**2014 Highlights**

2014 marked our highest level of profitability since our inception in 2005, with net income of \$60.1 million. This represents an increase of \$50.0 million over net income of \$10.1 million in 2013. We continued to strengthen our financial performance in 2014 with improvement in RASM and with the full year impact of reductions in aircraft rent and interest expense resulting from our 2013 Recapitalization (as further described below). Highlights for 2014 include the following:

RASM for 2014 increased by 4.6% as compared to 2013, to 12.17 cents.

CASM increased 3.6% as compared to 2013, with increases in salaries wages and benefits, landing fees and other rent, and sales and marketing partially offset by decreases in aircraft rent, aircraft fuel and aircraft maintenance.

We incurred \$24.2 million of special items in 2014 related to compensation expense recorded upon the completion of our initial public offering, certain costs associated with terminating service in two markets and certain mark-to-market adjustments for fuel hedges related to 2015 that did not qualify for hedge accounting treatment. Special items refers to items of revenue or expense that we have not incurred on a regular basis in the past and do not expect to incur on a regular basis in the future.

Profit-sharing increased by \$12.3 million in 2014.

Net other non-operating expense declined 50.1% to \$35.3 million from the 2013 Recapitalization and, to a lesser degree, from the 2014 Recapitalization described below.

We maintained a stable fleet size of 53 aircraft throughout 2014, and our capacity, as measured by ASMs, was flat as compared to 2013. We did take a number of steps, however, to realign capacity within our network into new growth opportunities that we believe will increase profitability in the long term. We successfully acquired two gates at Dallas Love Field ( DAL ) and we purchased rights to operate four round trip flights from Washington Reagan National Airport ( DCA ) in 2014, and we purchased rights to operate six round trip flights from New York La Guardia Airport ( LGA ) in late 2013. In October 2014 we began operations at DAL by transferring our existing California flights from Dallas/Forth Worth International Airport to DAL, and we initiated service from DAL to DCA and LGA. In April 2015 we will initiate service between DAL and Austin Bergstrom International Airport. We provided the capacity for this expansion at DAL by exiting the markets of Los Angeles San Jose, CA, Los Angeles Philadelphia, and San Francisco Philadelphia, and reducing capacity on certain other routes.





**Table of Contents**

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.

In November 2014, we also completed our IPO and the related 2014 Recapitalization, increasing our cash and cash equivalents by \$214.9 million and reducing our outstanding debt by \$689.8 million. We believe this solid improvement in our balance sheet will enhance our ability to obtain financing for our future growth opportunities.

**2014 Recapitalization**

In November 2014, immediately prior to the consummation of our IPO, we entered into the 2014 Recapitalization Agreement. In accordance with the terms of the 2014 Recapitalization Agreement, the majority of our Related Party Notes and warrants to purchase stock were either repaid or exchanged for shares of our common stock. The following table summarizes our long-term debt and components of equity before and after the 2014 Recapitalization and IPO (in thousands, except share numbers):

	<b>Balance Pre- Recapitalization/ IPO</b>	<b>Balance Post- Recapitalization/ IPO</b>
Long-term debt current portion	\$ 27,059	\$ 27,059
Long-term debt related parties (1)	728,257	38,463
Long-term debt	58,012	58,012
Total long-term debt	813,328	123,534
Convertible preferred stock	21,406	
Common stock (2)	8	430
Additional paid-in capital (2)	\$ 427,834	\$ 1,282,108
Shares of common stock outstanding (3)	841,126	42,958,927
Convertible preferred stock outstanding (3)	1,109,811	
Warrants to purchase shares of common stock (3)	42,242,601	

- (1) As of the date of the 2014 Recapitalization, the Related-Party Notes had contractual value of \$684.8 million, which differed from the recorded value primarily due to the application of accounting guidance established for troubled debt restructurings, or TDR, in connection with the 2013 Recapitalization. For more information, see Management's Discussion and Analysis of Financial Condition and Results of Operations 2013 Recapitalization, as well as our consolidated financial statements included elsewhere in this prospectus. Related-Party Notes were repaid by \$156.5 million in cash, including \$56.5 million from the proceeds of our IPO and \$100.0 million from the release of cash collateral to us in connection with a \$100.0 million letter of credit facility issued on our behalf to certain of our credit card processors by the Virgin Group. For more information, see Management's Discussion and Analysis of Financial Condition and Results of Operations Off-Balance Sheet Arrangements, as well as our consolidated financial statements included elsewhere in this prospectus. In addition Related-Party Notes were exchanged for a \$50.0 million Post-IPO Note held by the Virgin Group. The Post-IPO Note was recorded at the estimated fair value of \$38.5 million, calculated using an effective interest rate of 8.5%, determined based on an estimated market rate for unsecured instruments with similar terms. The remainder of the outstanding related party debt was exchanged for 22,159,070 shares of our common stock based on the IPO offering price and the remaining outstanding contractual value of the debt, except for principal and accrued interest under the FNPA Notes and the FNPA II Notes held by Cyrus Capital, which were converted at a premium of 117% of the outstanding contractual value. The application of the premium to FNPA had the effect of effectively transferring common ownership between the two principal shareholders, Virgin Group and Cyrus Capital just prior to the IPO.

**Table of Contents**

- (2) Common stock and additional paid-in-capital were increased on a net basis as a result of the following (i) sale of shares of voting common stock to the public, (ii) the difference between the recorded amount of the Related-Party Notes and cash consideration paid, the fair value adjustment associated with of the Post-IPO Note and a \$34.1 million fair value adjustment to record the present value of estimated license fee payments under a revised license agreement in excess of the estimated payments determined under our existing license agreement, refer to our consolidated financial statements for additional information, and (iii) proceeds from the IPO of \$277.6 million, which exclude share-based compensation triggered by the IPO.
- (3) Each issued and outstanding share of our Class A, Class A-1, Class B and Class G common stock and each issued and outstanding share of our convertible preferred stock were converted into one share of common stock in accordance with our certificate of incorporation. Related-Party Warrants to purchase 26,067,475 shares of our common stock were exchanged without receipt of cash consideration for 5,742,543 shares of our common stock and the remaining Related-Party Warrants to purchase an aggregate of 16,175,126 shares of our common stock were canceled in their entirety. The following table summarizes the shares of our common stock outstanding immediately after the 2014 Recapitalization and the IPO:

Shares of common stock outstanding immediately prior to the 2014 Recapitalization and the IPO	841,126
Shares of common stock issued in exchange for convertible preferred stock outstanding	1,109,811
Shares of common stock issued in exchange for warrants	5,742,543
Shares of common stock issued in exchange for Related-Party Notes	22,159,070
Shares of common issued and sold in the IPO	13,106,377
Total shares of common stock outstanding after the IPO	42,958,927

**2013 Recapitalization**

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

We also amended substantially all of our lease agreements with our existing aircraft lessors to reduce monthly base rent and/or maintenance reserve payments through monthly cash rent rebates. We estimate these amendments resulted in expense savings on base aircraft rent of approximately \$47.2 million in 2014 as compared to what would have been recorded as aircraft rent expense under the original lease terms. Under some of our leases, we also extended the lease terms by three to five years.

For more information, see Notes 3, 8 and 10 to our consolidated financial statements included elsewhere in this prospectus.

**Fleet Plan**

We are scheduled to take delivery of two A320 CEO aircraft in the third quarter of 2015 and three A320 CEO aircraft in the fourth quarter of 2015 under our purchase agreement with Airbus. After taking delivery of these aircraft, we expect to end 2015 with a total of 58 aircraft in service. In addition, we have five A320 CEO aircraft scheduled for delivery in the first half of 2016. We will incur capital costs on these aircraft prior to placing them in service.

We believe that, based on our scheduled flight activity, our capacity, as measured by available seat miles, may increase by approximately 2.0% to 3.0% for the full year 2015. We believe that capacity will increase

## **Table of Contents**

between 2.0% to 3.0% in the first quarter of 2015. We believe there may be relatively flat year-over-year capacity changes in the second and third quarters of 2015 and year-over-year growth of 6.0% to 8.0% in the fourth quarter of 2015 as we place our new aircraft into service.

### **Operating Revenues**

Our operating revenues consist of passenger revenue and other revenue.

*Passenger Revenue.* Passenger revenue consists of base fares for air travel, including upgrades, points redeemed under our loyalty program, unused and expired passenger credits, which we call credit files, and other redeemed or expiring travel credits.

*Other Revenue.* Other revenue consists primarily of revenue generated from air-travel-related services such as baggage fees, change fees, seat selection fees, passenger-related service fees and inflight meals and entertainment. Other revenue also includes advertising and brand revenues resulting from our co-branded consumer credit card agreement.

### **Operating Expenses**

Our operating expenses consist of the following items:

*Aircraft Fuel.* Aircraft fuel expense is our single largest operating expense. It includes the cost of jet fuel, related federal and state taxes and certain fuel transportation and distribution costs. It also includes realized and unrealized settlement gains and losses arising from any fuel price hedging activity.

*Aircraft Rent.* Aircraft rent expense consists of monthly lease rents for aircraft and spare engines under the terms of the related operating leases and is recognized on a straight-line basis. Aircraft rent expense also includes that portion of maintenance reserves, also referred to as supplemental rent, which is paid monthly to aircraft lessors for the cost of future major maintenance activities and which is not probable of being reimbursed to us by the lessor during the lease term. Aircraft rent expense is net of the amortization of manufacturer credits and gains on sale and leaseback transactions on our flight equipment. Presently, all of our aircraft and spare engines are financed under operating leases.

*Salaries, Wages and Benefits.* Salaries, wages and benefits expense includes salaries, hourly wages, cash incentive compensation, teammate profit sharing and equity compensation paid to teammates for their services, as well as related expenses associated with employee benefit plans and employer payroll taxes.

*Landing Fees and Other Rents.* Landing fees and other rents include both fixed and variable facilities expenses, such as the fees charged by airports for the use or lease of airport facilities, fueling into-plane fees and overfly fees paid to other countries.

*Sales and Marketing.* Sales and marketing expense includes credit card processing fees, costs associated with our loyalty programs, advertising and distribution costs such as the costs of web support, our third-party call center, travel agent commissions and related global distribution systems, or GDS, fees. Sales and marketing also includes the license fee that we pay for use of the Virgin brand.

*Aircraft Maintenance.* Aircraft maintenance expense includes the cost of all parts, materials and fees for repairs performed by third-party vendors directly required to maintain our fleet. It excludes direct labor cost related to our own mechanics, which is included in salaries, wages and benefits. It also excludes the amortization of major engine maintenance expenses, which we defer under the deferral method of accounting and amortize on a straight-line basis as a component of depreciation and amortization expense until the next estimated overhaul event or end of the engine lease, whichever is earlier.

## **Table of Contents**

*Depreciation and Amortization.* Depreciation and amortization expense includes depreciation of fixed assets we own and amortization of software licenses, major engine maintenance and leasehold improvements.

*Other Operating Expenses.* Other operating expenses include guest services and supplies, crew and teammate travel, data and communications, legal and professional fees, facilities, aircraft insurance and all other administrative and operational overhead expenses.

### **Other Income (Expense)**

*Interest Expense.* Interest expense on related-party long-term debt accounted for 98%, 96%, and 96% of our interest expense in 2012, 2013 and 2014. Paid-in-kind interest was 85%, 68%, and 40% of total interest expense incurred in 2012, 2013 and 2014.

*Capitalized Interest.* We capitalize interest attributable to pre-delivery payments (PDPs) as an additional cost of the related asset beginning two years prior to the intended delivery date, when we estimate the related aircraft has begun to be manufactured and when PDPs are required to be paid under the terms of our existing aircraft purchase contract. We capitalize interest at our weighted-average interest rate on long-term debt or, where applicable, the interest rate related to specific borrowings. Capitalization of interest ceases and expensing begins when the asset is ready for its intended use.

*Interest Income and Other.* Interest income and other includes interest income on our cash and cash equivalent balances, as well as activity not classified in any other area of the consolidated statements of operations.

### **Income Taxes**

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

For the year ended December 31, 2014, we recorded a deferred tax liability and tax expense of \$1.2 million resulting from the difference between the book and tax basis of indefinite-lived intangible assets that are not available to cover net deferred tax assets subject to a valuation allowance.

### **Trends and Uncertainties Affecting Our Business**

We believe our operating and business performance is driven by various factors that affect airlines and their markets, including trends which affect the broader travel industry, as well as trends which affect the specific markets and customer base that we target. The following key factors may affect our future performance.

*Competition.* The airline industry is exceedingly competitive. The principal competitive factors in the airline industry are the fare and total price, flight schedules, number of routes served from a city, frequent flier programs, product and passenger amenities, customer service, fleet type, safety record and reputation and code-sharing relationships. The airline industry is particularly susceptible to price discounting because, once a flight is scheduled, airlines incur only nominal incremental costs to provide service to passengers occupying otherwise

---

**Table of Contents**

unsold seats. Airlines typically use discount fares and other promotions to stimulate traffic during normally slower travel periods to generate cash flow and to increase RASM. The prevalence of discount fares can be particularly acute when a competitor has excess capacity to sell.

*Seasonality and Volatility.* Our results of operations for any interim period are not necessarily indicative of those for the entire year because the air transportation business and our route network are subject to significant seasonal fluctuations. We believe our operations, as they are focused on Los Angeles International Airport (LAX) and San Francisco International Airport (SFO), are more susceptible to seasonality than some of the other domestic airlines because our discretionary customers in California may be less likely to fly to other regions of the United States during the colder seasons. We generally expect demand to be greater in the second and third quarters compared to the rest of the year. The air transportation business is also volatile and highly affected by economic cycles and trends. Consumer confidence and discretionary spending, fear of terrorism or war, weakening economic conditions, fare initiatives, labor actions, weather and other factors have resulted in significant fluctuations in revenues and results of operations in the past.

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

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

*Labor.* On August 13, 2014, our inflight teammates (whom other airlines refer to as flight attendants), representing approximately 32% of our workforce, 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 industry employees are one of the most heavily unionized private sector employee groups, and any of our non-management teammates could seek unionization at any time. If one or more of our other teammate groups elects a union to represent them, that would require us to collectively bargain with the teammate group's certified representative.

*Aircraft Maintenance.* As of December 31, 2014, the average age of our aircraft was 5.8 years. Due to the relatively young age of our fleet, our aircraft require less maintenance now than they will in the future. As the fleet ages, we expect that maintenance costs will increase in absolute terms and as a percentage of revenue. The amount of total maintenance costs and related amortization of major engine maintenance expense is subject to variables such as estimated usage, government regulations, the size and makeup of the fleet in future periods and the level of unscheduled maintenance events and their actual costs. Accordingly, we cannot reliably quantify future maintenance-related expenses for any significant period of time.

We expect that the final qualifying major engine maintenance events will be amortized over the remaining lease term rather than until the next estimated major maintenance event. This would 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. Moreover, because our current aircraft were acquired over a

## **Table of Contents**

relatively short period, significant maintenance that is scheduled on each of these aircraft occurs at roughly the same time, meaning we will incur our most expensive scheduled maintenance obligations, known as major maintenance, across our present fleet at approximately the same time. These more significant maintenance activities result in out-of-service periods during which aircraft are dedicated to maintenance activities and unavailable to fly revenue service.

In addition, the terms of some 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 fully expensed, as 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. For more information, see Critical Accounting Estimates-Aircraft and Engine Maintenance and Repair elsewhere in this prospectus.

### **Critical Accounting Estimates**

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

#### *Revenue Recognition including Loyalty Programs*

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

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

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

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

With respect to points earned as a result of travel, or flown points, we recognize a liability and a corresponding sales and marketing expense, representing the incremental cost associated with the obligation to

---

**Table of Contents**

provide travel in the future, as points are earned by passengers. We offer redemption of points for our Elevate program members through travel on our flights and our partner airlines. Incremental cost for points to be redeemed on our flights is estimated based on historical costs, which include the cost of fuel, passenger fees, complimentary beverages, insurance, miscellaneous passenger supplies and other airline payments. We adjust our liability periodically for changes in our estimate of incremental cost, average points to redeem and breakage estimates.

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

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

In 2013, we entered into a new co-branded credit card agreement with a new partner, which we refer to as the New Co-Brand Agreement. The New Co-Brand Agreement has a seven-year term beginning January 1, 2014, when the new co-branded card was introduced and services to our members began. Services with standalone value provided under this agreement include: (i) the points earned or the travel component; (ii) companion certificates for annual travel discounts up to \$150; (iii) unlimited access to the use of our brand and customer list; (iv) advertising; (v) waived bag fees, which are limited to the first checked bag for the cardholder and their companion traveling on the same flight which must be purchased using the card; (vi) unlimited waived change fees provided the ticket is purchased using the premium card; and (vii) unlimited discounts on purchases made through our Red<sup>®</sup> inflight entertainment system using the co-branded credit card. Under the New Co-Brand Agreement, our partner is required to provide annual guaranteed advance payments over the contract term. Any unearned advance at the end of the calendar year is carried over to the following year until the contract expires. At the end of the contract, we have no obligation to refund any unearned advances to the partner. As of December 31, 2014, excess advances totaled \$8.5 million, which we recorded as air traffic liability.

Under the revenue recognition rules for multiple element arrangements, we determine the best estimated selling price, or BESP, of each element and allocate the arrangement consideration using the relative selling price of each element. Based on our valuation of the New Co-Brand Agreement, the majority of the value is attributable to points or the travel component and brand and customer list, for which the BESP is determined using our own and market assumptions as well as other judgments necessary to determine the estimated selling price of each element. When developing the relative selling price allocation attributable to the points or travel component, we primarily considered the total number of points expected to be issued, the BESP for points (specifically the value at which points could be redeemed for free or discounted travel), the number of points expected to be redeemed and the timing of redemptions. The BESP for points is derived based on our estimate of the redemption rate used by our guests to convert points into the equivalent ticket value for travel with us or with one of our airline partners. For brand and customer list, we considered brand power, the size of our customer list and the market royalty rate for equivalent programs. Our estimates of the BESP will not change, but the allocation between elements may change based on changes in the ultimate volume of sales of each element during the term of the contract.

We recognize and record revenue for the majority of the travel-related elements in accordance with our existing policies for such services. Revenue for brand and advertising is recognized in other revenue as such

---

**Table of Contents**

services are provided ratably over the contract term. Revenue from making available unlimited services such as waived bag fees, waived change fees and inflight discounts is recognized in other revenue on a ratably basis over the contract term subject to a contract limitation based on the proportion of cumulative points issued to total contract points expected to be issued.

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

*Aircraft and Engine Maintenance & Repair*

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

In connection with our aircraft operating lease agreements, we are required to make supplemental rent payments to our aircraft lessors, which represent maintenance reserves made to collateralize the lessor. Our lease agreements provide that maintenance reserves are reimbursable to us upon completion of the major maintenance event in an amount equal to the lesser of (i) the amount of the maintenance reserve held by the lessor associated with the specific major maintenance event or (ii) the qualifying costs related to the specific major maintenance event, although in some instances we expect to receive a credit at the end of the lease for a portion of any excess reserves remaining after each event. We record the supplemental payments or maintenance reserves that we expect to recover as aircraft maintenance deposits in the accompanying consolidated balance sheets. When it is not probable that amounts on deposit with lessors will be recovered, we expense such amounts as a component of aircraft rent expense. When the underlying maintenance event is performed, the cost is either capitalized and amortized as a component of depreciation and amortization expense for qualified major engine maintenance or expensed for all other major maintenance, and the deposit is reclassified to a receivable in our consolidated balance sheet.

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



---

## **Table of Contents**

We make certain assumptions at the inception of the lease and at each balance sheet date to determine the recoverability of maintenance deposits. Our assumptions are based on various factors such as the estimated timing of major maintenance events, including replacement of engine life limited parts, the cost of future maintenance events and the number of flight hours and cycles for which we estimate the aircraft will be utilized before it is returned to the lessor. We account for changes in estimates related to maintenance reserve payments on a prospective basis.

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

### *2014 Recapitalization*

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

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

### *2013 Debt Modification*

In connection with the 2013 Recapitalization, we entered into a series of agreements with the Virgin Group and Cyrus Capital (our primary lenders) to modify certain existing debt agreements, issue new debt for \$75.0 million of cash proceeds and issue certain Related-Party Warrants. Pursuant to these agreements, our lenders exchanged \$556.0 million of related-party debt which previously had contractual interest rates ranging from 15%

---

**Table of Contents**

to 20% per year for \$369.1 million of related-party debt with a lower interest rate of 5% per year, compounded annually, and for new Related Party Warrants to purchase 21.2 million shares of our common stock at an exercise price of \$18.87 per share. One of our lenders also exchanged subordinated notes with outstanding principal and accrued interest of approximately \$131.5 million, along with certain associated warrants, for new Related-Party Warrants to purchase 1.0 million shares of our common stock at an exercise price of \$0.08 per share. Finally, our lenders also funded \$75.0 million in cash proceeds to us, and we issued \$75.0 million aggregate principal amount of new Related-Party Notes with a stated interest rate of 17%, compounded annually, and new Related-Party Warrants to purchase 1.0 million shares of our common stock at an exercise price of \$18.87 per share.

We evaluated these transactions in accordance with the accounting guidance on troubled debt restructurings, which requires that the debtor must be experiencing financial difficulty and that the creditor must have granted a concession, and we determined that we met both criteria. We also made certain assumptions, judgments and estimates to account for the debt modification, which included: (i) excluding an existing Related-Party Note payable from the analysis as it was completely unmodified in the transaction; (ii) analyzing and applying the accounting guidance at the creditor level; and (iii) determining the fair value of the Related-Party Warrants issued, which required us to make assumptions about the fair value of our common stock.

To account for the debt modification, we compared the recorded value of the modified debt and the new debt, less the fair value of the Related-Party Warrants issued, to the restructured aggregate undiscounted cash flows at maturity at the creditor level. The fair value of Related-Party Warrants was based on the Black Scholes option pricing model using the following key assumptions: expected term of 5.0 years; a risk-free interest rate of 0.83%; no expected dividends; a fair value price per share based on an independent third-party valuation at May 2013; and 70.0% estimated share price volatility. When the recorded value of the existing debt exceeded the aggregate undiscounted cash flows associated with the restructured debt, we adjusted the carrying amount of the debt on our balance sheet and recognized a gain equal to the difference as a capital contribution. When the recorded value of the existing debt did not exceed the undiscounted cash flows associated with restructured debt, we calculated the effective interest rate that will be used to accrete the debt to its maturity value.

See Note 3 to our consolidated financial statements included elsewhere in this prospectus for further discussion of the accounting of the 2013 Recapitalization.

*Lease Amendments*

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

We concluded that all amended leases were deemed to be new leases, and we re-evaluated these to determine if they qualified as capital or operating leases. We determined that each of our leases, as amended, continued to be an operating lease. Our lease analysis required us to make certain assumptions and estimates including: (i) the interest rate, which represented a blended rate of recent secured borrowing rates of peer companies and our unsecured borrowing rates; (ii) the fair value of the aircraft at the time of the new lease; and (iii) the fair value rental rates during the non-cancelable lease extension period. We estimated the extension rates utilizing fixed lease extension rates negotiated in other modified agreements based on current independent aircraft appraisals and current market lease rates. We also considered future demand for the leased aircraft while giving consideration to newer, more fuel-efficient aircraft expected to be delivered in the marketplace during the extension period.

We recognize rent expense on a straight-line basis over the non-cancelable lease term, using rates specified in the contract and for certain leases, estimated fixed rates based upon the fair market value of the aircraft as

**Table of Contents**

determined by a qualified appraisal at the start of the lease extension period if not specified in the contract. We estimated the extension rates utilizing current independent aircraft appraisals, current market lease rates, and factored in future demand for the leased aircraft while giving consideration to newer, more fuel efficient aircraft expected to be delivered in the marketplace during the extension period. We periodically review and update our estimates of the rental rates as required if significant adjustments become necessary. No adjustments were necessary as of December 31, 2014. We accounted for Lease Rebates received at the start of the amended leases as an incentive to be recorded as a reduction of rent expense on a straight-line basis over the lease term. Future Lease Rebates are considered contingent and are recognized as a reduction in rent expense when the liquidity requirement is met. Under the amended lease agreements, we receive \$1.6 million in Lease Rebates on a monthly basis and we are obligated to refund 25.0% of substantially all the Lease Rebates from monthly base rent received through December 31, 2016 in the first quarter of 2017 or on a pro-rata basis with any debt repayment occurring prior to the first quarter of 2017. Therefore, we accrue 25.0% of the Lease Rebates as a component of the deferred rent balance in our consolidated financial statements.

In addition, as certain of our lease terms are now extended, certain major aircraft and engine maintenance events are expected to occur within the extended lease terms. As a result, we recorded \$30.1 million of lease incentives associated with previously expensed supplemental rent payments that we now expect to be recoverable by virtue of the lease term extensions. We recorded these lease incentives as an increase to aircraft maintenance deposits and an increase to other liabilities in our consolidated balance sheet in 2013. We determined that a lease incentive resulted from the lease extension when the amount that we expect to be reimbursed in the future exceeds the amount of maintenance deposit currently on our balance sheet plus any future payments to be made through the date of the qualifying maintenance event. We recorded any excess amount as an incentive to the extent there were supplemental rent payments made during the lease term that had previously been expensed. We calculated our lease incentives on a maintenance event by maintenance event basis, consistent with the manner in which supplemental rent payments are made to our lessors.

*Intangible Assets*

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

We apply a fair value based impairment test to the carrying value of indefinite-lived intangible assets on an annual basis during Q4, or more frequently if certain events or circumstances indicate that an impairment loss may have been incurred. The FASB standard *Testing Indefinite-Lived Intangible Assets for Impairment* gives companies the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired rather than calculating the fair value of the indefinite-lived intangible asset. We applied the provisions to our annual indefinite-lived intangible asset impairment testing in 2014.

We first utilize a qualitative approach and analyze various factors to determine if events and circumstances have affected the fair value of the goodwill and indefinite-lived intangible assets. If we determine it is more likely than not that the asset value may be impaired, we then use the quantitative approach to assess the asset's fair value and amount of impairment.

---

## **Table of Contents**

Factors which could result in future impairment of owned landing slots, holding other assumptions constant, could include, but are not limited to: (i) increased competition in the slotted airport; (ii) a change in competition in the slotted airport; (iii) significantly higher prices for jet fuel; and (iv) increased competition at a nearby airport. As part of this evaluation we assess whether changes in (i) macroeconomic conditions; (ii) industry and market conditions; (iii) cost factors; (iv) overall financial performance; and (v) certain events specific to our company, had occurred which would impact the use and/or fair value of these assets.

As a result of our qualitative analyses performed during 2014 (October 1), we concluded it was more likely than not that the fair values of our indefinite-lived intangible assets was greater than the carrying value and therefore, a quantitative assessment was not necessary. Thus, as a result of the annual impairment test conducted during fourth quarter 2014, no impairment was noted.

### *Income Taxes*

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

Although we recorded pretax income in 2014, we have a cumulative loss over the three year period ended December 31, 2014. We believe this cumulative loss, despite earnings in recent years, precludes us from being able to project sufficient taxable income to conclude that our net deferred tax assets are more likely than not of being recovered. As a result, we have maintained a full valuation allowance on our net deferred tax assets. We will continue to evaluate future financial performance to determine whether such performance provides sufficient evidence to support reversal of the valuation allowance in the future.

Section 382 of the Internal Revenue Code of 1986, as amended, or Section 382, imposes limitations on a corporation's ability to utilize net operating loss carryforwards, if it experiences an ownership change. In general terms, an ownership change results from a cumulative change in the equity ownership of certain stockholders by more than 50 percentage points over a rolling three-year period. In the event of an ownership change, utilization of our pre-change NOLs would be subject to annual limitation under Section 382 determined by multiplying the value of our stock at the time of the ownership change by the applicable long-term tax-exempt rate, increased in the five-year period following such ownership change by recognized built-in gains under certain circumstances. Multiple Section 382 limitations can be created by multiple ownership changes. In cases of multiple ownership changes, a subsequent ownership change can reduce, but not increase, the size of the Section 382 limitation that applies to pre-change losses from an earlier ownership change.

We had NOLs of approximately \$633.2 million and \$433.9 million for federal and state income tax purposes at December 31, 2014. Our federal NOLs expire between 2027 and 2034. As a result of a January 2010 equity restructuring, we experienced a Section 382 ownership change. We have \$329.7 million of NOLs generated prior to the change that may be subject to limitation as a result of this change. As a result of the 2014 Recapitalization and our IPO, we believe we have experienced another Section 382 ownership change. We have not yet completed the final calculation of the estimated limitation for the 2014 ownership change, but based on our current calculations, we do not believe we will experience limitations on the use of these NOLs in the near term. We expect to finalize this analysis before the filing of 2014 tax returns.

## **Table of Contents**

### *Share-Based Compensation*

Prior to our IPO, we granted performance-based and market-based stock options and restricted stock units to employees and directors. The performance-based vesting condition was achieved at the completion of the IPO in November 2014. Thus we recognized \$7.7 million expense in the fourth quarter 2014 for performance shares for which service had already been rendered. As of December 31, 2014, total unamortized compensation for such performance-based awards was \$2.3 million, which we will recognize over the remaining service term of the awards. In addition, market-based vesting conditions, such as targeted minimum market prices, further restrict the exercisability or settlement of such awards. Any awards, including those that have vested over a fixed service period, have not become exercisable before an employee's termination are forfeited.

In connection with our IPO, our board of directors approved 340,411 shares of common stock to be issued upon the vesting of RSUs which were granted at the completion of the IPO in November 2014. These awards will vest over three years following the completion of the offering. Total compensation expense over the three-year service term will be \$7.8 million, based on the number of shares multiplied by the initial offering price of \$23.00. In addition to stock compensation associated with options and RSUs as described in the preceding notes, 217,898 shares of fully vested common stock were issued to employees and directors at the completion of IPO in November 2014, as approved by our board of directors. We recorded \$5.0 million in stock compensation expense and an increase in additional paid in capital, based on the number of shares multiplied by the initial price of the common stock of \$23.00.

### **Results of Operations**

#### *2014 Compared to 2013*

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

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

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

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

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

	Year Ended December 31,		Change	
	2013	2014	Amount	%
<b>Operating revenues (in thousands):</b>				
Passenger	\$ 1,289,268	\$ 1,329,211	\$ 39,943	3.1
Other	135,410	160,756	25,346	18.7
<b>Total operating revenues</b>	<b>\$ 1,424,678</b>	<b>\$ 1,489,967</b>	<b>\$ 65,289</b>	<b>4.6</b>
<b>Operating statistics:</b>				
Available seat miles (millions)	12,243	12,240	(3)	
Revenue passenger miles (millions)	9,814	10,074	260	2.6
Average stage length (statute miles)	1,474	1,466	(8)	(0.5)
Load factor	80.2%	82.3%	2.1 pts.	
Total revenue per available seat mile RASM (cents)	11.64	12.17	0.53	4.6
Yield (cents)	13.14	13.19	0.05	0.4
Average fare	\$ 203.70	\$ 204.27	\$ 0.57	0.3
Passengers (thousands)	6,329	6,507	178	2.8

Passenger revenue for 2014 increased 3.1% from 2013 on the same level of capacity, measured by ASMs. Full year 2014 PRASM increased year-over-year due to a 0.4% increase in passenger yield and a 2.1 point increase in load factor. Total RASM for 2014 increased 4.6% from 2013, primarily from the increase in PRASM and an 18.7% increase in other revenue.

The 18.7% increase in other revenue for 2014 from 2013 was primarily due to increased advertising and brand revenues resulting from our new co-branded consumer credit card program that we launched in January 2014. In addition, seat selection fee revenue and change fee revenue increased, primarily due to a 2.8% increase in passengers as well as higher fees for ancillary products.

**Operating Expenses**

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

Edgar Filing: Virgin America Inc. - Form S-1

Teammates (FTE)	2,482	2,492	10	0.4
-----------------	-------	-------	----	-----

---

**Table of Contents***Aircraft fuel*

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

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

*Salaries, wages and benefits*

Salaries, wages and benefits expense for 2014 increased by \$60.9 million, or 31.0%, from 2013. Salaries and wages for flight crews increased significantly as a result of the competitive marketplace for talent and increasing seniority of our pilots and inflight teammates. In addition, salaries, wages and benefits expense for the year ended December 31, 2014 include an increase of \$20.9 million in profit sharing and bonus expense, including a \$5.3 million expense recognized for the value of shares distributed by our employee stock ownership vehicle to teammates, and \$14.0 million in share-based compensation expense primarily associated with our IPO. Share-based compensation expense reflects the effect of pre-IPO performance-based stock compensation which achieved the IPO performance trigger in November 2014 and therefore were recognized in the fourth quarter of 2014. Under our annual profit sharing program, we accrued 15% of cumulative year-to-date income before income taxes and profit sharing (excluding certain special items) for the benefit of our eligible teammates in 2014 and 2013. In early 2015, we announced a change to our annual profit sharing program under which profit sharing will still be accrued based on 15% pre-tax income, however income will be 1) net of profit sharing expense and 2) accrued on income above a threshold which is based on \$1.5 million times the weighted average number of aircraft in our fleet. For 2015, we estimate the threshold to be approximately \$81.0 million.

We expect salaries, wages and benefit expense to grow at a faster rate than our capacity as market and tenure-related adjustments continue. In 2015, a new employee stock purchase program called the Teammate Stock Purchase Plan (TSPP) will begin under which employees may purchase our stock at a 10% discount of the market value at the end of each offering period. Also, subsequent to year end, a new discretionary 401(k) company contribution called 401(k) Plus will go into effect under which we will make additional 401(k) contributions of up to 4.5% of salary for pilots and 1.5% for all other teammates.

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

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

*Aircraft rent*

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



## **Table of Contents**

### *Landing fees and other rents*

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

For 2013 and for a part of 2014, we received the benefit of landing fee and rent incentives for our added destinations of Austin and San Jose. The expiry of these incentives in the second quarter of 2014 and the additional rate increases at a majority of the airports at which we operate led to an increase in our landing fees and other rents both in absolute dollars and as a percentage of revenue. Additionally, we will begin incurring costs in 2015 associated with opening new destinations.

### *Sales and marketing*

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

### *Aircraft maintenance*

Aircraft maintenance expense remained relatively consistent for 2014 and 2013.

### *Depreciation and amortization*

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

### *Other operating expenses*

Other operating expense remained relatively consistent for 2014 and 2013.

## **Other Income (Expense)**

Other income (expense) for 2014 decreased by \$35.3 million, or 50.1%, from 2013, primarily due to the \$34.7 million reduction in related-party interest expense as a result of the 2013 Recapitalization. As part of the 2013 Recapitalization, we reduced our related-party debt of \$687.5 million with stated interest rates ranging from 4.7% to 20.0% to related-party debt with a recorded value of \$529.8 million with effective interest rates of 0.0% to 10.0% per year. Furthermore, in November 2014 in connection the 2014 Recapitalization, we reduced our remaining related-party debt and accrued interest to a recorded value of \$38.5 million with an effective interest rate of 8.5%. See Notes 2 and 3 to our consolidated financial statements included elsewhere in this prospectus for further details and a discussion of the accounting for these transactions.

## **Income Taxes**

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

## ***2013 Compared to 2012***

In 2013, we had net income of \$10.1 million compared to a net loss of \$145.4 million in 2012. In 2013, we had operating income of \$80.9 million, compared to an operating loss of \$31.7 million in 2012.

Our 2013 results reflected our strategic decisions to defer and cancel aircraft deliveries, thereby reducing capacity growth in our network, to reduce aircraft utilization across our operations, to eliminate low margin



**Table of Contents**

flights and to focus on improving revenue management techniques to increase RASM. We also implemented new ancillary revenue strategies that, when combined with our network and revenue management strategy changes, improved our unit revenue performance. Our RASM increased from 10.65 cents in 2012 to 11.64 cents in 2013, and our average fare increased by 4.3% to \$203.70. We also added three new destinations during 2013 by shifting capacity from existing markets.

We continued our disciplined approach to cost control. Our CASM increased by 0.7% to 10.98 cents, primarily due to a 2.2% reduction in ASM and a 5.9% decrease in average stage length from 2012 to 2013. Partially offsetting this increase was a 4.2% reduction in fuel cost per gallon. Our 2013 results also reflect the impact of our debt and lease restructurings described under the 2013 Recapitalization. Through our aircraft lease renegotiations, we reduced aircraft rent expense by \$34.7 million in 2013 or 12.8% per ASM. We also reduced interest expense by \$44.8 million as a result of the 2013 Recapitalization.

**Operating Revenue**

	Year Ended December 31,		Change	
	2012	2013	Amount	%
<b>Operating revenues (in thousands):</b>				
Passenger	\$ 1,215,178	\$ 1,289,268	\$ 74,090	6.1
Other	117,659	135,410	17,751	15.1
<b>Total operating revenues</b>	<b>\$ 1,332,837</b>	<b>\$ 1,424,678</b>	<b>\$ 91,841</b>	<b>6.9</b>
<b>Operating statistics:</b>				
Available seat miles (millions)	12,514	12,243	(271)	(2.2)
Revenue passenger miles (millions)	9,912	9,814	(98)	(1.0)
Average stage length (statute miles)	1,567	1,474	(93)	(5.9)
Load factor	79.2%	80.2%	1.0 pts	
Total revenue per available seat mile RASM (cents)	10.65	11.64	0.99	9.3
Yield (in cents)	12.26	13.14	0.88	7.2
Average fare	\$ 195.38	\$ 203.70	\$ 8.32	4.3
Passengers (thousands)	6,219	6,329	110	1.8

Passenger revenue increased by \$74.1 million, or 6.1%, from 2012 to 2013. Passenger revenue accounted for 90.5% of our total operating revenues for the year ended December 31, 2013. Load factor increased one percentage point year-over-year, and average fare increased 4.3% as we focused on maximizing the value of our network by shifting capacity away from seasonally weaker routes, such as transcontinental flights during the winter. During 2013, we added three new destinations: Newark (from LAX and SFO), San Jose (from LAX) and Austin (from SFO). Our network changes resulted in a 5.9% reduction in our average stage length in 2013 as compared to 2012.

Other revenue increased by \$17.8 million, or 15.1%, from 2012 to 2013, primarily due to a full year of fees from our Express program that we launched in September 2012, which allows guests to select a reserved seat assignment near the front of the cabin, purchase priority boarding and receive other premium privileges.

**Table of Contents****Operating Expenses**

	Year Ended December 31,		Change		Cost per ASM		Change
	2012	2013	Amount	%	2012	2013	%
	(in cents)						
<b>Operating expenses (in thousands):</b>							
Aircraft fuel	\$ 537,501	\$ 507,035	\$ (30,466)	(5.7)	4.30	4.14	(3.6)
Aircraft rent	236,800	202,071	(34,729)	(14.7)	1.89	1.65	(12.8)
Salaries, wages and benefits	176,216	196,477	20,261	11.5	1.40	1.61	14.0
Landing fees and other rents	110,165	122,621	12,456	11.3	0.88	1.00	13.8
Sales and marketing	107,136	106,599	(537)	(0.5)	0.86	0.87	1.7
Aircraft maintenance	58,934	61,854	2,920	5.0	0.47	0.51	7.3
Depreciation and amortization	11,260	13,963	2,703	24.0	0.09	0.11	26.8
Other operating expenses	126,558	133,177	6,619	5.2	1.01	1.09	7.6
<b>Total operating expenses</b>	<b>\$ 1,364,570</b>	<b>\$ 1,343,797</b>	<b>\$ (20,773)</b>	<b>(1.5)</b>	<b>10.90</b>	<b>10.98</b>	<b>0.7</b>
<b>Operating statistics:</b>							
Available seat miles (millions)	12,514	12,243	(271)	(2.2)			
Average stage length (statute miles)	1,567	1,474	(93)	(5.9)			
Departures	56,362	58,215	1,853	3.3			
CASM (excluding fuel)	6.61	6.83	0.22	3.3			
CASM (excluding fuel and profit sharing)	6.61	6.82	0.21	3.2			
Fuel cost per gallon	\$ 3.32	\$ 3.18	(0.14)	(4.2)			
Fuel gallons consumed (thousands)	161,404	159,326	(2,078)	(1.3)			
Teammates (FTE)	2,395	2,482	87	3.6			

*Aircraft fuel*

Aircraft fuel expense decreased by \$30.5 million, or 5.7%, from 2012 to 2013. The decrease was primarily due to the decline in the fuel cost per gallon and in our fuel consumption. Fuel cost declined to \$3.18 per gallon in 2013 from \$3.33 per gallon in 2012, or 4.2%, and our fuel gallons consumed also declined by 1.3%, primarily due to our reduction in ASMs.

*Aircraft rent*

Aircraft rent expense decreased by \$34.7 million, or 14.7%, from 2012 to 2013 as a result of our aircraft lease amendments entered into in connection with the 2013 Recapitalization. This decrease was partly offset by a full year of rent in 2013 for eight aircraft added to the fleet during 2012, as well as the delivery of one additional aircraft in March 2013.

*Salaries, wages and benefits*

Salaries, wages and benefits expense increased by \$20.3 million, or 11.5%, from 2012 to 2013, primarily due to market and tenure related adjustments and profit sharing for our teammates. In addition, the average number of full-time equivalent teammates increased by 3.6% during 2013, and the average tenure of our teammate population was 3.5 years as of December 31, 2013 as compared to 3.0 years as of December 31, 2012. Salaries, wages and benefits expense in 2013 includes profit sharing expense under our profit sharing program, whereby 15.0% of our pre-profit sharing pre-tax income is paid to our teammates. No such expense was recorded in 2012 because we had a net loss.

## **Table of Contents**

### *Landing fees and other rents*

Landing fees and other rents expense increased by \$12.5 million, or 11.3%, from 2012 to 2013, primarily due to the addition of our Newark service and the related airport rent, landing fees and slot rental payments. In addition, we also experienced rent increases at some of our major existing airports while landing fee incentives received in 2012 for Philadelphia International Airport (PHL) expired in the second quarter of 2013.

### *Sales and marketing*

Sales and marketing expense remained relatively consistent from 2012 to 2013. During 2013, we received \$5.0 million in one-time credits, which consisted of a contract termination payment from a former software system provider and a contractual marketing incentive. These credits were offset by additional expenses commensurate with our revenue growth during 2013.

### *Aircraft maintenance*

Aircraft maintenance costs increased by \$2.9 million, or 5.0%, from 2012 to 2013, primarily due to an increase in the number of major airframe checks and engine repairs in 2013 as compared to 2012, as well as an increase in rates, which are correlated to aircraft age, under certain of our maintenance-cost-per-hour agreements.

### *Depreciation and amortization*

Depreciation and amortization expense increased by \$2.7 million, or 24.0%, from 2012 to 2013, primarily due to depreciation of our new software licenses and aircraft leasehold improvements.

### *Other operating expenses*

Other operating expenses increased by \$6.6 million, or 5.2%, from 2012 to 2013, primarily due to our lower utilization and an increase in our data communication costs associated with new software.

### **Other Income (Expense)**

Other income (expense) decreased by \$43.2 million, or 38.0%, from 2012 to 2013, primarily due to the \$44.8 million reduction in interest expense under our related-party long-term debt as a result of the 2013 Recapitalization, in which we reduced our related-party debt of \$687.5 million with stated interest rates ranging from 4.7% to 20% per year to related-party debt with a recorded value of \$529.8 million and effective interest rates of 0% to 10% a year.

### **Income Taxes**

The income tax provision associated with our income in 2013 was largely offset by the release of a valuation allowance against the utilization of prior-year NOLs.

**Table of Contents****Quarterly Financial Data and Operating Statistics (unaudited)**

The following table sets forth our unaudited quarterly condensed consolidated statements of operations data for each of the eight quarters ended December 31, 2014. The unaudited interim financial statements have been prepared on the same basis as the audited financial statements and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the financial information set forth in those statements. Our historical results are not necessarily indicative of the results to be expected in the future and quarterly results are not indicative of the results expected for a full year.

	March 31, 2013	June 30, 2013	September 30, 2013	Three Months Ended				December 31, 2014
				December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014	
(in thousands, except per share data, unaudited)								
<b>Consolidated Statements of Operations Data:</b>								
Operating revenues	\$ 301,332	\$ 376,074	\$ 387,345	\$ 359,927	\$ 313,390	\$ 398,845	\$ 405,534	\$ 372,198
Operating expenses (1)	316,308	348,202	342,949	336,338	326,521	351,719	353,209	362,103
Operating income (loss)	(14,976)	27,872	44,396	23,589	(13,131)	47,126	52,325	10,095
Other expense	(31,412)	(19,023)	(10,893)	(9,092)	(9,174)	(9,876)	(10,005)	(6,072)
Net income (loss) before income tax	(46,388)	8,849	33,503	14,497	(22,305)	37,250	42,320	4,023
Income tax expense				317	49	267	712	151
Net income (loss)	\$ (46,388)	\$ 8,849	\$ 33,503	\$ 14,180	\$ (22,354)	\$ 36,983	\$ 41,608	\$ 3,872
<b>Net income (loss) per share:</b>								
Basic	\$ (66.11)	\$ 4.89	\$ 18.49	\$ 7.83	\$ (31.86)	\$ 20.42	\$ 22.97	\$ 0.17
Diluted	\$ (66.11)	\$ 3.31	\$ 10.80	\$ 4.57	\$ (31.86)	\$ 11.92	\$ 13.41	\$ 0.16
<b>Shares used in per share calculation:</b>								
Basic	701,671	701,671	701,671	701,671	701,671	701,671	701,671	22,419,625
Diluted	701,671	1,565,409	1,992,446	1,992,446	701,671	1,992,446	1,992,446	23,716,305
<b>Non-GAAP Financial Data:</b>								
EBITDA (2)	\$ (11,817)	\$ 31,121	\$ 47,755	\$ 27,785	\$ (9,862)	\$ 50,610	\$ 55,989	\$ 14,164
EBITDAR (2)	47,201	82,828	93,089	73,797	36,634	96,471	101,072	61,081

(1) Fourth quarter of 2014 includes approximately \$19.6 million of salaries, wages and benefits charges resulting from the IPO.

(2) EBITDA is earnings before interest, income taxes, and depreciation and amortization. EBITDAR is earnings before interest, income taxes, depreciation and amortization and aircraft rent. EBITDA and EBITDAR are included as supplemental disclosure because we believe they are useful indicators of our operating performance. Derivations of EBITDA and EBITDAR are well recognized performance measurements in the airline industry that are frequently used by companies, investors, securities analysts and other interested parties in comparing the operating performance of companies in our industry. We also believe EBITDA is useful for evaluating performance of our senior management team. EBITDAR is useful in evaluating our operating performance compared to our competitors because its calculation isolates the effects of financing in general, the accounting effects of capital spending and acquisitions (primarily aircraft, which may be acquired directly, directly subject to acquisition debt, by capital lease or by operating lease, each of which is presented differently for accounting purposes) and income taxes, which may vary significantly between periods and for different companies for reasons unrelated to overall operating performance. However, because derivations of EBITDA and EBITDAR are not determined in accordance with GAAP, such measures are susceptible to varying calculations, and not all companies calculate the measures in the same manner. As a result, derivations of EBITDA and EBITDAR as presented may not be directly comparable to similarly titled measures presented by other companies.

These non-GAAP financial measures have limitations as an analytical tool. Some of these limitations are: they do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments; they do not reflect changes in, or cash requirements for, our working capital needs; they do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt; although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and these measures do not reflect any cash requirements for such replacements; and other companies in our industry may calculate EBITDA and EBITDAR differently than we do, limiting their usefulness as a comparative measure. Because of these limitations, EBITDA and EBITDAR should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP.



**Table of Contents**

The following table represents the reconciliation of net income (loss) to EBITDA and EBITDAR for the periods presented below:

	Three Months Ended							
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
	(in thousands, except per share data, unaudited)							
Reconciliation:								
Net income (loss)	\$ (46,388)	\$ 8,849	\$ 33,503	\$ 14,180	\$ (22,354)	\$ 36,983	\$ 41,608	\$ 3,872
Interest expense	31,520	19,108	10,946	9,719	9,915	10,509	10,801	6,294
Capitalized interest				(534)	(481)	(635)	(724)	(828)
Interest income	(108)	(85)	(53)	(93)	(260)	2	(72)	606
Income tax expense				317	49	267	712	151
Depreciation and amortization	3,159	3,249	3,359	4,196	3,269	3,484	3,664	4,069
EBITDA	(11,817)	31,121	47,755	27,785	(9,862)	50,610	55,989	14,164
Aircraft rent	59,018	51,707	45,334	46,012	46,496	45,861	45,083	46,917
EBITDAR	\$ 47,201	\$ 82,828	\$ 93,089	\$ 73,797	\$ 36,634	\$ 96,471	\$ 101,072	\$ 61,081



**Table of Contents****OPERATING STATISTICS**

	Three Months Ended							
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
<b>Operating Statistics (1)</b>								
Available seat miles-ASMs (millions)	2,695	3,253	3,243	3,052	2,777	3,202	3,217	3,044
Departures	12,582	15,130	15,577	14,926	13,825	15,137	14,816	14,654
Average stage length (statute miles)	1,511	1,510	1,457	1,426	1,406	1,482	1,522	1,451
Aircraft in service-end of period	52	53	53	53	53	53	53	53
Fleet utilization	9.8	11.5	11.2	10.6	10.0	11.3	11.1	10.7
Passengers (thousands)	1,337	1,730	1,685	1,577	1,479	1,729	1,680	1,619
Average fare	\$ 201.18	\$ 197.07	\$ 209.09	\$ 207.33	\$ 186.73	\$ 206.81	\$ 217.04	\$ 204.33
Yield per passenger mile (cents)	12.9	12.5	13.5	13.6	12.6	13.2	13.6	13.4
Revenue passenger miles-RPMs (millions)	2,082	2,723	2,612	2,397	2,199	2,719	2,685	2,472
Load factor	77.3%	83.7%	80.5%	78.5%	79.2%	84.9%	83.5%	81.2%
Passenger revenue per available seat mile-PRASM (cents)	10.0	10.5	10.9	10.7	9.9	11.2	11.3	10.9
Total revenue per available seat mile-RASM (cents)	11.2	11.6	11.9	11.8	11.3	12.5	12.6	12.2
Cost per available seat mile-CASM (cents)	11.7	10.7	10.6	11.0	11.8	11.0	11.0	11.9
CASM, excluding fuel (cents)	7.4	6.6	6.5	6.9	7.6	6.9	6.8	8.0
CASM, excluding fuel and profit sharing (cents)	7.4	6.6	6.5	6.9	7.6	6.8	6.6	7.9
Fuel cost per gallon	\$ 3.36	\$ 3.13	\$ 3.13	\$ 3.15	\$ 3.17	\$ 3.11	\$ 3.13	\$ 2.93
Fuel gallons consumed (thousands)	34,724	42,642	42,443	39,516	36,547	42,281	42,594	40,369
Teammates (FTE)	2,255	2,375	2,376	2,482	2,426	2,500	2,428	2,492

(1) See Glossary of Airlines Terms elsewhere in this prospectus for definitions of terms used in this table.

**Liquidity and Capital Resources**

As of December 31, 2014, our principal sources of liquidity were cash and cash equivalents of \$394.6 million. We also had restricted cash of \$18.8 million as of December 31, 2014. Restricted cash primarily represents cash collateral securing our letters of credit for airport facility leases. In addition, we had \$14.4 million of cash collateral posted with various third parties related to losses under our fuel hedging program. This cash collateral will be released during the first half of 2015 as we settle the underlying hedges with such counterparties.

Our primary uses of liquidity are to fund our operations, which include working capital, sales and marketing activities, general and administrative matters and capital expenditures. We retained \$214.9 million of the

---

**Table of Contents**

remaining net proceeds from the sale of 13,106,377 shares of common stock by us in our IPO, after repayment of expenses and related-party debt, to be used for general corporate purposes. In connection with the 2014 Recapitalization, the Virgin Group issued the Letter of Credit Facility, available until November 2019, on our behalf to our credit card processors in exchange for their release of \$100.0 million of credit card holdback collateral. Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations Off-Balance Sheet Arrangements for further information.

As of December 31, 2014, we had \$33.8 million of short-term debt and \$96.3 million of long-term debt, of which \$38.8 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 December 31, 2014, we paid \$94.3 million of PDPs to Airbus, \$51.2 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 \$211.9 million in 2015 and \$184.3 million in 2016. We believe that commercially available financing and our cash resources will be sufficient to satisfy these purchase commitments. For six out of the next ten aircraft deliveries, we have obtained a manufacturer back-stop debt-financing commitment, which we presently do not expect to utilize. We do not have financing commitments in place for the remaining 30 Airbus aircraft orders scheduled for delivery between 2020 and 2022. We have the right to cancel the last 30 aircraft, and as a result these are not considered firm commitments. If we ultimately exercise our cancellation rights for up to 30 aircraft, we would incur a loss of deposits and credits of up to \$26.0 million as a cancellation fee.

In addition to funding the acquisition of our future fleet, we are required to make maintenance reserve payments to our lessors for our current fleet. Qualifying payments that are expected to be recovered from lessors are recorded as aircraft maintenance deposits in our consolidated balance sheets. Maintenance reserves are paid to aircraft lessors and are held as collateral in advance of our performance of major maintenance activities. In 2013 and 2014, we made \$54.8 million and \$57.5 million, respectively, of maintenance deposit payments to our lessors, net of certain rebates. We received \$5.3 million in 2013 and \$4.9 million in 2014 of maintenance reimbursements, due to qualifying maintenance events taking place during the respective periods. In addition, as a result of the lease amendments in 2013, we are entitled to lease rebates either to base rent or maintenance deposits on a monthly basis. We received \$9.2 million in maintenance deposit rebates from our lessors in 2014, which are treated as reductions to maintenance deposits on our consolidated balance sheets when earned.

In connection with various lease amendments entered into with our aircraft lessors in 2013, we are entitled to approximately \$1.6 million of lease rebates on a monthly basis or \$19.8 million annually. Lease rebates will decline over time as aircraft leases expire. Receipt of any future lease rebates is contingent on us maintaining \$75.0 million of unrestricted cash and cash equivalents as of the last day of each month. Under the amended lease agreements, we are obligated to refund 25.0% of substantially all the monthly base rent lease rebates received through December 31, 2016 in the first quarter of 2017 or on a pro-rata basis with any debt repayment occurring prior to the first quarter of 2017. As a result of the repayment of related-party debt in connection with the 2014 Recapitalization, we accelerated \$2.5 million of lease obligation repayments. As of December 31, 2014, the aggregate amount of lease rebates earned was \$39.6 million, net of \$7.1 million recorded as a payable to the lessors.

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

**Table of Contents**

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 2012, 2013 and 2014:

	Year Ended December 31		
	2012	2013	2014
Net cash provided (used in) by operating activities	\$ (50,645)	\$ 50,603	\$ 135,605
Net cash used in investing activities	(27,184)	(41,996)	(55,160)
Net cash provided by (used in) financing activities	(5,968)	71,034	158,539
Net increase in cash and cash equivalents	(83,797)	79,641	238,984
Cash and cash equivalents, end of period	76,018	155,659	394,643

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

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

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

During 2012, net cash flow used in operating activities was \$50.6 million. We had a net loss of \$145.4 million adjusted for the following non-cash items: paid-in-kind interest expense of \$99.1 million and depreciation and amortization of \$11.3 million. During 2012, we added eight additional aircraft to our fleet, which, combined with required payments under our existing leases, resulted in increased maintenance deposits of \$33.6 million. Our air traffic liability and credit card holdbacks contributed \$15.6 million to our cash flow, primarily as a result of a reduction in the holdback percentage by one of our credit card processors, our 18.2% increase in fleet size, a 3.3% increase in average fare and, to a lesser extent, the timing of our credit card settlements.

**Table of Contents***Net Cash Flows Used In Investing Activities*

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

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

During 2012, net cash flow used in investing activities was \$27.2 million. We made pre-delivery payments of \$19.2 million in cash for future aircraft deliveries. We also invested \$8.0 million for the purchase of equipment for our new leased aircraft placed in service during the year.

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

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

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

During 2012, net cash flow used in financing activities was \$6.0 million, which represents principal repayments on our third-party debt and capital lease obligations.

**Commitments and Contractual Obligations**

The following table presents aggregate information about our contractual payment commitments as of December 31, 2014 and the periods in which payments are due (in thousands):

	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
Long-term debt including related-party (1)	\$ 141,535	\$ 33,824	\$ 17,416	\$ 90,295	\$
Aircraft and engine purchases (2)	396,149	211,899	184,250		
Aircraft and engine leases (3)	1,493,251	225,123	420,800	360,505	486,823
Maintenance deposits (4)	88,404	8,906	18,466	20,350	40,682
Other leases (5)	153,614	27,047	53,498	40,967	32,102
	\$ 2,272,953	\$ 506,799	\$ 694,430	\$ 512,117	\$ 559,607

(1) Includes accrued interest, excludes future interest of \$23.5 million to be accrued through November 2022.

(2) Represents non-cancelable contractual payment commitments for aircraft and engines.

(3) Represents future minimum lease payments under non-cancelable operating leases with initial terms in excess of one year, including renewal payments for signed lease extensions and excluding lease rebates.

(4) Represents the fixed portion of supplemental rent under lessor contracts for maintenance reserve payment commitments; excludes variable future amounts that will be based on actual flight hours.

(5) Represents future minimum lease payments under non-cancelable building, airport station and equipment leases.

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

The table above also does not include our obligation to provide a holdback of up to \$100.0 million to our credit card processors upon the expiration of the Letter of Credit Facility in 2019, if the holdback requirements have not



## **Table of Contents**

been eliminated by that time. The Virgin Group issued the Letter of Credit Facility, available until November 2019, on our behalf to our credit card processors in exchange for their release of \$100.0 million of credit card holdback collateral. Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations Off-Balance Sheet Arrangements for further information.

Certain of our aircraft operating leases and debt instruments include certain financial covenants and cross-default provisions. As of December 31, 2014, we were in compliance with all covenants under these agreements.

### **Off-Balance Sheet Arrangements**

We have significant obligations for aircraft that are classified as operating leases and therefore are not reflected in our consolidated balance sheets. As of December 31, 2014, all 53 aircraft in our fleet were subject to operating leases. These leases expire between 2016 and 2025. Aircraft rent expense related to operating leases, net of rebates earned during each of the periods, were \$236.8 million, \$202.1 million, and \$184.4 million, in 2012, 2013 and 2014, including expense of \$15.5 million, \$3.0 million, and \$3.8 million in 2012, 2013 and 2014, for supplemental rent for maintenance related reserves as required by our lessors.

Our contractual purchase commitments consist primarily of aircraft and spare engine acquisitions through manufacturers and aircraft leasing companies. Our firm aircraft order consists of ten aircraft scheduled for delivery between July 2015 and June 2016. Committed expenditures for these aircraft and related flight equipment, including estimated amounts for contractual price escalations and pre-delivery payment commitments, will be approximately \$211.9 million in 2015 and \$184.3 million in 2016.

In November 2014, in connection with the 2014 Recapitalization Agreement, the Virgin Group arranged for the \$100.0 million Letter of Credit Facility issued on our behalf to certain companies that process substantially all of our credit card transactions, which allowed these companies to release \$100.0 million of cash collateral to us. The Letter of Credit Facility contains an annual commitment fee of 5.0% of the amount available to be drawn that is payable by us to the Virgin Group, and the Letter of Credit Facility will be provided for a period of up to five years from the date of our IPO. In addition, we are also responsible for annual fees associated with the issuance and maintenance of the Letter of Credit Facility. The Letter of Credit Facility would only become an obligation of ours if one or both of our credit card processors were to draw on the Letter of Credit Facility, and it will be reduced or terminated to the extent that collateral requirements are decreased or eliminated by our credit card transaction processors. In addition, we are restricted from incurring any future secured indebtedness related to our assets that were unencumbered after the 2014 Recapitalization unless our guaranty obligations to the Virgin Group are secured on a *pari passu* basis with such secured debt. For more information, see Management's Discussion and Analysis of Financial Condition and Results of Operations 2014 Recapitalization and Note 9 to our consolidated financial statements elsewhere in this prospectus.

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

We have no other off-balance sheet arrangements.

### **Quantitative and Qualitative Disclosure 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

---

**Table of Contents**

fuel expense for the years ended December 31, 2012, 2013 and 2014 represented approximately 39.4%, 37.7% and 35.8% of our operating expenses. Increases in aircraft fuel prices or a shortage of supply could have a material adverse effect on our operations and results of operations. Based on December 2014 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, net of our hedge portfolio, by approximately \$17.8 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 December 31, 2014, we had entered into fuel derivative contracts and FFPs that fixed or established a floor on the price associated with 27% of our forecasted aircraft fuel requirements for the next twelve months at an approximate cost per gallon of \$2.51, which is in excess of current market prices. All of our then existing fuel hedge contracts are expected to settle by the end of the second quarter of 2015.

The fair value of our fuel derivative contracts as of December 31, 2014 was a net liability of \$27.1 million offset by margin call deposits of \$14.4 million, resulting in an overall net liability of \$12.7 million. As of December 31, 2013, our fuel hedge net asset was \$2.4 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 December 31, 2014, we believe the credit exposure related to these fuel forward contracts was minimal and do not expect the counterparties to fail to meet their obligations.

*Interest Rates.* We are subject to market risk associated with changing interest rates, due to LIBOR-based interest rates on an applicable portion of our aircraft pre-delivery payments loan and airport slot financing. A hypothetical 10% change in LIBOR in 2014 would have had an immaterial effect on total interest expense in 2014.

Our long-term debt consists of fixed rate notes payable. A hypothetical 10% change in market interest rates as of December 31, 2014 would have no effect on our interest expense but would reduce the fair value of our fixed-rate related-party debt instruments by \$2.3 million.

**Recent Accounting Pronouncements**

In May 2014, the FASB and IASB jointly issued a comprehensive new revenue recognition standard that will replace most existing revenue recognition standards under U.S. GAAP and IFRS. The new standard will require the Company to recognize revenue when goods or services are transferred to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. As a result, the Company will need to use more judgments and estimates to determine when and how revenue is recognized than U.S. GAAP currently requires. The new standard will become effective for the Company on January 1, 2017. The Company believes the most significant effect of this accounting standards update will be the elimination of the incremental cost method for frequent flyer accounting, which would require the Company to re-value its liability earned by customers associated with flights points with a relative fair value approach. The Company is continuing to evaluate the new guidance and plans to provide additional information about its expected financial effect at a future date.

In June 2014, the FASB issued an accounting standards update that provides guidance on accounting for share-based compensation when the terms of an award provide that a performance target could be achieved after the requisite service period. The standard provides guidance that this performance target should not be included in the estimate of the award's grant date fair value. The standard requires compensation cost to be recognized over the required service period if it is probable that the service condition will be achieved. This guidance will be effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2015 and can

**Table of Contents**

be applied either prospectively or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented as an adjustment to opening retained earnings. Early adoption is permitted. The Company does not expect this accounting standards update to have a material impact on the consolidated financial statements.

In July 2013, the FASB issued an accounting standards update that provides guidance on the financial statement presentation of unrecognized tax benefits when a net operating loss carryforward (NOL) or a tax credit carryforward exists. Under the new standard update, unrecognized tax benefits related to NOLs or tax credit carryforwards are to be presented in the financial statements as a reduction to a deferred tax asset. This accounting standard update became effective for the Company as of January 1, 2014. The adoption of the accounting standard update did not have a material impact on the Company's consolidated financial statements.

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



---

**Table of Contents**

**INDUSTRY BACKGROUND**

The airline industry in the United States has changed dramatically since 2001. The events of September 11, 2001 and the economic recession in the United States that followed resulted in significant losses for the airline industry. In addition, the cost of jet fuel increased from a low of \$0.28 per gallon in the late 1990s to a high of \$4.81 per gallon in 2008. Airlines were unable to increase the price of tickets enough to offset this increase in the cost of jet fuel. These conditions led to significant losses within the industry, bankruptcy restructurings and some airline failures. Some airlines that restructured through bankruptcy were able to reduce high labor costs, decrease debt, modify or terminate pension plans and generally reduce their cost structure. This period of restructuring also led to extensive consolidation within the industry. Since 2008, four large mergers have reshaped the domestic landscape: Delta Air Lines combined with Northwest Airlines, United Airlines combined with Continental Airlines, Southwest Airlines acquired AirTran Airways and American Airlines combined with US Airways. Together, these four airlines represented approximately 80% of the capacity and traffic within the U.S. domestic airline industry in 2014.

The industry has also demonstrated significant capacity constraint over the past several years. According to the Bureau of Transportation Statistics, or BTS, U.S. annual domestic capacity growth has been 0.3%, 1.5% and 1.7% for 2012, 2013 and 2014. In each of these years, U.S. airlines also had a cumulative passenger load factor of approximately 83%. Carriers were able to increase air fares by better matching capacity with demand. According to the BTS, the average domestic air fare has climbed from \$339.71 in the third quarter of 2010 to \$396.37 in the third quarter of 2014. Strong revenue performance from capacity discipline combined with consolidation has led to improved financial performance within the domestic airline industry.

U.S. airlines can broadly be divided into legacy airlines and low-cost carriers, or LCCs. The legacy airlines, including United Airlines, Delta Air Lines and American Airlines, have traditionally operated a hub-and-spoke system which permits travelers to fly from a given point of origin to more destinations with only one connecting flight and without switching airlines. Hub airports permit airlines to transport passengers between large numbers of destinations more efficiently than by serving each route directly. However, while hub-and-spoke systems result in low marginal costs for each additional passenger, they also result in high fixed costs. The costs incurred by legacy airlines to provide the number of gates, runways and maintenance facilities needed to support a hub-and-spoke operation are higher than those of most LCCs. Aircraft schedules at legacy airlines also tend to be inefficient to meet the requirements of connecting banks of flights in hubs, resulting in lower aircraft utilization and crew productivity. Serving a large number of markets of different sizes typically requires multiple fleet types along with the related complexities and additional costs in crew training and maintenance. Additionally, legacy airlines pay fees to contract with regional airlines that fly short-haul jets and turbo-prop aircraft into the legacy airlines hub airports from smaller cities, which tends to increase unit costs due to the higher operating expenses of aircraft operated by regional airlines.

In contrast, the LCC model focuses on operating a more simplified operation, providing point-to-point service in large and medium-sized markets without the high fixed investments required for a hub-and-spoke system. The lower cost structure of LCCs permits them to offer flights to and from many of the same markets as the major airlines at lower prices, though LCCs often serve major markets through secondary, lower-cost airports in the same region. LCCs typically fly direct, point-to-point flights, which enables improved aircraft and crew scheduling efficiency. Many LCCs provide only a single class of service, thereby avoiding the incremental cost of offering premium-class services. Finally, LCCs tend to operate fleets with very few aircraft families in order to maximize the utilization of flight crews across the fleet, to improve aircraft scheduling flexibility and to minimize inventory and aircraft maintenance costs. The major U.S.-based airlines that define themselves as LCCs include Southwest Airlines, JetBlue Airways, Spirit Airlines, Allegiant Travel Company and Frontier Airlines.

We believe that Virgin America represents a new breed of LCC. While we share many of the low cost structure characteristics of other LCCs such as point-to-point service and a single aircraft family fleet, we target

**Table of Contents**

primary airports and offer a premium travel experience across three classes of service. This business model enables us to compete effectively with other low-cost carriers, or LCCs, by generating a higher stage-length adjusted revenue per available seat mile. Conversely, while our lower density seating configuration and the cost of our premium services contribute to a higher stage-length adjusted cost per available seat mile than that of other LCCs, our underlying cost structure principally stemming from our single fleet type and point-to-point network is competitive within the industry. We believe that we can effectively compete with both legacy airlines and other LCCs in our business and leisure travel markets because of our premium product, brand recognition and competitive cost structure.

---

**Table of Contents**

**BUSINESS**

**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 were incorporated in the state of Delaware in 2004 as Best Air Holdings, Inc., and we changed our name to Virgin America Inc. in November 2005. We operate primarily from our focus cities of Los Angeles and San Francisco, with a smaller presence at Dallas Love Field (DAL), to other major business and leisure destinations in North America. We provide a distinctive offering for our passengers, whom we call guests, that is centered around our brand and our premium travel experience, while at the same time maintaining a low-cost structure through our point-to-point network and high utilization of our efficient, single fleet type, consisting of Airbus A320-Family aircraft. Our distinctive business model allows us to offer a product that is attractive to guests who historically favored legacy airlines but at a lower cost than that of legacy airlines. This business model enables us to compete effectively with other low-cost carriers, or LCCs, by generating a higher stage-length adjusted revenue per available seat mile. Conversely, while our lower density seating configuration and the cost of our premium services contribute to a higher stage-length adjusted cost per available seat mile than that of other LCCs, our underlying cost structure principally stemming from our single fleet type and point-to-point network is competitive within the industry. As of December 31, 2014, we provided service to 21 airports in the United States and Mexico with a fleet of 53 narrow-body aircraft.

Leveraging the reputation of the Virgin brand, a global brand founded by Sir Richard Branson, we target guests who value the experience associated with the Virgin brand and the high-quality product and service that we offer. Our employees, whom we call teammates, provide a personalized level of service to our guests that is a key component of our product. Other elements of our premium product available fleetwide include power outlets adjacent to every seat, inflight wireless internet access, distinctive on-board mood lighting, leather seats, high-quality food and beverage offerings and our Red<sup>®</sup> inflight entertainment system, which we believe is industry leading, featuring a nine-inch personal touch-screen interface with a variety of features available on-demand, including live television, movies, seat-to-seat text chat, games, interactive maps and music. We have won numerous awards for our product, including Best Domestic Airline in *Travel + Leisure Magazine*'s World's Best Awards and Best Domestic Airline in *Condé Nast Traveler Magazine*'s Readers' Choice Awards for the past seven consecutive years as well as Best U.S. Business/First Class Airline in *Condé Nast Traveler Magazine*'s Business Travel Poll for the past six consecutive years.

LCCs in the United States generally operate point-to-point networks with a single fleet type, a single class of service with a relatively high density seating configuration, high degree of outsourced operational services and high aircraft utilization. While we have many of these characteristics, we differentiate ourselves from other LCCs in the United States with additional attributes that business and high-end leisure travelers value. In contrast to most LCCs, we have three classes of service onboard our aircraft. In addition to our Main Cabin economy product, we offer our guests a First Class product and a premium economy class product called Main Cabin Select. We also provide a number of other amenities that are important to frequent travelers, including our Elevate<sup>®</sup> loyalty program with tiered benefits for our most loyal guests, lounge access in certain airports, including our own Virgin America Loft at Los Angeles International Airport (LAX), interline and codeshare partnerships with other airlines and a wide range of distribution channels and contractual travel discounts for over 250 major corporate customers and travel agents. While these amenities result in a higher cost per available seat mile, or CASM, than we could otherwise achieve with a more traditional LCC model, we believe that these amenities, along with our premium on-board features, enabled us to realize the highest average passenger revenue per available seat mile, or PRASM, during the twelve months ended September 30, 2014 among U.S. LCCs within most of our markets.

Our disciplined cost control is also core to our strategy, and we maintain the cost simplicity of other LCCs. We operate one of the youngest fleets among U.S. airlines, comprised entirely of fuel-efficient Airbus A320-family aircraft. Our single fleet type allows us to avoid the operational complexities and cost disadvantages of carriers with multiple and older fleet types. In addition, our long-haul, point-to-point network results in high

## **Table of Contents**

aircraft utilization and efficient scheduling of our aircraft and crews. We believe that our teammates are productive and attentive to our guests, contributing to our cost advantage while maintaining our high-quality travel experience. We also outsource many non-core functions, such as certain ground handling activities, major airframe and engine maintenance and call center functions, leading to efficient, cost-competitive services and flexibility in these areas.

Executing our strategy of providing a premium travel experience within a disciplined, competitive cost structure has led to improved financial results. For 2014, we recorded operating revenues of \$1.5 billion, operating income of \$96.4 million and net income of \$60.1 million. We increased our revenue per available seat mile, or RASM in 2014 by 4.6% compared to 2013. Furthermore, our CASM of \$11.38 cents increased by only 3.6% from 2013. In 2014, our stage-length adjusted CASM, excluding profit sharing, was competitive within the industry and below that of legacy airlines. We completed a recapitalization of a majority of our operating lease and debt obligations in May 2013, contributing to a \$17.7 million decline in aircraft rent expense and a \$35.3 million decline in interest expense for 2014 compared to 2013. As a result of our RASM increase and the reduction in rent and interest expense, our financial performance improved from a net income of \$10.1 million in 2013 to net income of \$60.1 million in 2014.

Our business model relies on attracting guests who value the premium product that we provide. Because we provide a high level of amenities to our guests, it generally requires a longer period of time for us to reach profitability in each new market that we enter than it might require for a traditional LCC that does not provide this higher level of service. However, we believe that in the long term, our business model enables us to have financially successful routes as evidenced by our PRASM premium over other LCCs in our markets and in part by our recent history of operating profitability in 2013 and 2014 after two years of rapid growth into new markets in 2011 and 2012.

### **The Virgin America Business Model**

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

### **Our Product**

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

All of our guests have access to our Red<sup>®</sup> inflight entertainment system. The Red system allows each guest to customize his or her inflight experience through a host of entertainment options, including 17 channels of free live television and six pre-recorded channels, on-demand current movies and premium television programs, a free music library with approximately 3,000 MP-3 files from which each guest can create customized playlists, interactive video games and moving map technology that allows guests to track their flights progress. A key component of the Red system is our on-demand food and beverage ordering system. Guests can order and pay for high-quality food or beverage items for themselves or for other guests during the flight through the Red system,

**Table of Contents**

and our inflight teammates promptly deliver the order. The Red system also features a seat-to-seat chat function which allows guests to message passengers in other seats or send a drink or menu item to another guest. These features provide a distinctive experience for guests to interact during their flight.

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

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

*First Class:*

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

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

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

Complimentary gourmet meals and alcoholic and non-alcoholic beverages with linen table service;

Individual Red inflight entertainment system;

Unlimited complimentary on-demand movies and premium television programs;

Complimentary live television;

Two free checked bags; and

Priority boarding and priority security access.

*Main Cabin Select:*

38 inches of pitch, providing generous leg room;

Individual Red inflight entertainment system at every seatback;

Complimentary on-demand movies and premium television programs on our Red inflight entertainment system;

## Edgar Filing: Virgin America Inc. - Form S-1

Complimentary live television;

Complimentary Main Cabin meals, snacks and alcoholic and non-alcoholic beverages;

One free checked bag; and

Priority boarding and priority security access.

*Main Cabin:*

32 or 33 inches of pitch one of the most spacious economy configurations in the U.S. domestic market;

Individual Red inflight entertainment system at every seatback;

Complimentary live television;

Power outlets adjacent to every seat;

**Table of Contents**

On-demand movies and premium television programs available for purchase;

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

Complimentary non-alcoholic beverages; and

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

**Our Cost Structure**

We employ disciplined strategies to maintain a competitive cost structure. Our CASM was 11.38 cents in 2014. On a stage-length adjusted basis, our CASM was competitive within the industry and below that of legacy airlines. Key components of our low cost structure include the following:

Operating a modern, fuel-efficient single-aircraft fleet type of Airbus A320-family aircraft, with an average age of 5.8 years as of December 31, 2014, resulting in lower maintenance costs and common flight crew training across the entire fleet;

High aircraft utilization, which averaged 10.8 hours per aircraft day during 2014;

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

Our productive and engaged workforce;

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

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

The productivity of our workforce contributes significantly to our competitive cost structure. Our long-haul network provides a naturally efficient environment for crew scheduling, and we believe that our teammates are highly productive as a result. In 2014, our pilots flew an average of 59 block hours per month. Over the same period, our inflight teammates flew an average of 60 block hours per month. We believe that this high degree of productivity benefits our flight crews by reducing unproductive time.

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

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

## Edgar Filing: Virgin America Inc. - Form S-1

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

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

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

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



---

## **Table of Contents**

### **Our Competitive Strengths**

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

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

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

**Low-Cost, Disciplined Operating Structure.** A core component of our business model is our disciplined cost structure. Key components of this low cost structure include our modern, fuel-efficient single-aircraft fleet, our high aircraft utilization, our point-to-point operations, our productive and engaged workforce, our outsourcing of non-core activities and our lean, scalable overhead structure. We are committed to maintaining this disciplined cost structure and believe we will continue to improve our competitive cost position in future years as we grow and further leverage our existing infrastructure. In 2014, the average stage-length adjusted domestic CASM of legacy airlines was 25% higher, and the average stage-length adjusted domestic CASM of LCCs was only 13% lower, than our stage-length adjusted CASM. We believe our lower seating density and three-class cabin configuration, which is a similar configuration to that of many legacy airlines, is the primary reason that our stage-length adjusted CASM was higher than that of other LCCs in 2014. However, our seating configuration with three classes of service was also a primary contributor to our higher stage-length adjusted PRASM for the twelve months ended September 30, 2014 when compared to other LCCs. For example, Spirit Airlines configures an Airbus A320 aircraft with 178 seats in a single class of service compared to our seating density of 146 seats for the same aircraft. We believe that Spirit Airlines's 19% higher seating density per aircraft contributed to a lower stage-length adjusted PRASM and lower stage-length adjusted CASM for the twelve months ended September 30, 2014 when compared to ours.

**Established Presence in Los Angeles and San Francisco.** We have built our network around the Los Angeles and San Francisco metropolitan areas, the second- and third-largest domestic air travel markets in the United States in 2013. We believe that these two markets, with a combined population of approximately 27 million people and strong economic bases in the technology, media and entertainment industries, serve as an excellent platform for long-term growth. Los Angeles and San Francisco both have large populations of technologically savvy, entrepreneurial and innovative individuals who we believe value our brand and premium

## **Table of Contents**

guest experience. We have made significant investments in these key markets since 2010, and as of December 31, 2014, we provide service to 18 destinations from Los Angeles and 20 destinations from San Francisco. These destinations include seven of the top ten domestic destinations served from LAX and nine of the top ten domestic destinations served from San Francisco International Airport (SFO), based on passenger volume. This investment provides greater network coverage across North America for travelers from these two focus markets, and we expect that this investment will allow us to continue to grow by leveraging the loyal guest base that we have established in each market.

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

## **Our Growth Strategy**

Our goal is to generate above-average RASM in each market we serve by providing the leading domestic air travel product through our brand and our premium guest experience, while at the same time maintaining our competitive cost structure through the efficient operations we have established. Key elements of our growth strategy include:

***Expand Our Route Network.*** We currently serve only 14 of the 50 largest metropolitan areas in the United States and three leisure destinations in Mexico. We believe there are significant opportunities to expand our service from our focus cities of Los Angeles and San Francisco to other large markets throughout the United States, Canada and Mexico. We have firm commitments to take delivery of ten Airbus A320-family aircraft from July 2015 through June 2016, and we expect to continue to grow at a measured, disciplined pace beyond 2016. While we expect most of our expansion in the next several years will focus on the opportunities we have at Los Angeles and San Francisco, we are also growing our presence in Dallas, Texas. Through the use of recently acquired slots at New York LaGuardia Airport (LGA) and Ronald Reagan Washington National Airport (DCA), we added service at DAL to these markets in October 2014. We also moved our service between Dallas and LAX and Dallas and SFO from Dallas/Fort Worth International Airport (DFW) to DAL. DAL is located in a growing, affluent section of the Dallas/Fort Worth metropolitan area and is the closest airport to downtown Dallas. In addition, the airline facilities at DAL are limited by federal law to only 20 gates, providing a structural barrier to entry. We believe our new service at DAL will further diversify our route network and allow us to provide service to LGA and DCA. In addition, we intend to expand our codeshare and interline relationships with other airlines that are complementary to our network, expanding travel destination options for our guests while adding new sources of revenue and more guests.

***Maintain Competitive Unit Operating Costs.*** We are highly focused on maintaining competitive unit operating costs. We expect to realize economies of scale as we continue to grow by leveraging our distribution, marketing and technology costs across our platform and by better utilizing our facilities and ground assets across a larger network. Our fleet is 100% financed by operating leases, of which 26 leases will expire between 2015 and 2022. As our leases expire, we expect to have the opportunity to lower our costs by renewing at lower lease rates or by opportunistically replacing these aircraft with new Airbus A320-family aircraft with lower operating costs sourced in the open market. In addition, we expect our cost structure will continue to benefit from our highly productive and flexible workforce as we grow our fleet and network.

**Table of Contents**

***Continue to Grow Our Base of Frequent Travelers.*** We intend to continue to grow our share of business travelers, a focus that is uncommon among U.S. LCCs, because we believe this population of airline travelers allows us to achieve increased RASM. We target the business community by providing a premium travel service between our focus cities and many of the most important business destinations in North America, as well as key leisure destinations that we believe are important to business travelers when flying for leisure travel. We have already attracted a significant base of frequent business and premium leisure travelers who regularly fly with us and who we believe prefer our premium product attributes. We believe that these types of guests also value a larger route network and frequent flights within markets. As we grow our network from California and expand our interline and codeshare partnerships, we believe we will be well positioned to attract additional business and high-end leisure travelers. We consider guests who book within 14 days of departure as business travelers. Using this as a measure, we believe that approximately 29% of our guests in 2014 were business travelers, representing approximately 39% of our revenue from ticket sales in 2014.

***Continue to Enhance Our Product and Guest Experience.*** We believe our guest experience is unique in the industry and revolves around our teammates' focus on guest service, extensive entertainment options, compelling passenger comfort features and an association with our brand that would be difficult to replicate. We nevertheless are continually developing new enhancements to our product. For example, in early 2014, we further expanded our First Class food service on select flights to include enhanced gourmet food offerings and linen service. In the second quarter of 2014, we launched a redesigned version of the Virgin America website, enhancing the ease of use and functionality as well as providing a more customized experience for our guests. In 2015, we plan to upgrade the monitors within our inflight entertainment system to include a swipe touch capability, similar to that found on many modern personal electronic devices. This upgrade will include a redesign of the software behind our Red inflight entertainment system, allowing for future software features to what we believe is already an industry-leading system. Additionally, we continually analyze new technologies for longer-term enhancements to our fleet, inflight product and airport experience.

## **Table of Contents**

### **Route Network**

We served 21 airports throughout North America as of December 31, 2014. The majority of our routes operate to and from our focus cities of Los Angeles and San Francisco, with a smaller presence located at DAL. Our current network is a mix of long-haul, transcontinental service combined with short-haul West coast service and select Mexico leisure destinations. Below is a route map of our network.

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

Our future network plans include growing from our focus cities of Los Angeles and San Francisco to other major markets in North America. By continuing to add destinations in select markets from Los Angeles and San Francisco, we can leverage our existing base of loyal guests and grow our share of revenue within these focus cities while also expanding our customer base as we gain new guests in new markets. In 2014, we added service from DAL to LGA and DCA, and we intend to initiate service between DAL and AUS in April 2015. We believe this DAL opportunity increased the diversity of our route network and will provide growth into strategic airports that are limited by regulation.

### **Commercial Partnerships**

We have codeshare and interline agreements with a number of other high-quality airlines to support our revenue strategy. Our codeshare relationships provide for cross-selling of seamless connecting itineraries from our partners' international and domestic flights onto our network and, in some instances, also provide for frequent-flyer reciprocity whereby guests can earn and use reward travel on both airlines. Los Angeles and San

## **Table of Contents**

Francisco are gateways to the U.S. mainland from Asian and trans-Pacific destinations, as well as Hawaii, and our domestic network from these cities provides a natural extension for our codeshare partners.

We currently have codeshare agreements with China Airlines, China Eastern Airlines, Hawaiian Airlines, Singapore Airlines and Virgin Australia, and we plan to add additional codeshare partners in the future, focusing on Asia/Pacific partnership opportunities. We also have interline agreements with 28 additional airlines. Interline agreements allow guests to create itineraries connecting from one airline to another but are more limited in scope than codeshare agreements. Our commercial partnerships contribute to our RASM growth by adding incremental international and domestic guests and revenue and by providing international network opportunities to our existing guests.

### **Ancillary Revenue**

While some of our product features are included in our base pricing, we have unbundled certain ancillary features that our guests separately value. Major ancillary revenue products include checked baggage fees, ticket change fees and our Express product providing reserved seating near the front of the Main Cabin, priority boarding and security access. Guests also pay a reservation fee if they choose to make their reservation through our call center. Additionally, we market certain products from our partners such as travel insurance on our website and recognize revenue in connection with our co-branded credit card program. We also promote and sell products in flight to enhance the guest experience, including meals, snacks, alcoholic and premium non-alcoholic beverages, on-demand current-run movies and premium television programs, headphones and sleep kits. In 2014, other revenue, of which the majority represents the ancillary revenue items noted above, represented 10.8% of our total revenue.

### **Guest Loyalty Program**

We maintain an extensive guest loyalty program called the Elevate<sup>®</sup> frequent flyer program. Our guests earn points for purchasing travel that are redeemable for travel rewards throughout our network and the networks of our partners. We were the first U.S. airline to adopt a loyalty program based on the value of ticket purchases. The number of points that guests earn is tied directly to the purchase price of the ticket; likewise, guests may redeem Elevate points for any fare within our inventory, without any blackout dates, because our rewards pricing is variable. In 2012, we enhanced the Elevate program by adding tiered status benefits for our most frequent guests. In 2012, we enhanced the Elevate program by adding tiered status benefits for our most frequent guests. Elevate members with Gold or Silver status enjoy earning bonus Elevate points on purchases, advance access to purchase upgrade options, complimentary upgrades to Main Cabin Select on a space-available basis, free checked bags and priority check-in boarding and security access. At the end of 2014, we had approximately 3.5 million Elevate members, which represented a 16.2% increase over the end of 2013.

We maintain partnerships with other companies through our Elevate program. Companies purchase Elevate points from us to reward their own customers. We benefit from the direct sale of Elevate points as well as additional loyalty from guests that earn points through these other channels. Our most significant third-party Elevate relationship is our co-branded consumer credit card issued by Alliance Data Services, or ADS, which replaced our prior co-branded card program in early 2014. The new program provides enhanced features to our Elevate members such as point accumulation, free first checked bag and waived change fees, and various discounts for companion travel and inflight purchases. ADS provides annual guarantees of Elevate points activity significantly greater than our past activity. As a result, we expect this new relationship to result in significant growth in our Elevate program and an increase in revenue for Elevate points sold through this relationship.

### **Marketing and Distribution**

We are focused on direct-to-consumer marketing targeted at our core business and leisure guests. Our principal marketing messages are our association with the Virgin brand, our premium travel experience, popular destinations within our network, our innovative product offerings and competitive fares. Consistent with our

## **Table of Contents**

business model and our brand, we use edgy and fun marketing messages to engage our key demographic. We are early adopters of technology including social networks, generating significant engagement from our advocates on Facebook, Twitter and other social media channels. We consider these channels important for generating awareness around our product and brand as well as creating a positive connection and communication channel with our guests, teammates and other advocates.

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

We sell our product through three primary distribution channels: our website, our outsourced call center and third parties such as travel agents who access us through global distribution systems, or GDS, (e.g., Amadeus, Sabre and Travelport), and select online travel agents, or OTAs (e.g., Orbitz and Travelocity). We use our website as the primary platform for ticket sales, and approximately 60% of our total tickets sold in 2014 were through direct internet bookings using our website. We implemented a redesigned website in June 2014 to increase functionality and ease of use for our guests.

We also have a dedicated sales team that focuses on corporate and travel agent accounts. We have contractual relationships with over 250 major corporate customers and travel agents. We focus on this segment because corporate accounts and agencies booking through a global distribution system generated average fares 36% higher than those generated through other channels in 2014.

## **Teammates**

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

In addition to evaluating functional skills, we extensively screen recruits to better ensure a strong cultural fit and ability to represent our brand. We also reinforce our culture through our initial corporate orientation program as well as during events and training programs at our headquarters designed to share our strategy with our teammates and keep them engaged and immersed in our culture.

We believe that open and frequent communication with our teammates fosters our culture. To that end, our leadership team actively engages with our teammates through regular onsite visits throughout our operations and through routine written communications. We also collaborate with volunteer teammate committees selected by certain of our major work groups, which provides a forum for teammates to provide feedback to us and to collaborate in developing solutions in a timely manner. We also plan social events for our teammates that celebrate our brand and promote interaction throughout our company. These events include special celebrations around the anniversary date of the commencement of operations, holiday parties and involvement in community events.

We have implemented our own internal social networking and corporate intranet site. Known as VXConnect, our site provides a forum for our teammates to communicate with each other and with our leadership team. Teammates can also post photos, begin discussion threads on topics of interest and post messages directly to each other, features similar to those on other current popular social media websites. We also provide regularly updated content on VXConnect to keep our teammates informed of company news, events and major corporate accomplishments.

At December 31, 2014, our active teammates consisted of 595 pilots, 825 inflight teammates (whom other airlines refer to as flight attendants), 632 guest services teammates, 120 maintenance technicians and 568 management and other personnel. We have a direct working relationship with all of our teammates, other than our inflight teammates, who voted for representation by the Transport Workers Union on August 13, 2014.

## **Table of Contents**

### **Competition**

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

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

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

### **Operational Performance**

Operational reliability is paramount to success in the airline industry. We strive to achieve high levels of operational performance through careful planning of our flight schedules, an extensive maintenance reliability program and the use of an operating spare aircraft and spare engines. For both 2014 and 2013, we were the top-ranked airline in the Airline Quality Rating, an annual analysis of airline performance conducted by Wichita State University and Embry-Riddle. The U.S. Department of Transportation, or DOT, publishes statistics regarding measures of customer satisfaction for domestic airlines and can assess civil penalties for failure to comply with certain customer service obligations. Our domestic performance under customer service measures for the years ended December 31, 2014 and 2013 was as follows:

	2014	2013
On-Time Performance (1)	81.5%	82.1%
Completion Factor (2)	99.4%	99.5%
Mishandled Baggage (3)	0.95	0.97

- (1) Percentage of our scheduled flights that were operated by us that were on-time (within 15 minutes).
- (2) Percentage of our scheduled flights that were operated by us, whether or not delayed (i.e., not cancelled), derived from DOT cancellation statistics.
- (3) Our incidence of delayed, mishandled or lost baggage per 1,000 passengers.

### **Fleet**

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

**Table of Contents**

We have a fleet of 53 Airbus single-aisle aircraft, consisting of ten Airbus A319s and 43 Airbus A320s. The average age of the fleet was 5.8 years at December 31, 2014. Our Airbus A319 aircraft accommodate 119 guests, and our Airbus A320 aircraft accommodate 146-149 guests. All of our existing aircraft are financed under operating leases.

We plan to grow our fleet with additional Airbus A320-family aircraft, and we currently have an order with Airbus for ten Airbus A320 aircraft to be delivered between July 2015 and June 2016 and 30 Airbus A320 new engine option, or A320neo, aircraft to be delivered between 2020 and 2022. We have an option to cancel our Airbus A320neo positions up to two years in advance of delivery in groups of five aircraft, but we could incur a loss of pre-delivery payments and credits as a cancellation fee. We may elect to supplement these deliveries by additional acquisitions from Airbus or in the open market if demand conditions merit. Twenty-six of our existing operating leases will expire between 2016 and 2022, and we believe there will be an opportunity to extend these leases at a reduced lease rate or to replace them with new or used Airbus A320-family aircraft. Although we expect to grow our fleet as we increase our flights on our existing route network and expand our route network to new markets, we are only committed to grow to 63 aircraft. As a result, our fleet plan provides significant flexibility.

Our Airbus A320 aircraft deliveries in 2015 and 2016 will be equipped with sharklets, a new wingtip device that we believe will create up to 3.0% additional fuel efficiency in our network. In addition to lowering our average fuel cost per flight, the sharklets provide increased range. This will reduce technical stops on our transcontinental flights that occasionally occur during specific weather patterns as well as allow for the possibility of operations to the state of Hawaii. Operating to Hawaii will require additional Federal Aviation Authority, or FAA, certification for extended twin-engine over-water operations, and we are currently evaluating these markets and the additional operational requirements.

**Aircraft Fuel**

Aircraft fuel is our largest expense representing 35.8% of our total operating costs in 2014. The price and availability of jet fuel are volatile due to global economic and geopolitical factors as well as domestic and local supply factors. We use a third-party fuel management vendor to procure most of our fuel. Our historical fuel consumption and costs were as follows:

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

	Year Ended December 31,		
	2014	2013	2012
Gallons consumed (millions)	162	159	161
Total cost (millions)	\$ 499	\$ 507	\$ 538
Average price per gallon	\$ 3.08	\$ 3.18	\$ 3.32
Percent of operating expenses	35.8%	37.7%	39.4%

We maintain an active fuel hedging program to reduce our exposure to 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 fixed forward price contracts, or FFPs, which allow us to lock in the price of jet fuel for specified quantities and at specified locations in future periods. At December 31, 2014, we had entered into derivative hedging instruments and FFPs for approximately 27% of our then expected 12 month fuel volume.

**Maintenance and Repairs**

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



---

## **Table of Contents**

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

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

### **Facilities**

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

We primarily operate out of recently renovated Terminal Two at SFO under an operating lease extending through June 2021, with occasional use of a gate in the international terminal for incoming flights from Mexico. We have preferential access to eight Terminal Two gates, common use access to one Terminal Two gate and common use access to all 28 international terminal gates. Currently, the FAA has not imposed or proposed to impose take-off and landing restrictions at SFO, and we believe that the facility is capable of handling our planned growth of operations. We cannot assure you that the FAA would not impose take-off and landing restrictions at SFO in the future. Additionally, under our SFO lease, SFO periodically reevaluates the airlines' collective utilization of the airport facilities and re-allocates preferential gates among the airlines based on certain usage standards. If we are unable to meet future minimum usage standards, we cannot assure you that we will continue to have preferential access to eight Terminal Two gates.

Our second largest operation is at LAX, where we operate out of Terminal Three under an airport lease agreement that provides us with the preferential use of six airport gates and access to additional common-use gates as necessary. Our lease agreement extends through 2019, subject to our completion of certain leasehold

---

## **Table of Contents**

improvement projects, including the addition of a new seventh gate with a jet-boarding bridge, the renovation of certain gate areas and ticket counters and the completion of infrastructure improvements such as a new HVAC system. Under our lease agreement, the airport authority reimburses us for these renovations as they are completed. While space is limited at LAX, we believe that our leased gates are capable of handling our expected growth in operations and that the planned facility improvements will enhance our airport guest experience. Under our LAX lease, LAX has reserved the right to reevaluate the airlines' collective utilization of the airport facilities and to impose minimum usage standards on the airlines in order for each airline to maintain preferential gates. If we are unable to meet future minimum usage standards, we cannot assure you that we will continue to have preferential use of six airport gates at LAX. In addition to our ticket counters and gate areas, we also lease and operate a premium guest lounge in Terminal Three known as the Virgin America Loft. We provide complimentary access to the Virgin America Loft to our First Class guests and generally charge a one-time fee for other guests.

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

### **Insurance**

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

### **Foreign Ownership**

Under DOT regulations and federal law, we must be controlled by U.S. citizens. In order to qualify, no more than 24.9% of our voting stock may be voted, directly or indirectly, by persons who are non-U.S. citizens, no more than 49.9% of our outstanding stock may be owned (beneficially or of record) by persons who are not U.S. citizens and our president and at least two-thirds of the members of our board of directors and senior management must be U.S. citizens. We are currently in compliance with these ownership provisions. For a discussion of the procedures we instituted to ensure compliance with these foreign ownership rules, see "Description of Capital Stock - Anti-Takeover Provisions of Our Certificate of Incorporation and Bylaws - Limitations on Foreign Owners" elsewhere in this prospectus.

### **Government Regulation**

#### ***Aviation Regulation***

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

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

---

## **Table of Contents**

The FAA is responsible for regulating and overseeing matters relating to the safety of air carrier flight operations, including the control of navigable air space, the qualification of flight personnel, flight training practices, compliance with FAA airline operating certificate requirements, aircraft certification and maintenance and other matters affecting air safety. The FAA requires each commercial airline to obtain and hold an FAA air carrier certificate. In January 2014, the FAA implemented a rule to amend flight, duty and rest regulations pertaining to pilots. The new rule may reduce our staffing flexibility, and we increased our level of reserve pilots to meet the operational requirements of these rules.

### ***Airport Access***

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

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

### ***Consumer Protection Regulation***

The DOT also has jurisdiction over certain economic issues affecting air transportation and consumer protection matters, including unfair or deceptive practices and unfair methods of competition by air carriers, airline advertising, denied boarding compensation, ticket refunds, baggage liability and disabled passenger transportation. The DOT frequently adopts new consumer protection regulations, such as recent rules to protect passengers addressing tarmac delays and chronically delayed flights, and is reviewing new guidelines to address the disclosure and sale of ancillary services and related fees. The DOT also has authority to review certain joint venture agreements between major carriers and engages in regulation of economic matters such as slot transactions.

### ***Security Regulation***

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

### ***Environmental Regulation***

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

*Emissions.* The U.S. Environmental Protection Agency, or EPA, is authorized to regulate aircraft emissions, including air carrier operations, which affect the quality of air in the United States. We believe the aircraft in our fleet meet the emission standards issued by the EPA. Concern about climate change and greenhouse gases may result in additional regulation or taxation of aircraft emissions in the United States and abroad. Cap and trade restrictions have also been proposed in the United States. In addition, other legislative or regulatory action,

## **Table of Contents**

including by the EPA, to regulate greenhouse gas emissions is possible. In particular, the EPA has found that greenhouse gases threaten the public health and welfare, which could result in regulation of greenhouse gas emissions from aircraft. In the event that legislation or regulation is enacted in the United States or in the event similar legislation or regulation is enacted in jurisdictions where we operate or where we may operate in the future, it could result in significant costs for us and the airline industry. In addition to direct costs, such regulation may have a greater effect on the airline industry through increases in fuel costs that could result from fuel suppliers passing on increased costs that they incur under such a system. We seek to minimize the impact of greenhouse gas emissions from our operations by operating with newer, more fuel-efficient aircraft. In addition, we have implemented fuel saving procedures in our flight and ground support operations as part of our efforts to reduce our emissions and minimize our impact on the environment.

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

### ***Other Regulations***

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

### ***Future Regulations***

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

### **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.

**Table of Contents****MANAGEMENT**

The following table provides information regarding our executive officers and directors as of December 31, 2014:

<b>Name</b>	<b>Age</b>	<b>Position(s)</b>
<b>Executive Officers</b>		
C. David Cush	54	President, Chief Executive Officer and Director
E. Frances Fiorillo	62	Senior Vice President, People and In-flight Services
Stephen A. Forte	58	Chief Operating Officer
Peter D. Hunt	45	Senior Vice President, Chief Financial Officer
John A. MacLeod	55	Senior Vice President, Planning and Sales
John J. Varley	58	Senior Vice President, General Counsel and Corporate Secretary
<b>Non-Employee Directors</b>		
Donald J. Carty (2)(3)	68	Director and Chairman of the Board
Samuel K. Skinner (1)(3)	76	Director and Vice Chairman of the Board
Cyrus F. Freidheim, Jr. (2)	79	Director
Stephen C. Freidheim (3)	50	Director
Evan M. Lovell (4)	45	Director
Robert A. Nickell (1)(2)(4)	68	Director
John R. Rapaport (4)	33	Director
Stacy J. Smith (1)	52	Director

- (1) Member of the compensation committee.
- (2) Member of the audit committee.
- (3) Member of the nominating and corporate governance committee.
- (4) Member of the finance committee.

**Executive Officers**

**C. David Cush** has served as our President, our Chief Executive Officer and a member of our board of directors, since December 2007. From 2004 to 2007, Mr. Cush served as Senior Vice President of Global Sales at American Airlines, where he was responsible for worldwide sales activity. Prior to that role, Mr. Cush also served in various leadership roles in operations, planning, global alliances, financial planning and international marketing and operations at American Airlines. In addition to his 20 years of experience with American Airlines, Mr. Cush previously served as Chief Operating Officer of Aerolineas Argentinas, the national carrier of Argentina from 1998 to 2000. As our President and Chief Executive Officer for over seven years, Mr. Cush brings expertise and knowledge regarding our business and operations to our board of directors. He also brings to our board of directors leadership skills, strategic guidance and operational visions for his prior experience in our industry.

**E. Frances Fiorillo** has served as our Senior Vice President, People and In-flight Services, since January 2005. Prior to joining us, Ms. Fiorillo held various executive-level leadership roles with Canadian Airlines and with Air Canada's 2002 low-fare start up, ZIP. In these positions, Ms. Fiorillo had senior-level responsibility in areas of inflight service, human resources, labor and employee relations, wellness, learning and development. Immediately prior to joining Virgin America, Ms. Fiorillo served as the Chief Human Resources Officer for the British Columbia Provincial Health Services Authority.

**Stephen A. Forte** has served as our Chief Operating Officer and Director of Operations since April 2013. From 2012 to 2013, Mr. Forte was Chief Executive Officer of iJet Onboard, a provider of platform-based aviation software services. From 2007 to 2012, Mr. Forte was Chief Executive Officer of Naverus, Inc., a provider of performance-based navigation software, which was acquired by GE Aviation in 2009. Prior to 2007, Mr. Forte held senior management roles in flight operations at United Airlines, including Senior Vice President of Flight Operations and Director of Operations from 1999 to 2006.

## **Table of Contents**

**Peter D. Hunt** has served as our Senior Vice President, Chief Financial Officer, since July 2011. From 2004 to 2011, Mr. Hunt served as Vice President and Chief Financial Officer of Pinnacle Airlines Corp., which filed for chapter 11 bankruptcy protection in April 2012. From 1996 to 2004, Mr. Hunt served in several finance positions with Continental Airlines, including Managing Director of Corporate Finance. Mr. Hunt began his career in public accounting.

**John A. MacLeod** has served as our Senior Vice President, Planning and Sales, since August 2012. From 2010 to 2012, Mr. MacLeod served as Vice President of Network Management and Alliances at WestJet, where he was responsible for corporate development, network planning, revenue management and alliances. From 2003 to 2010, Mr. MacLeod held positions at Alaska Air Group, where he was responsible for revenue management, network planning and alliances. Prior to his work with Alaska Air Group, Mr. MacLeod served in several management positions related to network planning, marketing, reservations and alliances at Air New Zealand Group and Canadian Airlines International.

**John J. Varley** has served as our Senior Vice President, General Counsel and Corporate Secretary, since July 2010. From 1986 to 2008, Mr. Varley served as internal counsel at Delta Air Lines, serving as Vice President, Associate General Counsel and Vice President and Deputy General Counsel from 2004 to 2008.

## **Non-Employee Directors**

**Donald J. Carty** has served as our Chairman of the Board since 2006. Mr. Carty is currently a private investor. Mr. Carty served as Vice Chairman and Chief Financial Officer of Dell from 2007 until 2008. Mr. Carty previously served as Chairman and Chief Executive Officer, and held a variety of other executive positions, for AMR Corporation and American Airlines. Mr. Carty also previously served as President and Chief Executive Officer of Canadian Pacific Air Lines, known in Canada as CP Air. Mr. Carty is a director of Talisman Energy Inc. and Canadian National Railway Company. Mr. Carty has been a member of the board of directors of EMC Corporation, a provider of IT storage hardware, since January 2015 and was a member of the boards of directors of Hawaiian Holdings Inc., the sole owner of Hawaiian Airlines, Inc., from July 2004 until February 2007 and again from April 2008 until May 2011, Barrick Gold Corporation, a gold mining company, from February 2006 until December 2013, Dell Inc., a computer technology company, from December 1992 until November 2013 and Gluskin Sheff and Associates, a wealth management firm, from June 2006 until December 2006 and again from April 2008 until May 2011. Mr. Carty brings to our board of directors significant expertise in the airline industry from previous executive leadership positions. In addition, Mr. Carty's experience as a director of public companies provides the board of directors with valuable insights to assist in achieving our goals.

**Samuel K. Skinner** has served as our Vice-Chairman of the Board since 2007. Mr. Skinner is of counsel to the law firm Greenberg Traurig, LLP, where he has worked since 2004, concentrating on corporate, governmental and regulatory matters. From 2000 to 2003, Mr. Skinner served as Chairman, President and Chief Executive Officer of USF Corporation, a North American shipping company. Mr. Skinner also previously served as President of Commonwealth Edison Company, a utility company, and its holding company, Unicom Corporation (Exelon Corporation). Mr. Skinner previously served as White House Chief of Staff to President George H.W. Bush and served as U.S. Secretary of Transportation from February 1989 to December 1991. Mr. Skinner previously was U.S. Attorney for the Northern District of Illinois from 1975 to 1977, having served in that office for eight years. Mr. Skinner also serves on the boards of directors of CBOE Holdings, Inc., the holding company for the Chicago Board Options Exchange, Navigant Consulting, Inc., a management consulting company, and Echo Global Logistics, Inc., a provider of technology-enabled transportation and supply chain management services. He has previously served on the boards of Diamond Management and Technology Consultants, a management consulting company, Dade Behring, a manufacturer of medical diagnostics equipment, APAC Customer Services, Inc., a customer care outsourcing company, Midwest Air Group, the owner of Midwest Airlines, Inc., Express Scripts, Inc., a pharmacy benefit management organization, and MedAssets, Inc., a healthcare performance improvement company. Mr. Skinner's experience as a director of public companies and working in government positions provides the board of directors with valuable insights to assist in achieving our goals.

---

**Table of Contents**

**Cyrus F. Freidheim, Jr.** has served as a member of our board of directors since 2006. Mr. Freidheim has been a private investor since 2009. From 2006 to 2009, Mr. Freidheim served as the Chief Executive Officer and President of Sun-Times Media Group Inc., a parent company of Sun-Times News Group (formerly Hollinger International Inc.), which filed for chapter 11 bankruptcy protection in March 2009. Previously, Mr. Freidheim served as Chief Executive Officer and President of Chiquita Brands International Inc., a produce company. Mr. Freidheim also previously held various leadership roles with Booz Allen & Hamilton Inc., a management consulting firm, including Vice Chairman and President of BoozAllen International. Mr. Freidheim brings to our board of directors significant expertise in executive leadership positions and knowledge of our company. Mr. Freidheim is the father of Stephen C. Freidheim, another member of our board of directors.

**Stephen C. Freidheim** has served as a member of our board of directors since 2006. Mr. Freidheim has served as the Managing Partner and Chief Investment Officer of Cyrus Capital Partners, L.P., a registered investment advisor to private investment funds, since 2005. From 1999 to 2004, Mr. Freidheim was the Senior Managing Member, Chief Investment Officer and Co-Founder of Och-Ziff Freidheim Capital Management, the predecessor of Cyrus Capital Partners. Previously, Mr. Freidheim held leadership roles at Bankers Trust Company, a banking organization, Nomura Securities International, a financial services company, and Kidder, Peabody & Co. Incorporated, a securities firm. Mr. Freidheim brings financial expertise, knowledge of our company and general business experience to our board of directors. Mr. Freidheim is the son of Cyrus F. Freidheim, Jr., a member of our board of directors.

**Evan M. Lovell** has served as a member of our board of directors since April 2013. Since 2012, Mr. Lovell has been a partner in the Virgin Group and has been responsible for managing the Virgin Group's portfolio and investments in North America. From 2008 to 2012, Mr. Lovell was the Founding Partner of Virgin Green Fund, a private equity fund investing in the energy and resource sector. From 1998 to 2008, Mr. Lovell served as an investment professional at TPG Capital, where he also served on the board of directors of a number of TPG portfolio companies. Prior to joining TPG, Mr. Lovell served as Director of International Development for Culligan International Inc., a water filtration company, when it was owned by Apollo Global Management, and was Assistant to the Chairman for International Development at Astrum International, the holding company for Samsonite and American Tourister Luggage, Botany 500 Menswear, Culligan, Anvil Knitwear and Pet Specialties. Mr. Lovell brings financial expertise, knowledge of our company and the Virgin brand and general business experience to our board of directors.

**Robert A. Nickell** has served as a member of our board of directors since 2010. Mr. Nickell has been a private investor since 1995. Prior to his retirement in 1995, Mr. Nickell served as the President, Chief Executive Officer and Chairman of Ed Tucker Distributor, Inc., a wholesale distribution company which Mr. Nickell sold to Lacy Diversified Industries in 1989. Previously, Mr. Nickell was a pilot with Braniff Airlines, reaching the post of captain. Mr. Nickell brings to our board of directors financial expertise, general business experience and aviation experience.

**John R. Rapaport** has served as a member of our board of directors since 2009. Since 2008, Mr. Rapaport has served in various roles at Cyrus Capital Partners, L.P., and he is currently a partner responsible for certain investments in the airline, industrial, transportation and energy sectors. Previously, Mr. Rapaport was an associate at Sankaty Advisors LLC, a division of Bain Capital LLC, where he covered various sectors including the airline, aerospace and transportation industries. Mr. Rapaport brings to our board of directors financial expertise and knowledge of the airline and transportation industries.

**Stacy J. Smith** has served as a member of our board of directors since January 2014. Since 1988, Mr. Smith has held various finance, sales and marketing and information technology leadership positions at Intel Corporation, a semiconductor company, where he currently serves as Executive Vice President and Chief Financial Officer. Mr. Smith also serves on the board of directors of Autodesk Inc., a 3-D design, engineering and entertainment software company, and Gevo, Inc., a renewable chemicals and advanced biofuels company. Mr. Smith brings to our board of directors financial expertise and general business experience from executive

## **Table of Contents**

leadership positions. In addition, Mr. Smith's experience as a director of public companies provides the board of directors with valuable insights to assist in achieving our goals.

### **Board Composition**

Our board of directors consists of nine members. In accordance with our amended and restated certificate of incorporation, our board of directors is divided into three staggered classes with three-year terms. At each annual general meeting of stockholders, the successors to directors whose terms then expire will be elected to serve from the time of election and qualification until the next annual meeting following election. Our directors are divided among the three classes as follows:

The Class I directors are Messrs. Cush, Carty and Smith, and their terms will expire at the annual general meeting of stockholders to be held on or about May 14, 2015;

The Class II directors are Mr. Cyrus F. Freidheim, Jr. and Messrs. Skinner and Nickell, and their terms will expire at the annual general meeting of stockholders to be held in 2016; and

The Class III directors are Mr. Stephen C. Freidheim and Messrs. Lovell and Rapaport, and their terms will expire at the annual general meeting of stockholders to be held in 2017.

Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors.

The division of our board of directors into three classes with staggered three-year terms may delay or prevent a change of our management or a change in control of our company.

As required under the NASDAQ Stock Market rules, a majority of the members of a listed company's board of directors must qualify as independent, as affirmatively determined by the board of directors. The board of directors consults with the company's counsel to ensure that the board of directors' determinations are consistent with all relevant securities and other laws and regulations regarding the definition of independent, including those set forth in pertinent listing standards of the NASDAQ Stock Market, as in effect from time to time.

Consistent with these considerations, after review of all relevant transactions or relationships between each director, or any of his or her family members, and the company, its senior management and its independent registered public accounting firm, the board of directors has affirmatively determined that Mr. Cyrus F. Freidheim, Jr., Mr. Stephen C. Freidheim, and Messrs. Carty, Nickell, Rapaport, Skinner and Smith are independent directors within the meaning of the applicable NASDAQ Stock Market listing standards. In doing so, the Board considered the interest that Mr. Cyrus F. Freidheim, Jr., Mr. Stephen C. Freidheim and Mr. Rapaport each have in Cyrus Capital Partners, L.P., or funds related to or affiliated with Cyrus Capital Partners, L.P., and have determined that these relationships do not conflict with the elements of independence set forth in the NASDAQ Stock Market listing standards.

As required under the NASDAQ Stock Market rules, our independent directors meet in regularly scheduled executive sessions at which only independent directors are present.

### **Leadership Structure**

We have historically separated the roles of Chief Executive Officer and Chairman of the Board in recognition of the differences between the two roles. The Chief Executive Officer is responsible for setting our strategic direction and our day-to-day leadership and performance, while the Chairman of the Board provides guidance to the Chief Executive Officer and sets the agenda for board meetings and presides over meetings of the full board of directors. In addition, our amended and restated bylaws provide that the independent directors may appoint a lead director from among them to perform such duties as may be assigned by our board of directors.



---

## **Table of Contents**

### **Agreements or Understandings**

In connection with the 2014 Recapitalization, we and certain entities affiliated with the Virgin Group have entered into amended and restated license agreements related to our use of the Virgin name and brand. These amended and restated license agreements provide for, among other things, the right for certain entities affiliated with the Virgin Group to designate a member of our board of directors. Mr. Evan Lovell, a member of our board of directors since April 2013 and a partner of the Virgin Group, remained on our board of directors following our initial public offering as the Virgin Group's designee. For more information, see *Certain Relationships and Related Transactions-Virgin License Agreements* elsewhere in this prospectus.

### **Board Committees**

Our board of directors has the following committees: an audit committee, a compensation committee, a finance committee and a nominating and corporate governance committee. The composition and responsibilities of each committee are described below. Members serve on these committees until their resignation or until otherwise determined by our board of directors.

#### *Audit Committee*

Our audit committee oversees our corporate accounting and financial reporting process. Among other matters, the audit committee evaluates the independent auditors' qualifications, independence and performance; determines the engagement of the independent auditors; reviews and approves the scope of the annual audit and the audit fee; discusses with management and the independent auditors the results of the annual audit and the review of our quarterly financial statements; approves the retention of the independent auditors to perform any proposed permissible non-audit services; monitors the rotation of partners of the independent auditors on the company's engagement team as required by law; reviews our critical accounting policies and estimates; oversees our internal audit function and annually reviews the audit committee charter and the committee's performance. The current members of our audit committee are Cyrus F. Freidheim, Jr., who is the chair of the committee, Donald J. Carty and Robert A. Nickell. Our board of directors has determined that Mr. Carty is an audit committee financial expert as defined under the applicable rules of the SEC and has the requisite financial sophistication under the applicable rules and regulations of NASDAQ. All members of our audit committee are independent. The audit committee operates under a written charter that satisfies the applicable standards of the SEC and the NASDAQ Global Select Market. A copy of the audit committee charter is available to security holders in the *Corporate Governance* section of our website at <http://ir.virginamerica.com>. The contents of our website are not incorporated by reference into this prospectus.

#### *Compensation Committee*

Our compensation committee reviews and recommends policies relating to compensation and benefits of our officers and teammates. The compensation committee reviews and approves corporate goals and objectives relevant to compensation of our Chief Executive Officer and other executive officers, evaluates our performance in light of those goals and objectives and recommends to the board of directors which sets the compensation of these officers based on such evaluations. The compensation committee also considers recommendations of our Chief Executive Officer with respect to the compensation of other executive officers. Our Chief Executive Officer evaluates each other executive officer's overall performance and contributions to us at the end of each fiscal year and reports to the compensation committee his recommendations of the other executive officers' compensation. The compensation committee also administers the issuance of stock options and other awards under our stock plans. The compensation committee will review and evaluate, at least annually, the performance of the compensation committee and its members, including compliance of the compensation committee with its charter. The current members of our compensation committee are Stacy J. Smith, Robert A. Nickell and Samuel K. Skinner, with Mr. Skinner serving as the chair of the committee.

In order for our compensation committee to continue to make recommendations or determinations with respect to executive compensation, such committee must be composed of a majority of independent directors

## **Table of Contents**

within 90 days from the date our common stock was listed on NASDAQ and entirely of independent directors within one year from the date our common stock was listed on NASDAQ. Our board of directors has affirmatively determined that each of Messrs. Smith, Nickell and Skinner meets the definition of independent director for purposes of NASDAQ listing rules and for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended. A copy of the compensation committee charter is available to security holders in the Corporate Governance section of our website at <http://ir.virginamerica.com>. The contents of our website are not incorporated by reference into this prospectus.

### ***Nominating and Corporate Governance Committee***

Our nominating and corporate governance committee is responsible for making recommendations regarding candidates for directorships and the size and composition of our board of directors. In addition, the nominating and corporate governance committee is responsible for overseeing our corporate governance guidelines and reporting and making recommendations concerning governance matters. The nominating and corporate governance committee is comprised of Mr. Stephen C. Freidheim and Messrs. Carty and Skinner, with Mr. Carty serving as the chair of the committee.

In order for our nominating and corporate governance committee to continue to make selections or recommendations with respect to directors, such committee must be composed of a majority of independent directors within 90 days from the date our common stock was listed on NASDAQ and entirely of independent directors within one year from the date our common stock was listed on NASDAQ. Our Board has affirmatively determined that each of Mr. Stephen C. Freidheim and Messrs. Carty and Skinner meets the definition of independent director for purposes of the NASDAQ listing rules. A copy of the nominating and corporate governance committee charter is available to security holders in the Corporate Governance section of our website at <http://ir.virginamerica.com>. The contents of our website are not incorporated by reference into this prospectus.

### ***Finance Committee***

Our finance committee reviews and recommends matters relating to the financial condition and capital structure of our company, including those related to fuel hedging and investment strategies. The current members of our finance committee are Messrs. Lovell, Nickell and Rapaport, with Mr. Nickell serving as the chair of the committee. A copy of the finance committee charter is available to security holders in the Corporate Governance section of our website at <http://ir.virginamerica.com>. The contents of our website are not incorporated by reference into this prospectus.

### ***Compensation Committee Interlocks and Insider Participation***

None of the members of our compensation committee is or has at any time during the past year been an officer or employee of ours. None of our executive officers currently serves or in the past year has served as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board or compensation committee.

### ***Restrictions on Committee Membership by a Virgin Group Director***

Pursuant to an agreement reached with the U.S. Department of Transportation, our bylaws contain a provision that prohibits a director appointed by or serving as an officer, director, employee, agent or other representative of Virgin Group Holdings Limited or any of its affiliates (as defined in the Securities Exchange Act of 1934, as amended) from membership on (i) the compensation committee without the prior written approval of the U.S. Department of Transportation; or (ii) the audit, compensation or nominating and corporate governance committee if the director is prohibited from serving as a member of the respective committee due to the applicable committee independence requirements of the NASDAQ Stock Market listing rules.

---

## **Table of Contents**

### **Code of Business Conduct and Ethics**

Our board of directors has adopted a Code of Business Conduct and Ethics. The Code of Business Conduct and Ethics is applicable to our executive officers and teammates, including our Chief Executive Officer, Chief Financial Officer and principal accounting officer. The Code of Business Conduct is available in the Corporate Governance section of our website at <http://ir.virginamerica.com>. The contents of our website are not incorporated by reference into this prospectus. The Code of Business Conduct and Ethics addresses, among other things, issues relating to conflicts of interests, including internal reporting of violations and disclosures, and compliance with applicable laws, rules and regulations. The purpose of the Code of Business Conduct and Ethics is to deter wrongdoing and to promote, among other things, honest and ethical conduct and to ensure to the greatest possible extent that our business is conducted in a legal and ethical manner. We intend to promptly disclose (1) the nature of any amendment to our code of ethics that applies to our directors, executive officers or other principal financial officers and (2) the nature of any waiver, including an implicit waiver, from a provision of our code of ethics that is granted to one of these specified directors, officers or other principal financial officers, the name of such person who is granted the waiver and the date of the waiver on our website in the future.

### **Limitation of Liability and Indemnification**

Our amended and restated certificate of incorporation contains provisions that limit the liability of our directors for monetary damages to the fullest extent permitted by Delaware law. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, except liability for:

any breach of the director's duty of loyalty to us or our stockholders;

any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;

unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law; or

any transaction from which the director derived an improper personal benefit.

Our amended and restated certificate of incorporation provides that we may indemnify our directors and officers, in each case to the fullest extent permitted by Delaware law. Our amended and restated bylaws provide that we are obligated to indemnify our directors and officers to the fullest extent permitted by Delaware law and advance expenses incurred by a director or officer in advance of the final disposition of any action or proceeding and permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in that capacity regardless of whether we would otherwise be permitted to indemnify him or her under the provisions of Delaware law. We enter into agreements to indemnify our directors, and certain of our executive officers and other employees as determined by our board of directors. With specified exceptions, these agreements provide for indemnification for related expenses including, among other things, attorneys' fees, judgments, fines and settlement amounts incurred by any of these individuals in any action or proceeding. We believe these limitations of liability provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and officers. We also maintain directors' and officers' liability insurance.

The limitation of liability and indemnification provisions in our amended and restated certificate of incorporation, amended and restated bylaws and indemnification agreements may discourage stockholders from bringing a lawsuit against our directors and officers for breach of their fiduciary duty. Our amended and restated certificate of incorporation provides that any such lawsuit must be brought in the Court of Chancery of the State of Delaware. The foregoing provisions may also reduce the likelihood of derivative litigation against our directors and officers, even though an action, if successful, might benefit us and other stockholders. Further, a stockholder's investment may be adversely affected to the extent that we pay the costs of settlement and damage awards against directors and officers as required by these indemnification provisions. Insofar as indemnification for liabilities

## **Table of Contents**

arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. At present, there is no pending litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought, and we are not aware of any threatened litigation that may result in claims for indemnification.

### ***Compensation Arrangements for our Non-Employee Directors***

We compensate our non-employee directors for their service on our board of directors but do not pay director fees to directors who are our employees. In 2014, each non-employee director was entitled to receive an annual retainer of \$60,000 paid in quarterly installments and an annual grant of 3,974 restricted stock units, which vest on the first anniversary of the date of grant. In addition, we reimburse our non-employee directors for their reasonable expenses incurred in attending meetings of our board of directors and committees of our board of directors. Our non-employee directors are not currently entitled to receive any additional fees for their service as a director.

The program also provides for the Chairman of the Board, the Vice-Chairman of the Board, the Chair of the Audit Committee and the Chair of the Compensation Committee to receive additional annual retainers of \$30,000, \$15,000, \$10,000 and \$7,000. In addition, each non-employee director and his or her immediate family members are entitled to certain positive-space travel privileges on our flights, along with a payment to compensate the director for any taxes on the benefit, while serving as a director consistent with the practices of our competitors in the airline industry. We believe that providing these benefits is a relatively inexpensive way to enhance the competitiveness of the non-employee director compensation package and is consistent with industry practice. These benefits (except the tax gross-up) are provided for a non-employee director's lifetime if the director (i) has served for four or more years on our board of directors or (ii) was a member of the board of directors at the completion of our initial public offering. A non-employee director who serves less than four years on the board of directors and was not a member of the board of directors at the completion of our initial public offering is entitled to one year of positive-space travel privileges on our flights for each year of service as a director.

### ***Fiscal 2014 Director Equity Awards***

Our board of directors made a supplemental grant of 19,870 restricted stock units, or RSUs, to a new director, Stacy J. Smith, at the time he joined the board in January 2014. One-third of these RSUs vest on each of the first, second and third anniversary of the date Mr. Smith joined our board of directors, subject to his continued service. In addition, in September 2014, our board of directors contingently awarded 19,870 RSUs to each of the four non-employee directors who are not affiliated with our principal shareholders, namely, Messrs. Carty, Nickell, Skinner and Cyrus Freidheim. These awards, which were contingent upon the successful completion of our initial public offering, were a one-time grant made in recognition of the contributions made by these outside directors who served on the board prior to 2013 without an annual equity grant for their board service, and vest in equal installments over the same period as Mr. Smith's RSU awards, subject to their continued service.

**Table of Contents****Director Compensation Table**

The following table sets forth information regarding compensation earned by our non-employee directors during 2014.

Name	Fees Earned or		Total (\$)
	Paid in Cash (\$)	Stock Awards (\$) (4)	
Donald J. Carty	\$ 90,000	\$ 490,609	\$ 580,609
Samuel K. Skinner	82,000	490,609	572,609
Cyrus F. Freidheim Jr.	70,000	490,609	560,609
Stephen C. Freidheim (1)	60,000	33,599	93,599
Evan M. Lovell (2)	60,000	33,599	93,599
Robert Nickell	60,000	490,609	550,609
John R. Rapaport (1)	60,000	33,599	93,599
Stacy J. Smith (3)	57,833	199,635	257,468

- (1) Fees and stock awards are issued to Cyrus Capital Partners, L.P. These individuals disclaim beneficial ownership of the shares except to the extent of any pecuniary interest therein.
- (2) Fees and stock awards are issued to the Virgin Group. Mr. Lovell disclaims beneficial ownership of the shares except to the extent of any pecuniary interest therein.
- (3) Mr. Smith joined the board of directors on January 14, 2014.
- (4) Represents the grant date fair value of RSUs issued to the director as computed in accordance with Financial Accounting Standard Board Accounting Standards Codification Topic 718. RSUs granted for annual service on the board of directors vested on January 1, 2015. Mr. Smith was also granted a one-time sign-on grant of 19,780 RSUs, of which one-third vested on January 15, 2015. Messrs. Carty, Nickell, Skinner and C. Freidheim each received a one-time grant of 19,870 RSUs contingent on the completion of our initial public offering, one-third of which vested on January 15, 2015, and one-third of which vests on each of January 15, 2016, and 2017, in recognition of the contributions made by these outside directors who served on the board prior to 2013 without an annual equity grant for their board service. As noted in (1) and (2) above, each of Mr. S. Freidheim, Mr. Lovell and Mr. Rapaport disclaimed beneficial ownership of their 2014 restricted stock unit awards. None of our non-employee directors held any stock options as of December 31, 2014.

**Revisions to Director Compensation in 2015**

In 2014, our board of directors requested its independent consultant, Frederic W. Cook & Co., review our compensation program for non-employee directors. Based on that review, the board of directors decided to make certain adjustments to cash and equity compensation elements in our program for non-employee directors effective January 1, 2015. Under the revised program, each non-employee director will receive an annual cash retainer of \$60,000 paid in quarterly installments. In addition, each non-employee director will be entitled to receive an annual grant of RSUs with an aggregate value of \$75,000 determined based upon the closing price of our common stock on the date of the grant. The Chairman of the Board, the Vice-Chairman of the Board, and the Chair of the Audit Committee will receive additional annual cash retainers of \$30,000, \$15,000 and \$15,000. The Chairs of the Compensation, Finance, and Nominating & Corporate Governance Committees will receive additional annual cash retainers of \$7,500 each. Non-chair members of the Audit Committee will receive additional annual cash retainers of \$5,000 each. For 2015, the RSU grants for non-employee directors will be made following the annual stockholders meeting to align with directors' service.

**Stock Ownership Guidelines.**

In 2014, our board of directors adopted stock ownership guidelines for the board of directors. Under these guidelines, non-employee directors who are not affiliated with our principle stockholders (currently, Messrs. Carty, Nickell, Skinner and Smith) are required to own the shares of our common stock equal or greater than

**Table of Contents**

three times their annual board cash retainer (\$180,000) within five years of their date of initial election to the board or, if later, the date of our initial public offering. In the event the stock ownership guidelines are not met within the five-year period, then each director must hold at least 50% of all net shares received through RSU or realized through stock option exercises until the stock ownership guidelines are achieved. For these purposes, net shares means all shares retained after applicable withholding of any shares for tax purposes, and stock ownership includes shares (including restricted stock) owned directly or held in trust by the executive officer or an immediate family member who resides in the same household but does not include shares a director has the right to acquire through the exercise of stock options.

**Table of Contents**

**EXECUTIVE COMPENSATION**

**Compensation Discussion and Analysis**

This Compensation Discussion and Analysis provides an overview of our executive compensation philosophy, the overall objectives of our executive compensation program and each material element of compensation for the fiscal year ended December 31, 2014 that we provided to our named executive officers, or NEOs.

Our NEOs for the fiscal year ended December 31, 2014 were as follows:

C. David Cush, President and Chief Executive Officer;

Peter D. Hunt, Senior Vice President and Chief Financial Officer;

E. Frances Fiorillo, Senior Vice President, People and In-flight Services;

Stephen A. Forte, Chief Operating Officer; and

John J. Varley, Senior Vice President, General Counsel and Corporate Secretary.

***Compensation Philosophy and Objectives***

We compete with airlines and many other companies in seeking to attract and retain a highly skilled executive team. The overall goal of our compensation program is to attract and retain a skilled executive team to manage our business functions, maintain our culture and enhance the value of our business. In doing so, we draw upon a pool of talent that is highly sought after by other airlines and companies.

We regard as fundamental that executive officer compensation be structured to provide competitive base salaries and benefits to attract and retain executive officers and to provide incentive compensation to motivate executive officers to attain, and to recognize executive officers for attaining, financial, operational, individual and other goals that are consistent with increasing stockholder value. We also believe that our executive compensation program should include a long-term incentive component that aligns executives' interests with our stockholders' interests. The objectives of our long-term incentive awards, including equity-based compensation, are to encourage executives to focus on our long-term growth and to incentivize executives to manage our company from the perspective of stockholders with a meaningful stake in our success.

In determining the form and amount of compensation payable to the NEOs, we are guided by the following objectives and principles:

***Market-based, competitive compensation levels should attract and retain a skilled team.*** Set compensation at market-based, competitive levels that enable us to hire and retain high-performance teammates throughout the organization.

***Pay for performance should motivate executive officers to attain financial, operational and other goals consistent with increasing stockholder value.*** Link a significant portion of the total compensation opportunities of our executive officers to our annual strategic objectives, reflecting our financial, operational, guest service, safety and teammate engagement performance targets, to motivate those officers to attain goals that are consistent with increasing stockholder value.

## Edgar Filing: Virgin America Inc. - Form S-1

*Long-term equity compensation should align executives' interests with our stockholders' interests.* Provide equity-based compensation opportunities, consistent with the interests of our stockholders, to encourage our executives to focus on our long-term business strategy and growth prospects.



**Table of Contents*****Determination of Compensation***

The compensation committee conducts an annual review of our Chief Executive Officer's compensation and makes recommendations to our board of directors regarding adjustments, if any, to his compensation. The compensation committee also reviews and considers the recommendations of the Chief Executive Officer with respect to the other NEOs' compensation, including base salaries and annual incentive compensation, when establishing the other NEOs' compensation on no less than an annual basis. As part of its review, the compensation committee evaluates our company's performance each year against the approved operating plan objectives. Our Chief Executive Officer recuses himself from compensation committee and board of director discussions when his compensation is reviewed.

The compensation committee evaluates our executive compensation policies and practices on an ongoing basis to ensure that they are structured to motivate attainment of certain short-term and long-term financial and operational goals. Subjective factors considered in compensation determinations include an executive's skills and capabilities, contributions as a member of the executive management team, influence on our overall performance and whether the total compensation potential and structure is sufficient to ensure the retention of an executive when considering the compensation potential that may be available elsewhere.

In making compensation determinations historically, the compensation committee has not undertaken any formal benchmarking or reviewed any formal surveys of compensation for our competitors but has instead relied primarily on its general knowledge of the competitive market for executive talent, including in our industry. In 2014, the committee engaged an independent compensation consultant, Frederic W. Cook & Co., Inc., or F.W. Cook, to assist the committee with its review of our executive compensation program in connection with our transition to a public reporting company and to develop potential revisions to our executive compensation program consistent with the practices of other comparable publicly traded companies in the airline and transportation sector. That consultant has performed no prior consulting or other services for our company.

In 2014, the compensation committee established a peer group for purposes of evaluating our executive compensation program as our company neared its initial public offering. The peer group was approved by the committee based upon the recommendation of F.W. Cook. Companies were selected using objective screening criteria including revenue, market value, and industry classification. The peer group is intended to include companies that we compete with for business, executive talent and investor capital. For 2014, our peer group comprised the following 16 airline and transportation/logistics companies:

Air Transport Services Group	Heartland Express	Spirit Airlines
Alaska Air Group	Hub Group	Werner Enterprises
Allegiant Travel Co	JetBlue Airways	WestJet Airlines
Atlas Air Worldwide Holdings	Knight Transportation	XPO Logistics
Forward Air Corp	Republic Airways Holdings	
Hawaiian Holdings	SkyWest	

As of December 31, 2014, our revenue value ranked between the 25th percentile and the median of the peers.

	Annual Revenue (in millions.)	Market Capitalization (in millions)
75th Percentile	\$ 3,261	\$ 3,291
Median	1,830	2,305
25th Percentile	1,128	1,361
Virgin America	1,478	1,857

## **Table of Contents**

In addition, in order to understand pay practices in the larger airline industry, the compensation committee reviewed the pay design practices at a separate group of larger commercial airlines, including: Air Canada, American Airlines Group, Delta Air Lines, Southwest Airlines and United Continental Holdings. These pay levels were not included in statistics viewed by the compensation committee and were not used for decision-making. The data were to allow context on compensation and information regarding incentive design within larger, high-profile airline industry competitors for talent.

The pay data from the peer group companies are used as points of reference when setting our executive officers' compensation, but we do not target a particular level of pay in comparison to our peers.

### ***Components of Compensation for 2014***

In 2014, the compensation program for our NEOs consisted of four components:

base salary;

annual cash incentive;

equity-based incentives; and

other benefits.

We are continuing to build our executive compensation program around each of the above elements because each individual component is beneficial in achieving one or more of the objectives of the program, and we believe that, collectively, they are effective in achieving our overall objectives.

### ***Base Salary***

We believe a competitive base salary is essential in attracting and retaining key executive talent, and we provide our NEOs with a base salary to compensate them for services rendered during the fiscal year. The base salary payable to each NEO provides a fixed component of compensation reflecting the executive's role, qualifications, experience and scope of responsibilities. Base salary amounts also consider, among other factors, the NEO's potential to take on additional responsibilities, competitive market practices (using the compensation committee members' general knowledge of the competitive market, based on, among other things, experience with other companies and our industry) and internal parity. In general, the compensation committee reviews potential adjustments to the base salaries of our NEOs on an annual basis.

The base salary of each of our named executive officers was initially established by the compensation committee or the board of directors in connection with the hiring of the officer and reflected arm's length negotiation as well as the application of general market experience by members of the board of directors or compensation committee. In 2014, the compensation committee did not recommend an increase in NEO base salary amounts. The amounts paid to our NEOs as base salaries in 2014 are set forth under the 2014 Summary Compensation Table below.

### ***Incentive Compensation***

We maintain an Incentive Compensation Plan, or ICP, in order to recognize the performance of our management team, including our NEOs, in achieving our strategic objectives, including financial and commercial, operational, guest service and safety and team member engagement targets for the year. The compensation committee reviews and recommends the performance goals under the ICP and the target awards for the NEOs, which are reviewed and approved by the board of directors.

The compensation committee has generally used a guideline target opportunity for our NEOs, with Mr. Cush having a target of 100% of base salary, Mr. Forte having a target of 55% of base salary and



**Table of Contents**

Messrs. Hunt, Varley and Ms. Fiorillo each having a target of 45% of base salary, based on our company's achievement of the established target. The determination of the amount of annual incentives paid to our executive officers generally reflects a number of considerations, including achievement of performance goals discussed above, company earnings and a subjective evaluation of the individual contributions of the executive officer during the relevant period. In addition to reviewing the specific performance objectives for the individual categories listed in the table below, and then compiling a summary percentage determination of performance against objectives, the board of directors may make further adjustments to the incentive payment made based on the achievement of targeted versus actual pre-tax earnings. Under this adjustment, a pre-tax loss may result in no ICP award, and the achievement of 0-25%, 26-50%, 51-75%, 76-100% and more than 100% of targeted pre-tax earnings may result in an adjustment of the ICP amount to 25%, 50%, 75%, 100% and up to 150%, of the resulting award in the discretion of the board of directors.

The compensation committee recommended, and the board of directors established, performance targets for Fiscal 2014 as follows:

Measure	Performance Measure Objectives	Weight
Financial & Commercial Performance	Operating Income	20%
	PRASM	20%
	CASM ex-fuel	20%
Operational Performance	On-Time Performance	7.5%
	Completion Factor	7.5%
Guest Service	Baggage Performance	7.5%
	Net Promoter Score	7.5%
Safety and Team Member Engagement	Teammate Engagement	5%
	Aircraft Ground Damage	5%

The specific targets set by our compensation committee and board of directors for our financial and commercial objectives for 2014 were: operating income of \$104.4 million, ticketed PRASM equivalent to 98.5% of industry PRASM in mature markets where we had been operating for at least 12 months and CASM ex-fuel of 7.10 cents. The goals for each of the operational, guest service and safety and teammate engagement measures were established by the compensation committee and the board of directors in a level that each believed would require substantial effort to achieve and would not be achieved with average or below-average performance by our NEOs.

In 2015, our compensation committee determined that the specific financial and commercial objectives achieved were as follows: operating income of \$120.5 million and ticketed PRASM of 101% of industry average for mature routes where flights had been operated for at least 12 months, each of which exceeded the targeted measure, and CASM ex-fuel of 7.13 cents, which was slightly below target due in part to the expenses of higher profit sharing payments to teammates. With respect to the operational performance measures, a flight completion factor target of 99.40% met the targeted performance, and domestic and international on-time performance of 82.6% exceeded a stated goal of 82.5%. Both guest service objectives were exceeded with a guest net promoter score at 74%, higher than the goal of 67%, and a mishandled baggage score of less than .95 bags per 1,000 guests, surpassing the targeted objective. Finally, with respect to the safety and teammate engagement measures, aircraft ground damage was better than a stated objective of not more than 2.2 damage events per 10,000 flight departures, but a teammate engagement score was not achieved because an annual survey was not completed, and thus our company's performance could not be measured against a stated objective of 64%. Based on our company's performance exceeding targeted performance in seven categories and slightly below targeted performance on two other measurements, our compensation committee determined that, overall, the performance objectives under the ICP for 2014 had been attained at 100% of target with two of the three financial and commercial performance objectives exceeding the objective, both of the operational performance objectives met, both guest service objectives met and one of two safety and team member engagement objectives met. Given the 29% overachievement on the pre-tax earnings goal (an achievement of 85.6 million versus a target of 66.3 million), and the successful completion of our initial public offering, the compensation committee and board

---

## **Table of Contents**

of directors made an adjustment of the ICP payout amount to 125% of target. In determining individual payments under the ICP, our compensation committee and board of directors determined to pay each NEO based on the corporate achievement

The actual amounts paid to our NEOs under the 2014 ICP are set forth under the 2014 Summary Compensation Table below.

### ***Equity-Based Incentives***

We use stock-based awards in our executive compensation program in order to align the interests of our NEOs with those of our stockholders. We believe our long-term performance is enhanced through an equity ownership culture since it encourages a focus on the long-term performance of our company.

We use equity grants in connection with initial employment offers to newly hired NEOs in order to attract prospective candidates to join our company and to promote the success of our business. We provided equity awards to the NEOs at the time of hire in the form of options to purchase shares of our common stock or restricted stock units, or RSUs. We believe that such equity awards provide an effective performance incentive because executive officers obtain increasing value from their options and RSUs if our stock price increases (which would benefit all stockholders) and they remain employed with us beyond the date that their options or RSUs vest. Further, awards granted prior to 2014 generally included price-contingent vesting conditions, which as of the end of our fiscal year, have not been fully satisfied.

In November 2014, our board of directors granted each of our NEOs a stock payment award and an award of RSUs under the 2014 Equity Incentive Award Plan:

In order to incentivize our NEOs to complete our company's initial public offering successfully and to offset some of the impact of the dilution caused by the conversion of certain convertible notes in connection with such offering, the board of directors, while our company was privately held, granted the following awards of fully vested shares of our common stock: Mr. Cush, 100,828 shares; Mr. Hunt, 13,149 shares; Ms. Fiorillo, 9,522 shares; and Mr. Varley, 12,491 shares. A portion of these shares was withheld to cover tax withholding obligations.

In addition, in order to assist in retaining our NEOs, and giving consideration to the concentration of outstanding equity awards in performance-based vehicles, the board of directors granted the following RSU awards to the NEOs with one-third of the RSUs vesting on the first, second and third anniversary of our initial public offering: Mr. Cush, 34,441 RSUs; Mr. Forte, 18,545 RSUs; Mr. Hunt, 16,558 RSUs; Ms. Fiorillo, 14,571 RSUs; and Mr. Varley, 14,571 RSUs. These service-vesting RSUs awards, made at the time of the initial public offering, were based on recommendations from the independent compensation consultant and were intended to provide each NEO with a median equity grant.

### ***Benefits***

The NEOs receive the same health, welfare and other benefits provided to all of our teammates:

medical, dental and vision insurance;

life insurance, accidental death and dismemberment and business travel and accident insurance;

health and dependent care flexible spending accounts;

short- and long-term disability; and

401(k) plan and matching contributions.

---

## **Table of Contents**

### ***Perquisites***

As is common in the airline industry, each NEO, and his or her spouse or domestic partner, immediate family members and, in certain circumstances, other designees, are entitled to certain travel privileges on our flights, some of which may be on a positive-space basis. Similar travel benefits are afforded to all of our teammates on a more limited basis. The value of such positive-space leisure flight benefits for the executives is reported as taxable income. An officer who retires with a minimum of five years of service and an eligibility number equal to 65 or greater, obtained by the sum of the officer's age plus years of service, may continue to receive complimentary flight benefits for the officer, the officer's spouse, domestic partner or designated companion and dependent children. We reimburse the retired officer for associated income taxes on the complimentary travel with an imputed tax value up to \$10,000 per year.

We believe that providing these benefits is a relatively inexpensive way to enhance the competitiveness of each NEO's compensation package and is consistent with industry practice. Additionally, we fund matching 401(k) contributions and provide enhanced, company-paid life insurance for our NEOs at three times their annual salaries, capped at \$750,000. Finally, certain NEOs also receive housing, travel and tax-related stipends. Such tax stipends are for foreign nationals and are provided to offset the effect of paying double income taxes. We do not provide any other significant perquisites or personal benefits to our NEOs. The perquisites received by NEOs represent a small part of the overall compensation for these executives and are offered to provide competitive compensation arrangements. See the 2014 Summary Compensation Table and the related footnotes for information regarding benefits received by the NEOs in 2014.

***Stock Ownership Guidelines.*** In 2015, our board of directors adopted stock ownership guidelines to strengthen the alignment between our executive officers and stockholders. Under these guidelines, the CEO is required to own shares of our company's common stock greater than or equal to five times his base salary, and the other NEOs are required to own shares of our company's common stock greater than or equal to three times their base salary within five years of their date of hire or, if later, the date of our company's initial public offering. In the event the stock ownership guidelines are not met within the five year period, then each NEO must hold at least 50% of all net shares received through RSU vesting or realized through stock option exercises until the stock ownership guidelines applicable to the NEO are achieved. For these purposes, net shares means all shares retained after applicable withholding of any shares for tax purposes and stock ownership includes shares (including restricted stock) owned directly or held in trust by the executive officer or an immediate family member who resides in the same household but does not include shares an executive officer has the right to acquire through the exercise of stock options.

### ***Tax and Accounting Considerations***

While our board of directors and our compensation committee generally consider the financial accounting and tax implications of their executive compensation decisions, neither element has been a material consideration in the compensation awarded to our NEOs historically. Section 162(m) disallows a tax deduction for any publicly held corporation for individual compensation exceeding \$1 million in any taxable year for our Chief Executive Officer and each of the other NEOs (other than our Chief Financial Officer), unless compensation is performance-based or qualifies for another exemption from Section 162(m). As historically our stock was not publicly traded, our compensation committee and our board of directors had not previously considered the deductibility limit imposed by Section 162(m) in setting compensation. Our compensation committee and our board of directors expect to consider the potential effects of Section 162(m) of the Internal Revenue Code of 1986, as amended, on the compensation paid to our NEOs in 2015.

**Table of Contents****Summary Compensation Table**

The following table sets forth all of the compensation awarded to, earned by or paid to our NEOs during the past two fiscal years.

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$ (1))	Option Awards (\$ (2))	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$ (3))	Total (\$)
C. David Cush <i>President &amp; CEO</i>	2014	\$ 665,000	\$ 3,111,187	\$	\$ 831,000	\$ 21,570	\$ 4,628,757
	2013	657,500			581,875	14,820	1,254,195
Peter D. Hunt <i>SVP &amp; CFO</i>	2014	403,000	599,840		227,000	20,850	1,250,690
	2013	398,846		267,500	157,106	13,726	837,178
E. Frances Fiorillo <i>SVP-People &amp; In-flight Services</i>	2014	335,000	554,139		188,000	122,350	1,199,489
	2013	331,539		202,335	130,594	80,167	744,635
Stephen A. Forte <i>Chief Operating Officer</i>	2014	410,000	426,535		282,000	118,411	1,236,946
John J. Varley <i>SVP &amp; General Counsel</i>	2014	335,000	622,426		188,000	23,370	1,168,796
	2013	331,538		187,350	130,594	16,620	666,102

- (1) In accordance with SEC rules, this column reflects the grant date fair value of RSUs calculated in accordance with ASC Topic 718 for stock-based compensation transactions. No amounts were included for 2013 as the time-based, liquidity-event-based and market-based vesting components with stock price triggers were not yet met at the time. Assuming that all of the vesting conditions to the awards were met, based on a value of our common stock of \$8.45 per share as of the date of grant, the value of 2013 awards as of the grant date would be \$3,090,725 for Mr. Cush, \$263,836 for Mr. Hunt, \$250,630 for Mr. Varley, and \$191,063 for Ms. Fiorillo. Mr. Forte did not receive RSUs in 2013. For additional information on the valuation assumptions, see Note 11 to our consolidated financial statements included in the section entitled *Notes to the Consolidated Financial Statements* elsewhere in this prospectus.
- (2) In accordance with SEC rules, this column represents the grant date fair value of stock options granted, calculated in accordance with ASC Topic 718 for stock-based compensation transactions. There were no stock options granted for the year ended December 31, 2014. For additional information on the valuation assumptions, see Note 11 to our consolidated financial statements included in the section entitled *Notes to the Consolidated Financial Statements* elsewhere in this prospectus.
- (3) The amounts reported in the *All Other Compensation* column for 2014 are described in more detail in the following table. The amounts reported for perquisites and other benefits represent the actual costs incurred by us in providing these benefits to the indicated NEO.



**Table of Contents**

Name and Principal Position	Company contribution to 401(k) defined contribution plan	401(k) Equivalent	Housing Allowance/ Reimbursement	Travel	Tax Equalization	Tax Prep Fees Reimbursed	Company Paid Life and Other	All Other Compensation Total (1)
C. David Cush <i>President &amp; CEO</i>	\$ 19,500	\$	\$	\$	\$	\$	\$ 2,070	21,570
Peter D. Hunt <i>SVP &amp; CFO</i>	19,500						1,350	20,850
E. Frances Fiorillo <i>SVP People &amp; In-flight Services</i>		19,500		31,886(2)	53,997	16,020(3)	947	122,350
Stephen A. Forte <i>Chief Operating Officer</i>	19,500		93,003(4)	614(5)			5,294	118,411
John J. Varley <i>SVP &amp; General Counsel</i>	19,500						3,870	23,370

(1) Messrs. Cush, Hunt and Varley did not receive travel benefits or other perquisites and benefits in excess of \$10,000.

(2) Includes tax gross-up of \$9,964 and tax paid by our company of \$737.

(3) Includes tax gross-up of \$6,020.

(4) In connection with Mr. Forte's joining us as our Chief Operating Officer we paid a monthly housing allowance in 2014. The amount above includes a tax gross-up of \$33,004.

(5) Includes tax paid by our company of \$14.

**Grants of Plan-Based Awards in 2014**

The following table sets forth certain information with respect to grants of non-plan and plan-based awards to our NEOs for 2014.

Name	Grant Date	BOD Approval Date (1)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (2)			Estimated Future Payouts Under Equity Incentive Plan Awards		Exercise Price or Base Price of Option Awards (\$/sh)	All Other Stock Awards	Grant Date Fair Value of Stock and Option Awards (\$ (3)
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)			
C. David Cush <i>President &amp; CEO</i>	11/19/2014(4)	10/3/2014	\$	\$ 665,000	\$ 1,330,000					\$
	11/19/2014(5)	9/23/2014							34,441	792,143
Peter D. Hunt <i>SVP &amp; CFO</i>	11/19/2014(4)	9/23/2014		181,350	362,700				100,828	2,319,044
	11/19/2014(5)	9/23/2014							16,558	380,834
E. Frances Fiorillo <i>SVP People &amp; In-flight Service</i>	11/19/2014(4)	9/23/2014		150,750	301,500				13,149	302,427
	11/19/2014(5)	9/23/2014							14,571	335,133
Stephen A. Forte <i>Chief Operating Officer</i>	11/19/2014(4)	9/23/2014		225,500	451,000				9,522	219,006
	11/19/2014(5)	9/23/2014							18,545	426,535
John J. Varley <i>SVP &amp; General Counsel</i>	11/19/2014(4)	9/23/2014		150,750	301,500				14,571	335,133
	11/19/2014(5)	9/23/2014							12,491	287,293

## Edgar Filing: Virgin America Inc. - Form S-1

- (1) Represents the approval date at which time the board of directors approved equity awards contingent on the completion of our initial public offering.
- (2) Constitutes target and maximum amounts payable under the ICP for 2014. The ICP does not include a threshold. The performance goals for determining the payout are described in Executive Compensation Incentive Compensation above. Actual payouts are reported in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table.
- (3) This amount represents the grant date fair value of RSUs calculated in accordance with ASC Topic 718 for stock-based compensation. For additional information on the valuation assumptions, see Note 11 to our consolidated financial statements included elsewhere in this prospectus.
- (4) Constitute restricted stock units that vest in 3 equal installments on November 19, 2015, 2016, and 2017.
- (5) This award, which was fully vested on 11/19/14, was made to partly counter the dilutive impact of our recapitalization in 2014.

**Table of Contents****Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards****Offer Letters**

We have entered into standard offer letters with each of our NEOs, which provide for a base salary, target annual incentive compensation and standard benefits. Other than the severance benefits described below under Potential Payments upon Termination or Change in Control, there are no executory obligations of the company under these offer letters.

**Outstanding Equity Awards at December 31, 2014**

The following table lists all outstanding equity awards held by our NEOs as of December 31, 2014.

Name	Grant Date	Option Awards			Option Exercise Price (\$)	Option Expiration Date	Stock Awards	
		Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)			Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(11)
C. David Cush	1/12/2010				\$		209,578(1)	\$ 9,064,249
	7/8/2013						66,234(2)	2,864,621
	7/8/2013						298,054(3)	12,890,836
	11/19/2014						34,441(9)	1,489,573
Peter D. Hunt	7/20/2011	7,948	2,649(4)		16.61	7/20/2021		
	7/20/2011			26,493(5)	16.61	7/20/2021		
	5/13/2013			66,234(6)	16.53	5/13/2023		
	5/13/2013						31,097(7)	1,344,945
	11/19/2014						16,558(9)	716,134
E. Frances Fiorillo	10/12/2006	8,375			12.98	10/12/2016		
	1/12/2010			20,289(8)	12.98	1/12/2020		
	5/13/2013			49,013(6)	12.98	5/13/2023		
	5/13/2013						22,519(7)	973,947
	11/19/2014						14,571(9)	630,196
Stephen A. Forte	5/13/2013			66,234(10)	8.45	5/13/2023		
	11/19/2014						18,545(9)	802,071
John J. Varley	7/6/2010	10,597			12.98	7/6/2020		
	7/6/2010			26,493(9)	12.98	7/6/2020		
	5/13/2013			43,052(6)	12.98	5/13/2023		
	5/13/2013						29,540(7)	1,277,605
	11/19/2014						14,751(9)	603,196

(1) Subject to continued service with us through each vesting date, the 209,578 shares subject to this RSU award will vest monthly over two years, provided that, following the completion of our initial public offering, the price of our publicly traded common stock exceeds and has exceeded \$18.87 per share with respect to 157,184 shares or \$26.42 per share with respect to 52,394 shares on a daily moving-average basis for the preceding six months.

## Edgar Filing: Virgin America Inc. - Form S-1

- (2) Subject to continued service with us through each vesting date, following the completion of our initial public offering, (a) 33,117 shares subject to this RSU award will vest upon the date on which the price of our publicly traded common stock exceeds \$30.20 per share on a daily moving-average basis for preceding six months, and (b) 33,117 shares subject to this RSU award will vest upon the date on which the price of our publicly traded common stock exceeds \$37.74 per share on a daily moving-average basis for preceding six months.

**Table of Contents**

(3) One-third of the total number of shares subject to this RSU award vests on each date that is 12 months, 24 months and 36 months after the completion of our initial public offering, subject to continued service with us through each vesting date, provided that our stock price exceeds and has exceeded a certain stock price trigger on a daily moving-average basis for the preceding six months defined as follows: 46,364 of the total number of shares subject to this RSU award have a \$18.87 stock price trigger;

66,234 of the total number of shares subject to this RSU award have a \$26.42 stock price trigger;

92,728 of the total number of shares subject to this RSU award have a \$30.20 stock price trigger; and

92,728 of the total number of shares subject to this RSU award have a \$37.74 stock price trigger.

(4) 2,649 shares subject to this option will vest on July 11, 2015, subject to continued service with us through the vesting date.

(5) One-third of the shares subject to this option vest on each anniversary of July 11, 2011, subject to continued service with us through each vesting date. The vested shares subject to the option become exercisable following the completion of our initial public offering on the date on which the closing trading price and the six-month moving-average price of our publicly traded common stock is equal to or greater than \$26.42 per share.

(6) All of the shares subject to this option vested on the completion of the initial public offering of our common stock. The vested shares subject to the option become exercisable on the date on which the closing trading price and the six-month moving-average price of our publicly traded common stock is equal to or greater than \$26.42 per share.

(7) Subject to continued service with us through each vesting date, the total number of shares subject to this RSU award will vest upon the earlier of (i) a change in control resulting in proceeds to common stockholders of at least \$30.20 per share or (ii) the date the 90-day moving-average price of our publicly traded common stock exceeds \$30.20 per share following the expiration of any underwriters' lock-up period following the completion of our initial public offering.

(8) 1,987 of the shares subject to this option vested immediately on August 13, 2012. The remaining shares vest in annual installments of 25% of the total number of shares subject to the option on each vesting date, subject to continued service with us through each vesting date.

(9) Shares subject to these RSUs were granted upon the completion of our initial public offering. One-third of such shares vest annually on November 19, 2015, 2016, and 2017, subject to continued service with us through each vesting date.

(10) One-third of the shares subject to this option vest on each anniversary of April 8, 2013, subject to continued service with us through each vesting date. The vested shares subject to the option become exercisable following the completion of our initial public offering on the date on which the closing trading price and the six-month moving-average price of our publicly traded common stock is equal to or greater than \$26.42 per share.

(11) The amount listed in this column represents the product of the closing market price of our company's stock as of December 31, 2014 (\$43.25) multiplied by the number of shares of stock subject to the award.

**Option Exercises and Stock Vested in 2014**

Name	Option Awards		Stock Awards	
	Number of Securities Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting (1)	Value Realized on Vesting (2)
C. David Cush		\$	100,828	\$ 2,319,044
Peter D. Hunt			13,149	302,427
E. Frances Fiorillo			9,522	219,006
Stephen A. Forte				
John J. Varley			12,491	287,293

(1) Represents fully vested shares of our common stock granted in November 2014.

(2) Represents the vesting date closing market price of a share of our common stock multiplied by the number of fully vested shares that were granted.

**Pension Benefits**

## Edgar Filing: Virgin America Inc. - Form S-1

None of our NEOs participates in or has account balances in defined benefit plans sponsored or maintained by us, as we have no such plans.

---

**Table of Contents**

**Nonqualified Deferred Compensation**

None of our NEOs participate in or have account balances in non-qualified defined contribution plans or other deferred compensation plans sponsored or maintained by us, as we have no such plans.

**Potential Payments upon Termination or Change in Control**

Under the offer letter entered into with Mr. Cush in connection with the commencement of his employment, if we terminate Mr. Cush for other than cause or if he resigns for good reason (as each such term is defined in Mr. Cush's offer letter), Mr. Cush is entitled to a cash payment equal to 24 months' base salary.

Under the offer letter entered into with Mr. Forte in connection with the commencement of his employment, if we terminate Mr. Forte for other than cause or if he resigns for good reason (as each such term is defined in his employment letter), Mr. Forte is entitled to a cash payment equal to 12 months' base salary.

Under the offer letter entered into with Mr. Varley in connection with the commencement of his employment, if we terminate Mr. Varley for other than cause or if he resigns for good reason (as each such term is defined in Mr. Varley's offer letter), Mr. Varley is entitled to a cash payment equal to 12 months' base salary.

Under the offer letter entered into with Ms. Fiorillo, if we terminate Ms. Fiorillo's employment for other than cause (as defined in the offer letter), Ms. Fiorillo is entitled to receive a payment equal to six months' base salary. In addition, based on her age and years of service to us, Ms. Fiorillo would also qualify for a retired officer travel benefit which provides leisure travel flight benefits on Virgin America during her retirement equivalent to those available to her as an officer.

In connection with our initial public offering, we adopted a Change in Control Severance Plan, or the Severance Plan, pursuant to which each of our NEOs is eligible for certain severance and change in control benefits. Under the Severance Plan, in the event that the NEO is terminated without Cause or resigns for Good Reason (each as defined below) during the 18-month period immediately following a change in control (as defined in the 2014 Plan) of our company, then such NEO is entitled to receive (i) a lump sum cash severance payment equal to two times the sum of the NEO's base salary and his or her target annual cash bonus opportunity for the year of termination; (ii) payment by us of COBRA premiums for up to 24 months following the date of termination; (iii) full accelerated vesting of each of the NEO's then outstanding equity awards; (iv) career counseling and career transition services paid by us in an amount up to \$10,000; and (v) lifetime confirmed space first class air travel for the NEO and his or her covered family members and dependents for leisure travel. Under the Severance Plan, the NEO must provide a general release of claims against the company in order to receive the foregoing severance benefits.

Under the 2005 Stock Plan, if a participant's employment is terminated without cause or constructively terminated within one year following a change in control event (as each such term is defined in the 2005 Stock Plan), then 50% of the shares subject to options held by the participant become vested and exercisable immediately. In addition, the vesting of certain performance-based options and RSUs accelerates in the event of certain changes in control as more specifically described in the footnotes to the Outstanding Equity Awards at December 31, 2014 table above.

**Table of Contents**

The table below quantifies certain compensation and benefits that would have become payable to each of our NEOs if his or her employment had terminated on December 31, 2014, as a result of each of the termination scenarios described below, taking into account the NEO's compensation as of that date.

Name of Executive		Severance (\$)	Value of Unvested Restricted Stock Awards (\$) (3)	Value of Unvested Option Awards (\$) (4)	Life Insurance Proceeds (\$) (5)	Other (\$)	Total (\$)
Officer	Termination Scenario						
C. David Cush	Termination Not Involving a Change in Control						
	Termination for Cause	\$	\$	\$	\$	\$	\$
	Termination without Cause or Resignation for Good Reason	1,330,000	(1)				1,330,000
	Death Disability				750,000		750,000
Peter D. Hunt	Termination Not Involving a Change in Control						
	Termination for Cause						
	Termination without Cause or Resignation for Good Reason		(1)				
	Death Disability				750,000		750,000
E. Frances Fiorillo	Termination Not Involving a Change in Control						
	Termination for Cause						
	Termination without Cause or Resignation for Good Reason	167,500	(1)			6,644	174,144
	Death Disability				750,000		750,000
Stephen A. Forte	Termination Not Involving a Change in Control						
	Termination for Cause						
	Termination without Cause or Resignation for Good Reason	410,000	(1)				410,000
	Death Disability				750,000		750,000
John J. Varley	Termination Not Involving a Change in Control						
	Termination for Cause						
	Termination without Cause or Resignation for Good Reason	1,271,000	(2)	802,071	1,909,747	74,287	4,057,105
	Continuation of Employment						



## Edgar Filing: Virgin America Inc. - Form S-1

Termination for Cause						
Termination without Cause or Resignation for Good Reason	335,000	(1)				335,000
Death				750,000		750,000
Disability						
Termination Involving a Change in Control						
Termination without Cause or Resignation for Good Reason	971,500	(2)	1,907,801		39,515	(6) 2,918,816
Continuation of Employment						

- (1) Constitutes a percentage of base salary as negotiated in each NEO's offer letter.
- (2) Constitutes two times the sum of the NEO's base salary and his or her target annual cash bonus opportunity.
- (3) Value calculated by multiplying \$43.25, which constitutes the closing trading price of our common stock as of December 31, 2014, times the number of restricted stock units outstanding as of December 31, 2014. The number of unvested stock awards were as follows: Mr. Cush 608,307; Mr. Hunt 47,655; Mrs. Fiorillo 37,090; Mr. Forte 18,545; and Mr. Varley 44,111.
- (4) Value constitutes the value of the stock underlying the unvested stock options based on \$43.25 per share, which is the closing trading price of our common stock as of December 31, 2014, over the exercise price of the stock options. The number of unvested stock options were as follows: Mr. Cush 0; Mr. Hunt 2,649; Mrs. Fiorillo 0; Mr. Forte 44,156; and Mr. Varley 0.

**Table of Contents**

- (5) Our NEOs receive life insurance proceeds equal to three times their salary, capped at \$750,000. We pay the premiums for term life insurance for all eligible teammates ranging from one to three times the annual salary amount.
- (6) Constitutes (i) COBRA premiums for up to 24 months following the date of termination, (ii) career counseling and career transition services in an amount up to \$10,000 and (iii) lifetime confirmed space first class leisure air travel for the NEO and his or her covered family members and dependents. The travel benefit was estimated using our incremental cost of providing flight benefits (including incremental fuel costs and the incremental cost of customer services such as baggage handling, insurance, security and cleaning) using a discount based on mortality assumptions listed on the U.S. Life Expectancy Tables and an estimate of flight usage by each NEO and his or her family members.
- (7) Mrs. Fiorillo would qualify for the retired officer complementary travel benefit in connection with her termination of employment.

**Compensation Risk Assessment**

Management has presented its assessment of the risks involved with our executive compensation program to our compensation committee to ensure that such programs do not encourage our teammates to take excessive or unnecessary risks or to engage in decision-making that promotes short-term results at the expense of our long-term interests. This risk assessment process included a review by management of all of our compensation policies and practices, with a focus on the programs with variability of payout, where actions by the participant could directly affect payout. Management also assessed our compensation programs against potential risks relating to pay mix, performance metrics and payment timing. As a result of this review, no area of risk was determined by management to be reasonably likely to have a material adverse effect on us.

In reaching its conclusion that our compensation policies and practices do not give rise to risks that are reasonably likely to have a material adverse effect on us, management considered the following policies and practices that are incorporated into our executive compensation program to ensure that it reflects an appropriate balance between the achievement of short-term and long-term results:

***Balanced Mix of Compensation Components*** The target compensation mix for our executive officers is composed of base salary, annual cash incentive compensation and long-term incentive compensation in the form of equity awards, which provides a compensation mix that is not overly weighted toward short-term cash incentives.

***Incentive Compensation Plan Uses a Diverse Mix of Performance Objectives*** Our ICP uses a mix of strategic objectives, including financial, operational, guest service and safety/teammate engagement measurements to reward our executive performance. Our financial performance component is also balanced and measures results achieved in operating income, passenger revenue per available seat mile, or PRASM, ancillary revenue from customers and CASM ex-fuel. In addition, the compensation committee exercises discretion in determining compensation amounts, including corporate and individual performance, and our ICP does not pay out unless pre-established target levels for one or more measures are met.

***Long-Term Incentive Compensation Vesting*** Our long-term incentives are equity-based, with multi-year vesting required to complement our annual cash incentive compensation plan. As a result, the financial opportunity in our equity rewards program is best realized through long-term appreciation of our stock price, which mitigates excessive short-term risk-taking. Our equity-based awards generally vest over a three- or four-year period, subject to the executive's continuing service with the company. This promotes alignment of our management team's interests with our long-term objectives and with stockholders' interests.

---

**Table of Contents**

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

We describe below transactions and series of similar transactions, during our last three fiscal years, to which we were a party or will be a party, in which:

the amounts involved exceeded or will exceed \$120,000; and

any of our directors, executive officers, holders of more than 5% of our common stock or any member of their immediate family had or will have a direct or indirect material interest.

**Underwriting Agreement**

On November 13, 2014, we entered into an underwriting agreement pursuant to which we and certain of our stockholders, including Cyrus Holdings and the Virgin Group, sold an aggregate of 15,338,225 shares of our company's common stock to Barclays Capital Inc., Deutsche Bank Securities Inc. and the other underwriters listed in such underwriting agreement.

**Virgin License Agreements**

In April 2007, we entered into a trademark license agreement with certain entities affiliated with the Virgin Group under which we were granted the exclusive right to operate our airline under the brand name Virgin America within the United States (including Puerto Rico), Canada and Mexico, as well as the right to operate our airline under such name from any of the foregoing countries to points in the Caribbean, which we refer to as the Airline License. In March 2013, we amended the Airline License to expand our rights and the rights of Virgin Atlantic Airways (an affiliate of the Virgin Group) to codeshare with other airlines. The term of the Airline License, as amended, is 15 years from the original date of execution, and the Airline License is renewable for an additional 15-year term if we meet certain revenue targets. The Airline License may be terminated upon the occurrence of a number of specified events, including if we commit a material breach of our obligations under the agreement that is uncured for more than 10 business days or if we materially damage the brand.

Separately, in November 2008, we entered into a trademark license agreement with certain other entities affiliated with the Virgin Group that allows us to promote and offer a Virgin America branded credit card, which is structured to tie to our Elevate loyalty program, which we refer to as the Credit Card License. The Credit Card License is exclusive to the United States only and otherwise has identical terms as the Airline License.

Under the Airline License and the Credit Card License described below, we pay the Virgin Group royalties equal to 0.5% of our revenues from the operation of our airline and certain other activities traditionally associated with the airline industry. We paid license fees of \$5.2 million, \$6.7 million, \$7.1 million and \$7.5 million for 2011, 2012, 2013 and 2014.

On November 19, 2014, we and certain entities affiliated with the Virgin Group entered into amended and restated license agreements related to our use of the Virgin name and brand under the Airline License and the Credit Card License. The amended and restated license agreements provide for, among other things:

an extension of our right to use the Virgin name and brand until 25 years after November 19, 2014;

commencing in the first quarter of 2016, an increase in the annual license fee that we pay to the Virgin Group from 0.5% to 0.7% of our total revenue until our total annual revenue exceeds \$4.5 billion, at which point our license fee would be 0.5%; and

the right to appoint a director to our board of directors, but only to the extent the Virgin Group does not otherwise have a representative sitting on our board of directors.

**Limit on Virgin Group's Ownership of Voting Common Stock**

## Edgar Filing: Virgin America Inc. - Form S-1

On November 19, 2014, we entered into an agreement with certain entities affiliated with the Virgin Group that limits the Virgin Group and its affiliates (as defined in the Securities Exchange Act of 1934, as amended)

**Table of Contents**

from acquiring additional shares of voting stock if, as a result of such acquisition, the Virgin Group would hold in excess of 20% of the total outstanding shares of voting stock, without our consent. This limit on the Virgin Group's ownership of voting stock is designed to assist our compliance with current federal law that restricts persons who are not U.S. citizens from owning more than 24.9% of our voting stock. Our agreement with the Virgin Group provides that, if this law is amended to permit persons who are not citizens of the United States to own more than 24.9% of the outstanding shares of our voting stock, then the limit will be adjusted to become 5% less than the maximum percentage of our voting stock which the revised federal law would allow non-U.S. citizens to own.

**Related-Party Warrants**

The following table summarizes warrants that we issued to our directors, executive officers and holders of five percent of our outstanding capital stock, including the Related-Party Warrants issued to the Virgin Group and Cyrus Capital. None of the warrants below remain outstanding after the 2014 Recapitalization. See 2014 Recapitalization below as well as 2014 Recapitalization elsewhere in this prospectus.

<b>Holder</b>	<b>Issuance Date</b>	<b>Shares</b>	<b>Exercise Price Per Share</b>
Cyrus Capital	January 2010	278,847	\$ 37.74
	January 2010	883,126	75.49
	January 2010	2,649,380	113.23
	January 2010	3,974,070	150.98
	December 2011	2,550,023	26.42
	May 2013	1,622,021	18.87
The Virgin Group	January 2010	7,948,140	37.74
	May 2013	20,593,027	18.87
	May 2013	986,487	0.08
VAI MBO Investors LLC (1)	January 2010	441,563	75.49

- (1) Limited liability company interests of VAI MBO Investors LLC were held by holders including C. David Cush, Samuel K. Skinner, Donald J. Carty, Cyrus F. Freidheim, Jr. and Robert A. Nickell, each of whom is a member of our board of directors, and their immediate family members, of which the managing member was C. David Cush, our President and Chief Executive Officer.

**Related-Party Notes**

The following tables summarizes the Related-Party Notes issued to the Virgin Group and Cyrus Capital since January 1, 2008 and prior to the 2014 Recapitalization:

<b>Issuance Date</b>	<b>Original Principal Amount</b>	<b>Original Interest Rate</b>	<b>Amended Interest Rate</b>
May - September 2008	\$ 100.0 million	15.0%	5.0%
September - November 2008	40.0 million	20.0%	5.0%
November 2008 - October 2010	88.0 million	20.0%	5.0%
October 2010 - November 2011	68.4 million	20.0%	5.0%
December 2011	150.0 million	17.0%	17.0%
May 2013	75.0 million	17.0%	17.0%

All Related-Party Notes had a maturity of June 9, 2016, if not earlier repaid or redeemed and bore interest at the rate set forth above, compounded annually, except for the December 2011 Notes, which bore interest at a rate of 17.0% per annum, of which 8.5% was payable quarterly in arrears and 8.5% was compounded annually. When



---

## **Table of Contents**

they were outstanding, the Related-Party Notes were redeemable at our option at any time and at the lenders' option upon a change of control or certain qualified sales. We also would have been required to redeem the Related-Party Notes upon the incurrence of any senior debt.

In May 2013, in connection with the 2013 Recapitalization, we, the Virgin Group and Cyrus Capital agreed to modify and exchange a portion of our then outstanding Related-Party Notes. The Virgin Group and Cyrus Capital reduced \$318.4 million of our Related-Party Notes (including accrued payment-in-kind interest) and reduced the interest rates on all but the December 2011 Notes as reflected in the table above.

All of the Related-Party Notes described above were secured by substantially all of our assets not otherwise encumbered, and the parties were bound by the terms of an amended and restated intercreditor agreement, which sets forth the rights of the lenders.

None of the Related-Party Notes remain outstanding after the 2014 Recapitalization. See "2014 Recapitalization" below as well as "2014 Recapitalization" elsewhere in this prospectus.

### **2014 Recapitalization**

On November 13, 2014, we entered into the 2014 Recapitalization Agreement with Cyrus Capital and the Virgin Group, that provided for the disposition of all of the Related-Party Notes and all outstanding warrants to purchase shares of our common stock. Pursuant to the 2014 Recapitalization Agreement, we retained \$219.9 million of net proceeds in connection with our initial public offering and used the remaining net proceeds of \$56.5 million to repay a portion of the total of \$684.8 million of principal and accrued interest outstanding under the Related-Party Notes. Remaining principal and accrued interest under the Related-Party Notes was either (1) exchanged for the Post-IPO Note, which is described below under "Post-IPO Note"; (2) repaid in connection with the release to us of cash collateral held by our credit card processors in exchange for the Letter of Credit Facility, which is described below under "Letter of Credit Facility"; or (3) exchanged for shares of our common stock. In addition, the outstanding warrants to purchase shares of our common stock were either exchanged without receipt of cash consideration for shares of our common stock or canceled in their entirety. Prior to the consummation of the transactions contemplated by the 2014 Recapitalization Agreement, the Virgin Group held approximately \$420.2 million aggregate principal amount and accrued interest of the Related-Party Notes, and Cyrus Capital held approximately \$264.6 million aggregate principal amount and accrued interest of the Related-Party Notes. The Virgin Group and Cyrus Capital also held the majority of our outstanding warrants.

### **Post-IPO Note**

On November 19, 2014, in connection with the transactions contemplated by the 2014 Recapitalization Agreement, we issued the Post-IPO Note, to the Virgin Group in exchange for the cancellation of \$50.0 million of outstanding principal of Related-Party Notes held by the Virgin Group. The Post-IPO Note is our senior unsecured obligation, bears interest at a rate of 5.0% per annum, compounded annually, and will become due on November 19, 2022, or November 19, 2020 if we are no longer required to provide collateral to our credit card transaction processors and can therefore terminate the Letter of Credit Facility described below. In addition, in connection with the issuance of the Post-IPO Note, we agreed to restrictions preventing us from incurring any future secured indebtedness related to our unencumbered assets unless the Post-IPO Note is secured on a *pari passu* basis with such debt.

### **Registration Rights**

On November 13, 2014, we entered into a registration rights agreement pursuant to which Cyrus Capital and the Virgin Group, their respective transferees and certain other investors are entitled to certain demand and "piggyback" registration rights, subject to lock-up arrangements and certain restrictions.

## **Table of Contents**

### **Letter of Credit Facility**

On November 19, 2014, the Virgin Group arranged for the Letter of Credit Facility to be issued on our behalf to certain companies that process substantially all of our credit card transactions. The Letter of Credit Facility allows these companies to release approximately \$100.0 million of cash collateral to us. In connection with the release of this cash collateral, we used \$100.0 million to repay principal and accrued interest due under certain of the Related Party Notes held by the Virgin Group. The Letter of Credit Facility contains an annual commitment fee of 5.0% payable by us to the Virgin Group, and the Virgin Group shall provide this Letter of Credit Facility for a period of five years from November 19, 2014. In addition, we are responsible for annual fees associated with the issuance and maintenance of the Letter of Credit Facility. The Letter of Credit Facility will only become an obligation of ours if one or both of our credit card processors were to draw on the Letter of Credit Facility. In addition, we agreed to restrictions preventing us from incurring any future secured indebtedness related to our unencumbered assets unless our reimbursement obligations to the Virgin Group are secured on a *pari passu* basis with such secured debt. The Letter of Credit Facility will be reduced or terminated to the extent that collateral requirements are decreased or eliminated by our credit card transaction processors. On November 18, 2014, we entered into an amendment to its agreement with American Express Travel Related Services Company, Inc., or Amex in order to provide that the holdback provided for in such agreement will be reduced by the amount of any letter of credit provided to Amex by certain financial institutions, which will include the letter of credit provided by the Letter of Credit Facility.

### **PAR Capital Private Placement**

PAR Investment Partners, L.P., or PAR Capital, purchased approximately \$52.1 million of common stock, or 2,264,492 shares, from the Virgin Group and Cyrus Holdings in a private placement at a price per share equal to 96% of the initial public offering price. In connection with this private placement, we paid to the Virgin Group and Cyrus Holdings an aggregate amount of approximately \$2.1 million, the aggregate discount to the initial public offering price of the shares purchased by PAR Capital from the Virgin Group and Cyrus Holdings.

### **Indemnification Agreements**

We have entered into indemnification agreements with each of its directors and executive officers. These agreements, among other things, require us to indemnify each director and executive officer to the fullest extent permitted by Delaware law, including indemnification of expenses such as attorneys' fees, judgments, fines and settlement amounts incurred by the director or executive officer in any action or proceeding, including any action or proceeding by or in right of us, arising out of the person's services as a director or executive officer.

### **Policies and Procedures for Related-Party Transactions**

Our board of directors has adopted a written related-party policy setting forth the policies and procedures for the review and approval or ratification of related-person transactions by the audit committee. This policy covers any transaction, arrangement or relationship, or any series of similar transactions, arrangements or relationships in which we are to be a participant, the amount involved exceeds \$120,000 and a related party had or will have a direct or indirect material interest, including purchases of goods or services by or from the related party or entities in which the related party has a material interest, indebtedness, guarantees of indebtedness and employment by us of a related party.



---

**Table of Contents**

**PRINCIPAL AND SELLING STOCKHOLDERS**

The following table sets forth, as of December 31, 2014, information regarding beneficial ownership of our common stock by:

each person, or group of affiliated persons, known by us to beneficially own more than 5% of our voting securities;

each selling stockholder;

each of our named executive officers;

each of our directors; and

all of our executive officers and directors as a group.

The number of shares beneficially owned by each person or entity is determined in accordance with the rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, a person's or entity's beneficial ownership includes any shares over which he, she or it has sole or shared voting power or investment power as well as any shares that the person or entity has the right to acquire within 60 days of December 31, 2014 through the exercise of any stock option, warrants or other rights. Common stock that a person or entity has the right to acquire within 60 days of December 31, 2014 are deemed to be outstanding for computing such person's or entity's percentage ownership and the percentage ownership of any group of which the holder is a member but are not deemed outstanding for computing the percentage ownership of any other person or entity. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the individuals and entities named in the table below have sole voting and investment power with respect to all shares of common stock shown that they beneficially own, subject to community property laws where applicable.

We have based our calculation of the percentage of beneficial ownership prior to the offering on 43,119,886 shares of common stock outstanding (on an as converted to common stock basis) as of December 31, 2014, excluding, except where indicated, the 6,852,738 shares of non-voting common stock outstanding. We have based our calculation of the number of shares outstanding after the offering and the percentage of beneficial ownership after the offering on 43,119,886 shares of our common stock outstanding immediately after the completion of this offering, which number excludes, except where indicated, certain shares of non-voting common stock that will be outstanding immediately after the completion of this offering. Unless otherwise noted below, the address for each of the named executive officers in the table below is c/o Virgin America Inc., 555 Airport Boulevard, Burlingame, California 94010.

**Table of Contents**

Name of Beneficial Owner	Beneficial Ownership Prior to this Offering				Beneficial Ownership After this Offering		Beneficial Ownership After this Offering if the Option to Purchase Additional Shares is Exercised in Full	
	Shares Held	Shares Exercisable Within 60 Days	Shares Beneficially Owned	Percentage of Beneficial Ownership	Shares Beneficially Owned	Percentage of Beneficial Ownership	Shares Beneficially Owned	Percentage of Beneficial Ownership
<b>5% and Greater Stockholders:</b>								
Cyrus Aviation Holdings, LLC (1)	10,509,208		10,509,208	29.0%	8,597,443	21.5%	8,310,678	20.5%
VX Holdings, L.P. (2)	6,890,758	2,832,947	9,723,705	24.9%	10,698,876	24.9%	10,361,143	24.0%
PAR Investment Partners, L.P. (3)	2,264,492		2,264,492	6.2%	2,264,492	5.7%	2,264,492	5.6%
<b>Named Executive Officers and Directors:</b>								
C. David Cush (4)	202,626		202,626	*	202,626	*	202,626	*
Peter D. Hunt	8,207	7,947	16,154	*	16,154	*	16,154	*
E. Frances Fiorillo	5,943	8,375	14,318	*	14,318	*	14,318	*
Stephen A. Forte								
John J. Varley	7,796	10,597	18,393	*	18,393	*	18,393	*
Donald J. Carty	133,453		133,453	*	133,453	*	133,453	*
Cyrus F. Freidheim, Jr.	44,712		44,712	*	44,712	*	44,712	*
Stephen C. Freidheim (5)	10,509,208		10,509,208	29.0%	8,597,443	21.5%	8,310,678	20.5%
Evan M. Lovell								
Robert A. Nickell	132,977		132,977	*	132,977	*	132,977	*
John R. Rapaport								
Samuel K. Skinner	28,317		28,317	*	28,317	*	28,317	*
Stacy J. Smith								
<b>All 14 current directors and executive officers as a group</b>	<b>11,079,514</b>	<b>32,880</b>	<b>11,112,394</b>	<b>30.6%</b>	<b>9,200,629</b>	<b>23.0%</b>	<b>8,913,864</b>	<b>22.0%</b>

\* Represents beneficial ownership of less than one percent of the outstanding shares of common stock.

- (1) Shares of common stock listed in the column entitled **Beneficial Ownership After this Offering** in the table above reflect the sale of 1,911,765 shares of common stock in this offering by Cyrus Aviation Holdings, LLC ( **Cyrus Holdings** ). Shares of common stock listed in the column entitled **Beneficial Ownership After this Offering if the Option to Purchase Additional Shares is Exercised in Full** in the table above reflect the sale of 2,198,530 shares of common stock in this offering by Cyrus Holdings. Cyrus Holdings is managed by Cyrus Capital Partners, L.P. ( **CCP** ). The general partner of CCP is Cyrus Capital Partners, GP, L.L.C. ( **GP** ). GP is solely owned through limited liability company interests held by Stephen C. Freidheim, who has sole voting and dispositive power over the shares held by Cyrus Holdings. The principal business address of Cyrus Holdings is c/o Cyrus Capital Partners, L.P., 399 Park Avenue, 39th Floor, New York, New York 10022.
- (2) VX Holdings, L.P. ( **VX Holdings** ) holds 6,890,758 shares of voting common stock and 6,852,738 shares of non-voting common stock. Shares of common stock listed in the column entitled **Beneficial Ownership Prior to this Offering** in the table above include all shares of voting common stock and 2,832,947 shares of non-voting common stock that are currently convertible into shares of our voting common stock, which is the maximum number of shares of non-voting common stock that could be converted into additional shares of our voting common stock due to restrictions in our certificate of incorporation designed to ensure compliance with certain federal requirements. Shares of common stock listed in the column entitled **Beneficial Ownership After this Offering** in the table above include all shares of voting common stock held by VX Holdings after this offering and the maximum number of shares of non-voting common stock that could be converted into additional shares of voting common stock after this offering in compliance with restrictions in our certificate of incorporation designed to ensure compliance with certain federal requirements, in each case after giving effect to the sale by VX Holdings of 2,941,177 shares of voting common stock in this offering. Shares of common stock listed in the column entitled **Beneficial Ownership After this Offering if the Option to Purchase Additional Shares is Exercised in Full** in the table above include all shares of voting common stock held by VX Holdings after this offering and all shares of non-voting common stock held by VX Holdings after this offering (because after giving effect to the full exercise of the option to purchase additional shares by the underwriters, all such shares of non-voting common stock could be converted into additional shares of voting common stock in compliance with the restrictions in our



**Table of Contents**

certificate of incorporation designed to ensure compliance with certain federal requirements), in each case after giving effect to the sale by VX Holdings of 3,382,353 shares of voting common stock in this offering. VX Holdings has also agreed contractually to limit its holdings of our voting common stock to 20.0% of our outstanding shares of voting common stock. Corvina Holdings Limited, a company incorporated in the British Virgin Islands ( Corvina ) is the sole general partner of VX Holdings. Corvina and Virgin Group Holdings Limited, a company incorporated in the British Virgin Islands ( VGHL ), are the sole limited partners of VX Holdings. Corvina is a wholly owned subsidiary of VGHL. VGHL is jointly owned by (i) Sir Richard Branson, (ii) Deutsche Bank Trustee Services (Guernsey) Limited, solely in its capacity as trustee on behalf of The Virgo Trust, The Libra Trust, The Libra No. 2 Trust, The Leo Trust, The Gemini Trust and The Gemini No. 2 Trust (such trusts collectively referred to as the DB Trusts ) and (iii) RBC Trustees (C.I.) Limited, solely in its capacity as trustee on behalf of The Aquarius Trust, The Aries Trust, The Capricorn Trust and The Pisces Trust (such trusts collectively referred to as the RBC Trusts ). The principal beneficiaries of the DB Trusts and the RBC Trusts are Sir Richard Branson and/or certain members of his family. The address of VX Holdings is 65 Bleecker Street, 6th Floor, New York, New York 10025. The address for Deutsche Bank Trustee Services (Guernsey) Limited and each of the DB Trusts is c/o Lefebvre Court, Lefebvre Street, St. Peter Port, Guernsey GY1 3WT Channel Islands. The address for Corvina, VGHL, RBC Trustees (C.I.) Limited and each of the RBC Trusts is c/o La Motte Chambers, La Motte Street, St. Helier, Jersey, JE1 1BJ Channel Islands. The address of Sir Richard Branson is Richard s House, PO Box 1091, The Valley, Virgin Gorda, Necker Island, British Virgin Islands.

- (3) As reported on Schedule 13G filed with the SEC on December 1, 2014. PAR Capital Management, Inc. ( PCM ), as the general partner of PAR Group, L.P., which is the general partner of PAR Capital, has investment discretion and voting control over shares held by PAR Investment Partners, L.P. ( PAR Capital ). No stockholder, director, officer or employee of PCM has beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of any shares held by PAR Capital. The shares held by PAR Capital are part of a portfolio managed by Edward L. Shapiro. As an employee of PCM, Mr. Shapiro has the authority to make investment decisions with respect to shares held by PAR Capital. The principal business address of PAR Capital is One International Place, Suite 2401, Boston, Massachusetts 02110.
- (4) Shares of common stock listed in the table above consist of 86,515 shares held by The Cush Revocable Trust, of which Mr. Cush is the trustee, and 116,111 shares held directly by Mr. Cush.
- (5) Consists of the shares listed in the table above with respect to Cyrus Holdings for which Mr. Freidheim has sole voting and dispositive power (as described in note 1 above).

---

**Table of Contents**

**DESCRIPTION OF CAPITAL STOCK**

**General**

Our amended and restated certificate of incorporation authorizes us to issue up to 650,000,000 shares of common stock, \$0.01 par value per share, 100,000,000 shares of non-voting common stock, \$0.01 par value per share, and 10,000,000 shares of preferred stock, \$0.01 par value per share. Shares of our non-voting common stock will be issued if and when required to comply with restrictions imposed by federal law on foreign ownership of U.S. airlines. See *Limitations on Foreign Owners*. All of our issued and outstanding shares of common stock and preferred stock are duly authorized, validly issued, fully paid and non-assessable. Our shares of common stock and non-voting common stock are not redeemable and do not have preemptive rights.

The following description of our capital stock and provisions of our amended and restated certificate of incorporation and amended and restated bylaws are summaries and are qualified by reference to each such respective document. A copy of each of these documents is filed as an exhibit to the registration statement of which this prospectus forms a part, and the following descriptions are qualified by reference to such documents.

**Common Stock**

*Dividend Rights.* Holders of our common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors out of legally available funds ratably with shares of our non-voting common stock, subject to preferences that may be applicable to any then outstanding preferred stock and limitations under Delaware law.

*Voting Rights.* Each holder of our common stock is entitled to one vote for each share on all matters submitted to a vote of the stockholders, including the election of directors. Our stockholders do not have cumulative voting rights in the election of directors. Accordingly, holders of a majority of the voting shares are able to elect all of the directors properly up for election at any given stockholders meeting.

*Liquidation.* In the event of our liquidation, dissolution or winding up, holders of our common stock will be entitled to share ratably with shares of our non-voting common stock in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities and the satisfaction of any liquidation preference granted to the holders of any then outstanding shares of preferred stock.

*Rights and Preferences.* Holders of our common stock have no preemptive, conversion, subscription or other rights, and there are no redemption or sinking fund provisions applicable to our common stock. The rights, preferences and privileges of the holders of our common stock are subject to and may be adversely affected by the rights of the holders of shares of any series of our preferred stock that we may designate in the future.

**Non-Voting Common Stock**

*Dividend Rights.* Holders of our non-voting common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors out of legally available funds ratably with shares of our common stock, subject to preferences that may be applicable to any then outstanding preferred stock and limitations under Delaware law.

*Voting Rights.* Shares of our non-voting common stock are not entitled to vote on any matters submitted to a vote of the stockholders, including the election of directors, except to the extent required under Delaware law.

*Conversion Rights.* Shares of our non-voting common stock will be convertible on a share-for-share basis into common stock at the election of the holder, subject to foreign ownership limitations.

## **Table of Contents**

*Liquidation.* In the event of our liquidation, dissolution or winding up, holders of our non-voting common stock will be entitled to share ratably with shares of our common stock in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities and the satisfaction of any liquidation preference granted to the holders of any then outstanding shares of preferred stock.

*Rights and Preferences.* Holders of our non-voting common stock have no preemptive, conversion, subscription or other rights, and there are no redemption or sinking fund provisions applicable to our non-voting common stock. The rights, preferences and privileges of the holders of our non-voting common stock are subject to and may be adversely affected by, the rights of the holders of shares of any series of our preferred stock that we may designate in the future.

## **Preferred Stock**

Our board of directors has the authority, without further action by our stockholders, to issue up to 10,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. These rights, preferences and privileges could include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, any or all of which may be greater than the rights of common stock. Our issuance of preferred stock could adversely affect the voting power of holders of common stock and non-voting common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation. In addition, the issuance of preferred stock could have the effect of delaying, deferring or preventing a change of control of our company or other corporate action. There are no shares of preferred stock outstanding, and we have no present plan to issue any such shares of preferred stock.

## **Registration Rights**

On November 13, 2014, we entered into a registration rights agreement pursuant to which the holders of approximately 27.5 million shares of our common stock (or 22.6 million shares of our common stock after giving effect to this offering, assuming no exercise of the option to purchase additional shares), and their respective transferees, are entitled to certain demand and piggyback registration rights, subject to lock-up arrangements and certain restrictions, as more fully described below.

### *Demand Registration Rights*

The holders of approximately 25.2 million shares of our common stock (or 20.4 million shares of our common stock after giving effect to this offering, assuming no exercise of the option to purchase additional shares), and their respective transferees, are entitled to certain demand registration rights. At any time beginning on the first day of the month following November 19, 2015, certain of our stockholders, including the Virgin Group, Cyrus Capital and certain of our directors and executive officers, and their respective transferees can, on not more than five occasions, request that we register all or a portion of their shares under the Securities Act totaling at least 5% of the then-outstanding common stock; provided that, if we are entitled to register their shares on a Form S-3, the 5% threshold shall be reduced to 1%. Once every 12 months, we may postpone for up to 90 days the filing or the effectiveness of a registration statement for a demand registration, if our board of directors determines that such registration statement would materially interfere with or require public disclosure of certain material corporate transactions or to prevent the disclosure of certain material non-public information. Additionally, subject to the provisions of the lock-up agreements described below, the investors party to the registration rights agreement have the right, upon written request, to have shares registered by us on a Form S-3, if we are eligible to file a registration statement on Form S-3, subject to certain limitations. In addition, we have agreed to cooperate with the Virgin Group or Cyrus Capital for the sale of stock with at least \$20.0 million of gross proceeds pursuant to an underwritten offering, not including a road show or a lock-up agreement of more than 60 days, but not more than five such sales per 12-month period.

## **Table of Contents**

### *Piggyback Registration Rights*

Subject to the restrictions of the lock-up agreements described below, in the event that we propose to register any of our securities under the Securities Act after November 19, 2014, the holders of approximately 27.5 million shares of our common stock (or 22.6 million shares of our common stock after giving effect to this offering, assuming no exercise of the option to purchase additional shares), including the Virgin Group, Cyrus Capital, PAR Capital and certain of our directors and executive officers, and their respective transferees, will be entitled to certain piggyback registration rights allowing the holder to include their shares in such registration, subject to certain marketing and other limitations. As a result, whenever we propose to file a registration statement under the Securities Act (other than with respect to our initial public offering or pursuant to a registration on Form S-4 or Form S-8 or any successor or similar forms), the holders of these shares are entitled to notice of the registration and have the right, subject to limitations that the underwriters may impose on the number of shares included in the registration, to include their shares in the registration.

### *Expenses of Registration, Restriction and Indemnification*

We will pay all registration expenses, including the legal fees of one counsel for all holders. The demand and piggyback registration rights are subject to customary restrictions such as blackout periods and any limitations on the number of shares to be included in the underwritten offering imposed by the managing underwriter. We and the holders of shares to which the registration rights apply have also agreed to customary indemnification provisions.

### **Anti-Takeover Provisions of Our Certificate of Incorporation and Bylaws**

Our amended and restated certificate of incorporation provides that our board of directors shall be divided into three classes, with staggered, three-year terms. Only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms. Because our stockholders do not have cumulative voting rights, our stockholders holding a majority of the shares of common stock outstanding will be able to elect all of our directors up for election at any given stockholders meeting. Our amended and restated certificate of incorporation and amended and restated bylaws provide that all stockholder actions must be effected at a duly called meeting of stockholders and not by a consent in writing (except by unanimous written consent), and that only our board of directors, the chairman of the board of directors, our chief executive officer or our president may call a special meeting of stockholders. The combination of the classification of our board of directors and the lack of cumulative voting will make it more difficult for our stockholders to replace our board of directors as well as for another party to obtain control of us by replacing our board of directors. Because our board of directors has the power to retain and discharge our officers, these provisions could also make it more difficult for stockholders or another party to effect a change in management. In addition, the authorization of undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change our control.

These provisions may have the effect of deterring hostile takeovers or delaying changes in our control or management. These provisions are intended to enhance the likelihood of continued stability in the composition of our board of directors and its policies and to discourage certain types of transactions that may involve an actual or threatened acquisition of us. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal. The provisions also are intended to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for our shares and, as a consequence, they also may inhibit fluctuations in the market price of our shares that could result from actual or rumored takeover attempts. Such provisions may also have the effect of preventing changes in our management.

## **Table of Contents**

*Section 203 of the Delaware General Corporation Law.* We are subject to Section 203 of the Delaware General Corporation Law, which prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years after the date that such stockholder became an interested stockholder, with the following exceptions:

before such date, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;

upon completion of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction began, excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) those shares owned (i) by persons who are directors and also officers and (ii) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

on or after such date, the business combination is approved by the board of directors and authorized at an annual or special meeting of the stockholders, and not by written consent, by the affirmative vote of at least  $66\frac{2}{3}\%$  of the outstanding voting stock that is not owned by the interested stockholder.

In general, Section 203 defines business combination to include the following:

any merger or consolidation involving the corporation and the interested stockholder;

any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;

subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;

any transaction involving the corporation that has the effect of increasing the proportionate share of the stock or any class or series of the corporation beneficially owned by the interested stockholder; or

the receipt by the interested stockholder of the benefit of any loss, advances, guarantees, pledges or other financial benefits by or through the corporation.

In general, Section 203 defines an interested stockholder as an entity or person who, together with the person's affiliates and associates, beneficially owns, or within three years prior to the time of determination of interested stockholder status did own, 15% or more of the outstanding voting stock of the corporation.

## **Limitations on Foreign Owners**

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 capital stock by non-U.S. citizens. The restrictions imposed by federal law currently require that no more than 24.9% of our voting 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 certificate of incorporation provides that no shares of our capital stock may be voted by or at the direction of non-U.S. citizens unless such shares are registered on a separate stock record, which we refer to as the foreign stock record. Our amended and restated bylaws further provide that no shares of our capital stock will be registered on the foreign stock record if the amount so registered would exceed the foreign ownership



## Edgar Filing: Virgin America Inc. - Form S-1

restrictions imposed by federal law. Presently, all members of our board of directors are U.S. citizens. 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.

## **Table of Contents**

All of our shareholders that are not U.S. citizens will in the aggregate own approximately 35.7% of our common stock after the offering.

### **Delaware as Sole and Exclusive Forum**

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware shall 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 any of our directors or officers 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 or (iv) any action asserting a claim against us governed by the internal affairs doctrine. As a result, any action brought by any of our stockholders with regard to any of these matters will need to be filed in the Court of Chancery of the State of Delaware and cannot be filed in any other jurisdiction.

### **Limitations of Liability and Indemnification**

See Management Limitation of Liability and Indemnification elsewhere in this prospectus.

### **Market Listing**

Our common stock is listed on the NASDAQ Global Select Market under the symbol VA.

### **Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is Wells Fargo Shareowner Services and its telephone number is (800) 689-8788.

---

**Table of Contents**

**SHARES ELIGIBLE FOR FUTURE SALE**

Future sales of our common stock in the public market, or the availability of such shares for sale in the public market, could adversely affect market prices prevailing from time to time. As described below, only a limited number of shares will be available for sale shortly after this offering due to contractual and legal restrictions on resale. Nevertheless, sales of our common stock in the public market after such restrictions lapse, or the perception that those sales may occur, could adversely affect the prevailing market price at such time and our ability to raise equity capital in the future.

Based on the number of shares outstanding as of December 31, 2014, approximately 43.1 million shares of common stock will be outstanding after this offering, assuming no exercise of outstanding options. Of the approximately 43.1 million outstanding shares, all of the shares sold in this offering and in our initial public offering will be freely tradable, except that any shares held by our affiliates, as that term is defined in Rule 144 under the Securities Act, may only be sold in compliance with the limitations described below.

After this offering, assuming no exercise of the option to purchase additional shares, approximately 22.9 million shares of common stock will be restricted as a result of securities laws or the lock-up agreements described below. Following the expiration of the relevant lock-up periods, all shares will be eligible for resale in compliance with Rule 144 or Rule 701, if then available, to the extent such shares have been released from any repurchase option that we may hold. Restricted securities as defined under Rule 144 were issued and sold by us in reliance on exemptions from the registration requirements of the Securities Act. These shares may be sold in the public market only if registered pursuant to an exemption from registration, such as Rule 144 or Rule 701 under the Securities Act.

**Rule 144**

In general, a person who has beneficially owned restricted shares of our common stock for at least six months would be entitled to sell their securities provided that (i) such person is not deemed to have been one of our affiliates at the time of, or at any time during the 90 days preceding, a sale and (ii) we are subject to the Exchange Act periodic reporting requirements for at least 90 days before the sale and are current in filing our periodic reports. Persons who have beneficially owned restricted shares of our common stock for at least six months but who are our affiliates at the time of, or any time during the 90 days preceding, a sale, would be subject to additional restrictions, by which such person would be entitled to sell within any three-month period only a number of securities that does not exceed the greater of the following:

1% of the number of shares of our common stock then outstanding, which will equal approximately 0.4 million shares, based on the number of shares of common stock outstanding as of December 31, 2014;

1% of the number of shares of our common stock then outstanding, which will equal approximately 0.4 million shares, based on the number of shares of common stock outstanding as of December 31, 2014; or

the average weekly trading volume of our common stock on the NASDAQ Global Select Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale (or if no such notice is required, the transaction order or execution date).

Such sales by affiliates must also comply with the manner of sale and notice provisions of Rule 144.

**Rule 701**

Rule 701 under the Securities Act, as in effect on the date of this prospectus, permits resales of shares in reliance upon Rule 144 but without compliance with certain restrictions of Rule 144, including the holding period requirement. Most of our employees, executive officers or directors who purchased shares under a written compensatory plan or contract may be entitled to rely on the resale provisions of Rule 701, but all holders of

## **Table of Contents**

Rule 701 shares are required to wait until 90 days after the date of this prospectus before selling their shares. However, substantially all Rule 701 shares are subject to lock-up agreements as described below and will become eligible for sale upon the expiration of the restrictions set forth in those agreements.

### **Lock-Up Agreements**

In connection with our initial public offering, we, our executive officers and directors and substantially all of our stockholders and optionholders agreed that, for a period of 180 days from November 14, 2014, the date of the initial public offering prospectus, subject to customary limited exceptions, we and they will not, without the prior written consent of Barclays Capital Inc. and Deutsche Bank Securities Inc., dispose of or hedge any shares or any securities convertible into or exchangeable for our common stock. Notwithstanding the foregoing, if (i) during the last 17 days of such restricted period, we issue an earnings release or material news or a material event relating to our company occurs; or (ii) prior to the expiration of the restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of such restricted period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event. Barclays Capital Inc. and Deutsche Bank Securities Inc. in their sole discretion may release any of the securities subject to these lock-up agreements at any time without notice, other than with respect to securities owned by our officers and directors, in which case we will provide notice, as required. The selling stockholders in this offering were released from the lock-up agreements that they had previously entered into in connection with our initial public offering by the underwriters to the extent required to sell the shares offered in this prospectus.

In connection with this offering, we, our executive officers and directors and the selling stockholders have agreed that, from the date of this prospectus and for a period of 60 days, or 90 days with respect to the selling stockholders only, subject to customary limited exceptions, we and they will not, without the prior written consent of Barclays Capital Inc. and Deutsche Bank Securities Inc., dispose of or hedge any shares or any securities convertible into or exchangeable for our common stock. Notwithstanding the foregoing, if (i) during the last 17 days of the applicable restricted period, we issue an earnings release or material news or a material event relating to our company occurs; or (ii) prior to the expiration of the applicable restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the applicable restricted period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event. Barclays Capital Inc. and Deutsche Bank Securities Inc. in their sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

These agreements are described below under the section captioned "Underwriting" elsewhere in this prospectus.

### **Registration Rights**

After this offering, assuming no exercise of the option to purchase additional shares, the holders of approximately 22.6 million shares of our common stock, including the Virgin Group, Cyrus Capital, PAR Capital and certain of our directors and executive officers, or their respective transferees, will be entitled to certain rights with respect to the registration of those shares under the Securities Act. For a description of these registration rights, please see "Description of Capital Stock" Registration Rights. After these shares are registered, they will be freely tradable without restriction under the Securities Act.

---

**Table of Contents**

**MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS**

The following discussion is a summary of the material U.S. federal income tax consequences to Non-U.S. Holders (as defined below) of the purchase, ownership and disposition of our common stock issued pursuant to this offering but does not purport to be a complete analysis of all potential tax effects. The effects of other U.S. federal tax laws, such as estate and gift tax laws, and any applicable state, local or non-U.S. tax laws are not discussed. This discussion is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, Treasury Regulations promulgated thereunder, judicial decisions, and published rulings and administrative pronouncements of the U.S. Internal Revenue Service, or the IRS, in each case in effect as of the date hereof. These authorities may change or be subject to differing interpretations. Any such change or differing interpretation may be applied retroactively in a manner that could adversely affect a Non-U.S. Holder of our common stock. We have not sought and will not seek any rulings from the IRS regarding the matters discussed below. There can be no assurance the IRS or a court will not take a contrary position to that discussed below regarding the tax consequences of the purchase, ownership and disposition of our common stock.

This discussion is limited to Non-U.S. Holders that hold our common stock as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment). This discussion does not address all U.S. federal income tax consequences relevant to a Non-U.S. Holder's particular circumstances, including the impact of the Medicare contribution tax on net investment income. In addition, it does not address consequences relevant to Non-U.S. Holders subject to special rules, including, without limitation:

U.S. expatriates and former citizens or long-term residents of the United States;

persons subject to the alternative minimum tax;

persons holding our common stock as part of a hedge, straddle or other risk-reduction strategy or as part of a conversion transaction or other integrated investment;

banks, insurance companies and other financial institutions;

brokers, dealers or traders in securities;

controlled foreign corporations, passive foreign investment companies and corporations that accumulate earnings to avoid U.S. federal income tax;

partnerships or other entities or arrangements treated as partnerships for U.S. federal income tax purposes (and investors therein);

tax-exempt organizations or governmental organizations;

persons deemed to sell our common stock under the constructive sale provisions of the Code; and

tax-qualified retirement plans.

If an entity treated as a partnership for U.S. federal income tax purposes holds our common stock, the tax treatment of a partner in the partnership will depend on the status of the partner, the activities of the partnership and certain determinations made at the partner level. Accordingly, partnerships holding our common stock and the partners in such partnerships should consult their tax advisors regarding the U.S.

federal income tax consequences to them.

**INVESTORS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR COMMON STOCK ARISING UNDER THE U.S. FEDERAL ESTATE OR GIFT TAX LAWS OR UNDER THE LAWS OF ANY STATE, LOCAL OR NON-U.S. TAXING JURISDICTION OR UNDER ANY APPLICABLE INCOME TAX TREATY.**

---

## **Table of Contents**

### **Definition of a Non-U.S. Holder**

For purposes of this discussion, a Non-U.S. Holder is any beneficial owner of our common stock that is neither a U.S. person nor an entity treated as a partnership for U.S. federal income tax purposes. A U.S. person is any person that, for U.S. federal income tax purposes, is or is treated as any of the following:

an individual who is a citizen or resident of the United States;

a corporation created or organized under the laws of the United States, any state thereof or the District of Columbia;

an estate, the income of which is subject to U.S. federal income tax regardless of its source; or

a trust that (1) is subject to the primary supervision of a U.S. court and all substantial decisions of which are under the control of one or more United States persons (within the meaning of Section 7701(a)(30) of the Code), or (2) has a valid election in effect to be treated as a United States person for U.S. federal income tax purposes.

### **Distributions**

As described in the section entitled Price Range of our Common Stock and Dividend Policy elsewhere in this prospectus, we do not anticipate declaring or paying any cash dividends on our common stock in the foreseeable future. However, if we do make distributions of cash or property on our common stock, such distributions will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Amounts not treated as dividends for U.S. federal income tax purposes will constitute a return of capital and first be applied against and reduce a Non-U.S. Holder's adjusted tax basis in its common stock, but not below zero. Any excess will be treated as capital gain and will be treated as described below under Sale or Other Taxable Disposition.

Subject to the discussion below on effectively connected income, dividends paid to a Non-U.S. Holder of our common stock will be subject to U.S. federal withholding tax at a rate of 30% of the gross amount of the dividends (or such lower rate specified by an applicable income tax treaty, provided the Non-U.S. Holder furnishes a valid IRS Form W-8BEN or W-8BEN-E (or other applicable documentation) certifying qualification for the lower treaty rate). A Non-U.S. Holder that does not timely furnish the required documentation, but that qualifies for a reduced treaty rate, may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS. Non-U.S. Holders should consult their tax advisors regarding their entitlement to benefits under any applicable income tax treaty.

If dividends paid to a Non-U.S. Holder are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States (and, if required by an applicable income tax treaty, the Non-U.S. Holder maintains a permanent establishment in the United States to which such dividends are attributable), the Non-U.S. Holder will be exempt from the U.S. federal withholding tax described above. To claim the exemption, the Non-U.S. Holder must furnish to the applicable withholding agent a valid IRS Form W-8ECI, certifying that the dividends are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States.

Any such effectively connected dividends will be subject to U.S. federal income tax on a net income basis at the regular graduated rates. A Non-U.S. Holder that is a corporation also may be subject to a branch profits tax at a rate of 30% (or such lower rate specified by an applicable income tax treaty) on such effectively connected dividends, as adjusted for certain items. Non-U.S. Holders should consult their tax advisors regarding any applicable tax treaties that may provide for different rules.

---

## **Table of Contents**

### **Sale or Other Taxable Disposition**

A Non-U.S. Holder will not be subject to U.S. federal income tax on any gain realized upon the sale or other taxable disposition of our common stock unless:

the gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States (and, if required by an applicable income tax treaty, the Non-U.S. Holder maintains a permanent establishment in the United States to which such gain is attributable);

the Non-U.S. Holder is a nonresident alien individual present in the United States for 183 days or more during the taxable year of the disposition, and certain other requirements are met; or

our common stock constitutes a U.S. real property interest, or a USRPI, by reason of our status as a U.S. real property holding corporation, or a USRPHC, for U.S. federal income tax purposes.

Gain described in the first bullet point above generally will be subject to U.S. federal income tax on a net income basis at the regular graduated rates. A Non-U.S. Holder that is a corporation also may be subject to a branch profits tax at a rate of 30% (or such lower rate specified by an applicable income tax treaty) on such effectively connected gain, as adjusted for certain items.

Gain described in the second bullet point above will be subject to U.S. federal income tax at a rate of 30% (or such lower rate specified by an applicable income tax treaty), which may be offset by U.S.-source capital losses of the Non-U.S. Holder (even though the individual is not considered a resident of the United States), provided the Non-U.S. Holder has timely filed U.S. federal income tax returns with respect to such losses.

With respect to the third bullet point above, we believe we currently are not, and do not anticipate becoming, a USRPHC. Because the determination of whether we are a USRPHC depends, however, on the fair market value of our USRPIs relative to the fair market value of our non-U.S. real property interests and our other business assets, there can be no assurance we currently are not a USRPHC or will not become one in the future. Even if we are or were to become a USRPHC, gain arising from the sale or other taxable disposition by a Non-U.S. Holder of our common stock will not be subject to U.S. federal income tax if our common stock is regularly traded, as defined by applicable Treasury Regulations, on an established securities market, and such Non-U.S. Holder owned, actually and constructively, 5% or less of our common stock throughout the shorter of the five-year period ending on the date of the sale or other taxable disposition or the Non-U.S. Holder's holding period.

Non-U.S. Holders should consult their tax advisors regarding any applicable tax treaties that may provide for different rules.

### **Information Reporting and Backup Withholding**

Payments of dividends on our common stock will not be subject to backup withholding, provided the applicable withholding agent does not have actual knowledge or reason to know the holder is a United States person and the holder either certifies its non-U.S. status, such as by furnishing a valid IRS Form W-8BEN, W-8BEN-E or W-8ECI, or otherwise establishes an exemption. However, information returns are required to be filed with the IRS in connection with any dividends on our common stock paid to the Non-U.S. Holder, regardless of whether any tax was actually withheld. In addition, proceeds of the sale or other taxable disposition of our common stock within the United States or conducted through certain U.S.-related brokers generally will not be subject to backup withholding or information reporting, if the applicable withholding agent receives the certification described above and does not have actual knowledge or reason to know that such holder is a United States person, or the holder otherwise establishes an exemption. Proceeds of a disposition of our common stock conducted through a non-U.S. office of a non-U.S. broker that does not have certain enumerated relationships with the United States generally will not be subject to backup withholding or information reporting.



## **Table of Contents**

Copies of information returns that are filed with the IRS may also be made available under the provisions of an applicable treaty or agreement to the tax authorities of the country in which the Non-U.S. Holder resides or is established.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a Non-U.S. Holder's U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

### **Additional Withholding Tax on Payments Made to Foreign Accounts**

Withholding taxes may be imposed under Sections 1471 to 1474 of the Code, which Sections are commonly referred to as the Foreign Account Tax Compliance Act, or FATCA, on certain types of payments made to non-U.S. financial institutions and certain other non-U.S. entities. Specifically, a 30% withholding tax will be imposed on dividends on, or gross proceeds from the sale or other disposition of, our common stock paid to a foreign financial institution or a non-financial foreign entity (each as defined in the Code), unless (1) the foreign financial institution undertakes certain diligence and reporting obligations, (2) the non-financial foreign entity either certifies it does not have any substantial United States owners (as defined in the Code) or furnishes identifying information regarding each substantial United States owner or (3) the foreign financial institution or non-financial foreign entity otherwise qualifies for an exemption from these rules. If the payee is a foreign financial institution and is subject to the diligence and reporting requirements in (1) above, it must enter into an agreement with the U.S. Department of the Treasury requiring, among other things, that it undertake to identify accounts held by certain specified United States persons or United States-owned foreign entities (each as defined in the Code), annually report certain information about such accounts, and withhold 30% on certain payments to non-compliant foreign financial institutions and certain other account holders. Foreign financial institutions located in jurisdictions that have an intergovernmental agreement with the United States governing FATCA may be subject to different rules.

Under the applicable Treasury Regulations, withholding under FATCA generally applies to payments of dividends on our common stock made on or after July 1, 2014, and will apply to payments of gross proceeds from the sale or other disposition of such stock on or after January 1, 2017.

Prospective investors should consult their tax advisors regarding the potential application of withholding under FATCA to their investment in our common stock.

**Table of Contents****UNDERWRITING**

Subject to the terms and conditions of the underwriting agreement, the underwriters named below, through their representatives Barclays Capital Inc. and Deutsche Bank Securities Inc., have severally agreed to purchase from the selling stockholders the following respective number of shares of common stock at a public offering price less the underwriting discounts and commissions set forth on the cover of this prospectus:

<b>Underwriters</b>	<b>Number of Shares</b>
Barclays Capital Inc.	
Deutsche Bank Securities Inc.	
Cowen and Company, LLC	
Imperial Capital, LLC	
Raymond James & Associates, Inc.	
<b>Total</b>	<b>4,852,942</b>

The underwriting agreement provides that the obligations of the several underwriters to purchase the shares of common stock offered hereby are subject to certain conditions precedent and that the underwriters will purchase all of the shares of common stock offered by this prospectus, other than those covered by the option to purchase additional shares described below, if any of these shares are purchased. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may also be increased or this offering may be terminated.

We and the selling stockholders have agreed to indemnify the underwriters against some specified types of liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriters may be required to make in respect of any of these liabilities. The selling stockholders may be deemed to be underwriters under SEC rules and regulations.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

**Commissions and Discounts**

We have been advised by the representatives of the underwriters that the underwriters propose to offer the shares of common stock to the public at the public offering price set forth on the cover of this prospectus and to dealers at a price that represents a concession not in excess of \$ per share under the public offering price. After this offering, representatives of the underwriters may change the offering price and other selling terms. This offering of the shares of common stock by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part.

**Table of Contents**

The underwriting discounts and commissions per share are equal to the public offering price per share of common stock less the amount paid by the underwriters to the selling stockholders per share of common stock. The underwriting discounts and commissions are % of the initial public offering price. The selling stockholders have agreed to pay the underwriters the following discounts and commissions, assuming either no exercise or full exercise by the underwriters of the underwriters option to purchase additional shares:

		Total Fees	
		Without Exercise of Option to Purchase Additional Shares	With Full Exercise of Option to Purchase Additional Shares
	Per Share	\$	\$
Discounts and commissions paid by us	\$	\$	\$
Discounts and commissions paid by the selling stockholders			

We will pay all of the expenses of the selling stockholders in this offering, other than the underwriting discounts and commissions. In addition, we estimate that the total expenses of this offering, excluding underwriting discounts and commissions, will be approximately \$ million. We have agreed with the underwriters to pay fees and expenses of up to \$ related to the review and qualification of this offering by the Financial Industry Regulatory Authority, Inc. and Blue Sky expenses.

**Option to Purchase Additional Shares**

The selling stockholders have granted to the underwriters an option, exercisable not later than 30 days after the date of this prospectus, to purchase up to 727,941 additional shares of common stock at the public offering price less the underwriting discounts and commissions set forth on the cover of this prospectus. To the extent that the underwriters exercise this option, each of the underwriters will become obligated, subject to conditions, to purchase approximately the same percentage of these additional shares of common stock as the number of shares of common stock to be purchased by it in the above table bears to the total number of shares of common stock offered by this prospectus. The selling stockholders will be obligated, pursuant to the option, to sell these additional shares of common stock to the underwriters to the extent the option is exercised. If any additional shares of common stock are purchased, the underwriters will offer the additional shares on the same terms as those on which the initial shares referred to in the above table are being offered.

**No Sales of Similar Securities**

Each of our executive officers and directors, and certain of our stockholders, including the selling stockholders, have agreed, subject to customary limited exceptions, not to offer, sell, pledge, contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, or enter into any transaction that is designed to, or could be expected to, result in the disposition of any shares of our common stock or other securities convertible into or exchangeable or exercisable for shares of our common stock or derivatives of our common stock owned by these persons prior to this offering or common stock issuable upon exercise of options or warrants held by these persons for a period of 90 days for the selling stockholders, and 60 days for our executive officers and directors and certain of our other stockholders, after the effective date of the registration statement of which this prospectus is a part, or publicly disclose the intention to do any of the foregoing, without the prior written consent of Barclays Capital Inc. and Deutsche Bank Securities Inc. This consent may be given at any time with or without public notice, other than in the case of our officers and directors, which shall be given with notice. We have entered into a similar agreement with Barclays Capital Inc. and Deutsche Bank Securities Inc., as representatives of the underwriters. The selling stockholders in this offering were released from the lock-up agreements that they had previously entered into in connection with our initial public offering by the underwriters to the extent required to sell the shares offered in this prospectus.

---

## **Table of Contents**

### **Price Stabilization, Short Positions and Penalty Bids**

In connection with this offering, the underwriters may purchase and sell shares of our common stock in the open market. These transactions may include short sales, purchases to cover positions created by short sales and stabilizing transactions. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in this offering. Covered short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares of common stock from us in this offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase additional shares of common stock pursuant to the option granted to them. Naked short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if underwriters are concerned that there may be downward pressure on the price of the shares in the open market prior to the completion of this offering. Stabilizing transactions consist of various bids for or purchases of our common stock made by the underwriters in the open market prior to the completion of this offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the other underwriters a portion of the underwriting discount received by it because the representatives of the underwriters have repurchased shares sold by or for the account of that underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or slowing a decline in the market price of our common stock. Additionally, these purchases, along with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the NASDAQ Global Select Market, in the over-the-counter market or otherwise.

### **Listing**

Our common stock is listed on the NASDAQ Global Select Market under the symbol VA.

### **Electronic Offer, Sale and Distribution of Shares**

In connection with this offering, certain of the underwriters or securities dealers may distribute prospectuses by electronic means, such as e-mail. In addition, Deutsche Bank Securities Inc. may facilitate Internet distribution for this offering to certain of its Internet subscription customers. Deutsche Bank Securities Inc. may allocate a limited number of shares for sale to its online brokerage customers. A prospectus in electronic format is being made available on Internet web sites maintained by one or more of the lead underwriters of this offering and may be made available on web sites maintained by other underwriters. Other than the prospectus in electronic format, the information on any underwriter's web site and any information contained in any other web site maintained by an underwriter is not part of the prospectus or the registration statement of which the prospectus forms a part.

### **Other Relationships**

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

Barclays Bank PLC, an affiliate of Barclays Capital Inc., is the agent and a lender, and Deutsche Bank AG, an affiliate of Deutsche Bank Securities Inc., is a lender under our term loan facility. On April 4, 2014, we entered into a five-year term loan credit facility for \$40.0 million to finance airport slot purchases with principal repayable in full at maturity. Amounts borrowed under this term loan accrue interest at a rate of LIBOR plus

---

## **Table of Contents**

3.5%, provided that LIBOR is not less than 1.0%, or, at our option, at the greater of (i) the federal funds effective rate plus 3.0%, (ii) one month LIBOR plus 3.0% or (iii) Barclay's prime rate plus 2.5%. Interest is payable quarterly in arrears. The term loan requires compliance with certain covenants including semi-annual third-party slot appraisal valuation requirements.

On November 19, 2014, the Virgin Group arranged for Barclays Bank PLC to issue a \$100.0 million letter of credit facility on our behalf to certain companies that process substantially all of our credit card transactions. We reimbursed the Virgin Group for all fees and expenses payable to Barclays Bank PLC.

In connection with the PAR Capital Private Placement, we paid a private placement commission of \$1.17 million to Barclays Capital Inc. and Deutsche Bank Securities Inc.

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

### **Stamp Taxes**

If you purchase shares of common stock offered in this prospectus, you may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to the offering price listed on the cover of this prospectus.

### **Selling Restrictions**

#### ***Notice to Prospective Investors in the European Economic Area***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, which we refer to in this prospectus as a Relevant Member State, each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, or the Relevant Implementation Date, it has not made and will not make an offer of shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares to the public in that Relevant Member State at any time:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors, as defined in the Prospectus Directive) subject to obtaining the prior consent of the representative for any such offer; or
- (c) in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of shares to the public in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms for the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, the expression Prospectus Directive means Directive

---

**Table of Contents**

2003/71/EC (and amendments thereto, including the PD 2010 Amending Directive to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State, and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

***Notice to Prospective Investors in the United Kingdom***

Each underwriter has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, or the FSMA, ) received by it in connection with the issue or sale of the securities in circumstances in which Section 21(1) of the FSMA does not apply to our company; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the securities in, from or otherwise involving the United Kingdom.

***Notice to Prospective Investors in Switzerland***

The shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange, or the SIX, or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this prospectus nor any other offering or marketing material relating to the offering, the issuer, the shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this prospectus will not be filed with, and the offer of shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA, or the FINMA, and the offer of shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes, or the CISA. The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of shares.

***Notice to Prospective Investors in the Dubai International Financial Centre***

This prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority, or the DFSA. This prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus nor taken steps to verify the information set forth herein and has no responsibility for this prospectus. The shares to which this prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this prospectus you should consult an authorized financial advisor.

***Notice to Prospective Investors in Hong Kong***

The shares may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong),

**Table of Contents**

and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

***Notice to Prospective Investors in Singapore***

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA, (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the shares under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

**Table of Contents**

**LEGAL MATTERS**

Certain legal matters with respect to the legality of the issuance of the shares of common stock offered by us by this prospectus will be passed upon for us by Latham & Watkins LLP, Menlo Park, California. The underwriters are being represented by Davis Polk & Wardwell LLP, Menlo Park, California, in connection with the offering.



**Table of Contents**

**EXPERTS**

The consolidated financial statements of Virgin America Inc. at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

**Table of Contents**

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to this offering of our common stock. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement, some items of which are contained in exhibits to the registration statement as permitted by the rules and regulations of the SEC. For further information with respect to us and our common stock, we refer you to the registration statement, including the exhibits filed as a part of the registration statement. Statements contained in this prospectus concerning the contents of any contract or any other document are not necessarily complete. If a contract or document has been filed as an exhibit to the registration statement, please see the copy of the contract or document that has been filed. Each statement in this prospectus relating to a contract or document filed as an exhibit is qualified in all respects by the filed exhibit. The exhibits to the registration statement should be referenced for the complete contents of these contracts and documents. You may obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the public reference rooms by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that website is [www.sec.gov](http://www.sec.gov).

We are subject to the information reporting requirements of the Exchange Act, and we file reports, proxy statements and other information with the SEC. We also furnish our stockholders with annual reports containing our financial statements audited by an independent public accounting firm and quarterly reports containing our unaudited financial information. We maintain a website at [www.virginamerica.com](http://www.virginamerica.com). You may access our quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act with the SEC free of charge at our website as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The reference to our web address does not constitute incorporation by reference of the information contained at this site.

**Table of Contents**

**VIRGIN AMERICA INC.**

**INDEX TO FINANCIAL STATEMENTS**

	<b>Page</b>
<u>Report of Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets</u>	F-3
<u>Consolidated Statements of Operations</u>	F-5
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	F-6
<u>Consolidated Statements of Convertible Preferred Stock and Stockholders' Deficit</u>	F-7
<u>Consolidated Statements of Cash Flows</u>	F-8
<u>Notes to Consolidated Financial Statements</u>	F-9

F-1

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of Virgin America Inc.

We have audited the accompanying consolidated balance sheets of Virgin America Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), convertible preferred stock and stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Virgin America Inc. at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young

San Francisco, California

March 2, 2015

**Table of Contents****Virgin America Inc.****Consolidated Balance Sheets**

(in thousands, except share and per share data)

	December 31,	
	2013	2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 155,659	\$ 394,643
Credit card holdbacks and receivables	89,959	9,563
Other receivables, net	13,708	13,851
Prepaid expenses and other assets	23,369	20,874
<b>Total current assets</b>	<b>282,695</b>	<b>438,931</b>
Property and equipment:		
Flight equipment	65,559	76,724
Ground and other equipment	62,533	70,754
Less accumulated depreciation and amortization	(60,967)	(74,271)
	67,125	73,207
Pre-delivery payments for flight equipment	69,116	94,280
<b>Total property and equipment, net</b>	<b>136,241</b>	<b>167,487</b>
Aircraft maintenance deposits	159,946	211,946
Aircraft lease deposits	50,669	50,758
Restricted cash	12,425	18,775
Other non-current assets	59,020	112,279
	282,060	393,758
<b>Total assets</b>	<b>\$ 700,996</b>	<b>\$ 1,000,176</b>

*See accompanying notes to the consolidated financial statements.*

**Table of Contents****Virgin America Inc.****Consolidated Balance Sheets**

(in thousands, except share and per share data)

	December 31,	
	2013	2014
<b>Liabilities and stockholders equity (deficit)</b>		
Current liabilities:		
Accounts payable	\$ 43,997	\$ 52,821
Air traffic liability	138,890	150,479
Other current liabilities	73,752	100,723
Long-term debt-current portion		33,824
<b>Total current liabilities</b>	<b>256,639</b>	<b>337,847</b>
Long-term debt-related parties	707,969	38,848
Long-term debt	39,462	57,416
Other long-term liabilities	59,547	106,812
<b>Total liabilities</b>	<b>1,063,617</b>	<b>540,923</b>
Contingencies and commitments (Note 9)		
Convertible preferred stock, \$0.01 par value. Authorized 1,109,812 shares, 1,109,811 issued and outstanding as of December 31, 2013; liquidation value \$12,000 as of December 31, 2013, no shares authorized, no shares issued and outstanding as of December 31, 2014	21,406	
Stockholders equity (deficit)		
Preferred stock, \$0.01 par value per share. No shares authorized, no shares issued and outstanding as of December 31, 2013, 10,000,000 shares authorized, 0 shares issued and outstanding as of December 31, 2014;		
Common stock, \$0.01 par value. Authorized: 107,260,432 (Class A 56,630,503, Class A-1 29,143, Class B 924,867, Class C 47,688,845, Class D 13, Class E 13, Class F 13, Class G 1,987,035) shares as of December 31, 2013; 750,000,000 (Voting 650,000,000, Non-Voting 100,000,000) shares as of December 31, 2014; Issued and outstanding: 812,952 (Class A 248,308, Class A-1 29,143, Class B 424,221, Class C 0, Class D 13, Class E 13, Class F 13, Class G 111,241) shares as of December 31, 2013, 43,119,886 (Voting 36,267,148, Non-Voting 6,852,738) shares as of December 31, 2014	8	431
Additional paid-in capital	427,434	1,237,944
Accumulated deficit	(813,125)	(753,016)
Accumulated other comprehensive income (loss)	1,656	(26,106)
<b>Total stockholders equity (deficit)</b>	<b>(384,027)</b>	<b>459,253</b>
<b>Total liabilities and stockholders equity (deficit)</b>	<b>\$ 700,996</b>	<b>\$ 1,000,176</b>

*See accompanying notes to the consolidated financial statements.*

**Table of Contents****Virgin America Inc.****Consolidated Statements of Operations**

(in thousands, except share and per share data)

	Year Ended December 31,		
	2012	2013	2014
<b>Operating revenues:</b>			
Passenger	\$ 1,215,178	\$ 1,289,268	\$ 1,329,211
Other	117,659	135,410	160,756
<b>Total operating revenues</b>	<b>1,332,837</b>	<b>1,424,678</b>	<b>1,489,967</b>
<b>Operating expenses:</b>			
Aircraft fuel	537,501	507,035	499,102
Salaries, wages and benefits	176,216	196,477	257,367
Aircraft rent	236,800	202,071	184,357
Landing fees and other rents	110,165	122,621	133,128
Sales and marketing	107,136	106,599	113,203
Aircraft maintenance	58,934	61,854	60,069
Depreciation and amortization	11,260	13,963	14,486
Other operating expenses	126,558	133,177	131,840
<b>Total operating expenses</b>	<b>1,364,570</b>	<b>1,343,797</b>	<b>1,393,552</b>
<b>Operating income (loss):</b>	<b>(31,733)</b>	<b>80,881</b>	<b>96,415</b>
<b>Other income (expense):</b>			
Interest expense-related-party	(113,708)	(68,439)	(33,708)
Interest expense	(2,402)	(2,854)	(3,811)
Capitalized interest	2,176	534	2,668
Interest income and other	294	339	(276)
<b>Total other expense</b>	<b>(113,640)</b>	<b>(70,420)</b>	<b>(35,127)</b>
<b>Income (loss) before income tax</b>	<b>(145,373)</b>	<b>10,461</b>	<b>61,288</b>
<b>Income tax expense</b>	<b>15</b>	<b>317</b>	<b>1,179</b>
<b>Net income (loss)</b>	<b>\$ (145,388)</b>	<b>\$ 10,144</b>	<b>\$ 60,109</b>
<b>Net income (loss) per share:</b>			
Basic	\$ (207.20)	\$ 5.60	\$ 8.42
Diluted	\$ (207.20)	\$ 3.68	\$ 7.13
<b>Shares used for computation:</b>			
Basic	701,671	701,671	6,175,786
Diluted	701,671	1,646,821	7,470,396

*See accompanying notes to the consolidated financial statements*





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

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Net income (loss)</b>	\$ (145,388)	\$ 10,144	\$ 60,109
Fuel derivative financial instruments, net of tax:			
Change in unrealized gains (losses)	(4,528)	307	(33,230)
Net losses reclassified into earnings	3,320	2,557	5,468
Other comprehensive income (loss)	(1,208)	2,864	(27,762)
<b>Total comprehensive income (loss)</b>	<b>\$ (146,596)</b>	<b>\$ 13,008</b>	<b>\$ 32,347</b>

*See accompanying notes to the consolidated financial statements*

**Table of Contents****Virgin America Inc.****Consolidated Statements of Convertible Preferred Stock and Stockholders Equity (Deficit)**

(In thousands, except share data)

	Convertible preferred stock		Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders equity (deficit)
	Shares	Amount	Shares	Amount				
<b>Balances at December 31, 2011</b>	1,109,811	\$ 21,406	469,708	\$ 5	\$ 193,403	\$ (677,881)	\$	\$ (484,473)
Net loss						(145,388)		(145,388)
Share-based compensation and issuance of								
Class G common stock			339,338	3	142			145
Other comprehensive loss							(1,208)	(1,208)
<b>Balances at December 31, 2012</b>	1,109,811	\$ 21,406	809,046	\$ 8	\$ 193,545	\$ (823,269)	\$ (1,208)	\$ (630,924)
Net income		\$		\$	\$	\$ 10,144	\$	\$ 10,144
Share-based compensation and issuance of								
Class G common stock			3,906		386			386
Other comprehensive gain							2,864	2,864
Gain on debt restructuring					150,490			150,490
Issuance of Class C warrants					83,361			83,361
Other					(348)			(348)
<b>Balances at December 31, 2013</b>	1,109,811	\$ 21,406	812,952	\$ 8	\$ 427,434	\$ (813,125)	\$ 1,656	\$ (384,027)
Net income		\$		\$	\$	\$ 60,109	\$	\$ 60,109
Issuance of Class G common stock, pre-IPO			28,213		24			24
Conversion of Class D and F common stock and cancellation of Class E common stock, pre-IPO			(39)					
2014 Recapitalization	(1,109,811)	(21,406)	29,051,006	291	521,194			521,485
Issuance of Common Stock upon IPO, net of fees			13,106,377	131	277,466			277,597
Share-based compensation			121,377	1	11,826			11,827
Other comprehensive loss							(27,762)	(27,762)
<b>Balances at December 31, 2014</b>		\$	43,119,886	\$ 431	\$ 1,237,944	\$ (753,016)	\$ (26,106)	\$ 459,253

*See accompanying notes to the consolidated financial statements*

**Table of Contents****Virgin America Inc.****Consolidated Statements of Cash Flows**

(in thousands)

	Year Ended December 31,		
	2012	2013	2014
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ (145,388)	\$ 10,144	\$ 60,109
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	11,260	13,963	14,486
Share-based compensation	158	383	13,985
Paid-in-kind interest expense and accretion	99,075	54,258	20,673
Loss on asset disposition			121
Unrealized (gain) loss on fuel derivative instruments	(389)	1,318	3,432
Changes in operating assets and liabilities:			
(Increase) decrease in credit card holdbacks	2,922	(4,615)	80,395
(Increase) decrease in other receivables, net	6,943	(1,050)	(5,065)
(Increase) decrease in prepaid expenses and other assets	332	(369)	(1,827)
Increase in aircraft maintenance deposits	(33,609)	(38,134)	(29,765)
Increase in aircraft lease deposits	(765)	(320)	(89)
Increase in restricted cash	(3,387)	(2,065)	(6,350)
(Increase) decrease in other non-current assets	1,091	(7,895)	(31,621)
Increase in accounts payable	816	586	7,911
Increase in air traffic liability	12,654	22,372	11,589
Increase (decrease) in other current liabilities	(1,730)	10,565	(372)
Increase (decrease) in other non-current liabilities	(628)	(8,538)	(2,007)
<b>Net cash provided by (used in) operating activities</b>	<b>(50,645)</b>	<b>50,603</b>	<b>135,605</b>
<b>Cash flows from investing activities:</b>			
Acquisition of property and equipment and intangible assets	(7,978)	(41,996)	(41,775)
Pre-delivery payments for flight equipment	(19,206)		(13,385)
<b>Net cash used in investing activities</b>	<b>(27,184)</b>	<b>(41,996)</b>	<b>(55,160)</b>
<b>Cash flows from financing activities:</b>			
Net proceeds of equity issuance	45	3	277,621
Proceeds of debt issuance and warrants from related party		75,000	
Proceeds of term loan facility			40,000
Debt issuance costs			(401)
Payment of long-term debt and capital lease obligations	(6,013)	(3,969)	(156,523)
Share-based withholding tax payments			(2,158)
<b>Net cash provided by (used in) financing activities</b>	<b>(5,968)</b>	<b>71,034</b>	<b>158,539</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(83,797)</b>	<b>79,641</b>	<b>238,984</b>
Cash and cash equivalents, beginning of period	159,815	76,018	155,659
<b>Cash and cash equivalents, end of period</b>	<b>\$ 76,018</b>	<b>\$ 155,659</b>	<b>\$ 394,643</b>

**Supplemental disclosure:**

Edgar Filing: Virgin America Inc. - Form S-1

Cash paid during the period for:

Interest	\$ 12,383	\$ 17,209	\$ 16,118
Income tax	13	74	279
<b>Non-cash transactions:</b>			
Non-cash loan borrowings on pre-delivery payments for flight equipment	35,117		11,778
Gain on debt restructuring		150,490	
Fair value of warrant issuance		83,361	
Non-cash effect of lease incentives		30,137	(5,039)
Non-cash effect of 2014 Recapitalization			521,485

*See accompanying notes to the consolidated financial statements*

---

**Table of Contents**

**Notes to the Consolidated Financial Statements**

**(1) Basis of Presentation**

Virgin America Inc. (the Company) manages its operations as a single business unit and only offers air transportation service. Accordingly, the Company concluded that it operates in one segment, air transportation service. The consolidated financial statements for the year ended December 31, 2013 include the accounts of the Company and its variable interest entity, VX Employee Holdings LLC, for which it was the primary beneficiary. See Note 10 Stockholders' Equity for additional information. The consolidated financial statements were prepared in conformity with Generally Accepted Accounting Principles in the United States (U.S. GAAP). Certain prior year amounts have been reclassified to conform to current year presentation. These amounts were not material to any of the periods presented.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. On November 7, 2014, the Board of Directors approved a 1-for-7.5489352 reverse stock split of the Company's outstanding common stock, which was effected on that date. The reverse stock split did not result in an adjustment to par value. The reverse stock split is reflected in the accompanying consolidated financial statements and related notes on a retroactive basis for all periods presented with respect to all share and per share amounts.

On November 18, 2014 the Company completed its initial public offering (IPO) in which it issued and sold 13,106,377 shares of common stock at a price to the public of \$23.00 per share. In addition, VX Employee Holdings, LLC, a Virgin America employee stock ownership vehicle consolidated for financial reporting purposes (Employee LLC), sold 231,210 issued and outstanding shares as a selling stockholder. From the sale of 13,337,587 shares of common stock, the Company received net proceeds in the offering of approximately \$277.6 million after deducting underwriting discounts and expenses of the IPO payable by the Company. The Company distributed gross proceeds of \$5.3 million from the sale of Employee LLC shares to eligible teammates, which do not include officers. Immediately prior to the IPO, the Company completed the 2014 Recapitalization. Refer to Note 2 2014 Recapitalization for additional information.

For the consolidated financial statements as of December 31, 2013 and 2014 and for each of the three years in the period ended December 31, 2014, the Company evaluated subsequent events through March 2, 2015, the date the consolidated financial statements were available for issuance.

**(2) 2014 Recapitalization**

In November 2014, concurrently with the pricing of the IPO, the Company entered into a recapitalization agreement with certain security-holders (which transactions are referred to herein as the 2014 Recapitalization) to exchange or extinguish the majority of its then outstanding related-party debt and accrued interest (Related-Party Notes) and all of its convertible preferred stock and outstanding warrants (Related-Party Warrants).

**Table of Contents**

The following table summarizes the effect of the transactions related to the 2014 Recapitalization and the IPO (in thousands, except share numbers):

	<b>Balance Pre- Recapitalization/ IPO</b>	<b>Balance Post- Recapitalization/ IPO</b>
Long-term debt current portion	\$ 27,059	\$ 27,059
Long-term debt related parties (1)	728,257	38,463
Long-term debt	58,012	58,012
Total long-term debt	813,328	123,534
Convertible preferred stock	21,406	
Common stock	8	430
Additional paid-in capital	\$ 427,834	\$ 1,282,108
Shares of common stock outstanding	841,126	42,958,927
Convertible preferred stock outstanding	1,109,811	
Warrants to purchase shares of common stock	42,242,601	

- (1) In connection with the 2014 Recapitalization, the Company extinguished or exchanged Related-Party Notes with recorded value of \$728.3 million and contractual value of \$684.8 million, which differed from the recorded value primarily due to the application of accounting guidance established for troubled debt restructurings arising from the 2013 Recapitalization. For more information, see Note 3 2013 Recapitalization.

The table reflects the following transactions that occurred in connection with the 2014 Recapitalization:

The repayment of \$100.0 million of Related-Party Notes with amounts equal to the cash released from cash collateral held by the Company's credit card processors in connection with the establishment of the a letter of credit facility arranged by an affiliate of Virgin Group Holdings Limited (the Letter of Credit Facility );

The issuance of a \$50.0 million note (the Post-IPO Note ) in exchange for the cancellation of \$50.0 million of Related-Party Notes held by certain affiliates of Virgin Group Holdings Limited (collectively, the Virgin Group ), recorded at the estimated fair value of \$38.5 million, calculated using an effective interest rate of 8.5%, determined based on an estimated market rate for unsecured instruments with similar terms. The Post-IPO Note bears payment-in-kind interest at 5.0% per year, compounded annually, and is due in November 2022, or in November 2020 if the Company terminates the Letter of Credit Facility prior to its expiration;

The repayment of principal and accrued interest due under certain Related-Party Notes with \$56.5 million of the net proceeds from the sale of shares by the Company in its IPO;

The exchange of the remaining outstanding Related-Party Notes for 22,159,070 shares of common stock. In the case of certain FNPA Notes or FNPA II Notes, 117% of the principal and accrued interest due under such notes were divided by the IPO price of \$23.00, shifting ownership between Cyrus Capital and Virgin Group as this was a transaction between existing equity and debt holders;

The issuance of 5,742,543 shares of the Company's common stock upon the exchange of Related-Party Warrants to purchase 26,067,475 shares of common stock and without receipt of cash consideration. The remaining Related-Party Warrants to purchase an aggregate of 16,175,126 shares of common stock were canceled in their entirety;

## Edgar Filing: Virgin America Inc. - Form S-1

The conversion of 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;

The fair value of the increase in the license fee recorded as a reduction in related-party debt and an increase in other long-term liabilities that was a part of the consideration to the Virgin Group for

F-10

**Table of Contents**

completing the 2014 Recapitalization. The fair value adjustment represents the present value of estimated license fee payments under the revised license agreement with the Virgin Group in excess of the estimated payments determined under the Company's existing license agreement. In connection with the 2014 Recapitalization, the Company agreed to increase the license fee from 0.5% to 0.7% of total revenue commencing in the first quarter of 2016 until annual revenue exceeds \$4.5 billion. The Company calculated the adjustment to be \$34.1 million based on the present value of the additional cash flows of 0.2% of estimated total revenue over the estimated period required to reach the \$4.5 billion cap using a discount rate of 10.5% based on airline specific weighted-average cost of capital; and

The presentation of the excess of the recorded amount of debt and preferred stock above the cash and other consideration to be received as additional paid-in capital.

**(3) 2013 Recapitalization**

In May 2013, after approval from the U.S. Department of Transportation, the Company executed a series of agreements with its two largest stockholders, funds affiliated with or related to Cyrus Capital Partners, L.P. (collectively, "Cyrus Capital") and the Virgin Group to recapitalize the Company. Under the agreements, the stockholders agreed to modify and exchange a portion of the Company's existing related-party debt, primarily accrued paid-in-kind interest on certain older debt and principal as well as accrued interest on all subordinated debt, and the Company issued an additional \$75.0 million of new debt and certain warrants to purchase common stock. As a condition to this recapitalization, the Company also amended substantially all of its lease agreements with its existing aircraft lessor to reduce monthly base rent and/or maintenance reserve payments through monthly cash rent rebates. Under some of its leases, the Company also extended the lease terms by three to five years. See Note 9 Contingencies and Commitments for additional information.

A summary of the key terms of the 2013 Recapitalization is as follows:

- a) The Company's stockholders exchanged \$556.0 million of related-party debt which previously had contractual interest rates of 15%-20% per year for \$369.1 million of related-party debt at a lower interest rate of 5% per year (the "5% Notes") and for warrants to purchase approximately 21.2 million shares of Class C common stock at an exercise price of \$18.87 per share.
- b) The principal and accrued interest of approximately \$131.5 million of related-party subordinated notes, along with the associated warrants, were exchanged for warrants to purchase approximately 1.0 million shares of Class C common stock at an exercise price of \$0.08 per share;
- c) The Company issued \$75.0 million aggregate principal amount of new debt pursuant to the Fifth Note Purchase Agreement (the "FNPA II"), which debt had a stated paid-in-kind annual interest rate of 17%, and also issued warrants to purchase approximately 1.0 million shares of Class C common stock at an exercise price of \$18.87 per share.

The Company evaluated the accounting for the modification of its related-party debt in accordance with the guidance established for troubled debt restructurings, which requires that the debtor must be experiencing financial difficulty and that the creditor must have granted a concession. The Company determined that it met both criteria. The Company was experiencing financial difficulty because of the unsustainable and growing amount of related-party debt, which was subject to annual compounding at interest rates of up to 20%. More specifically, the Company evaluated circumstances against a list of criteria specified in the accounting guidance and concluded that the definition of financial difficulty was met as (a) there was significant doubt as to the Company's ability to continue as a going concern in 2014 absent a restructuring, (b) the Company's projection of its entity-specific cash flows would be insufficient to service the debt without restructuring, (c) the Company would not be able to obtain funding from sources other than existing creditors at an effective interest rate equal to the current market interest rate for similar debt and (d) the Company's lenders agreed to restructure the debt due to the Company's financial difficulties and not solely to reflect any decrease in market interest rates. Further, the Company determined that its lenders had granted concessions by agreeing to forgive certain debt and reduce stated interest rates on remaining debt in exchange for Related-Party Warrants. This accounting analysis was



**Table of Contents**

performed separately for the Virgin Group and Cyrus Capital, who hold all of the related-party debt. The accounting guidance requires the Company to compare the recorded value of the modified and new debt on a per-creditor basis to its restructured undiscounted cash flows over the life of the loan, including cash flows associated with the remaining scheduled interest and principal payments. For the Virgin Group, the remaining value of the related-party debt after reduction for issuance of warrants, was adjusted to equal its undiscounted cash flows. As such, the Company effectively reduced the value of the modified and new debt to a level that results in an effective interest rate going forward of zero percent. The Company recognized a restructuring gain of \$150.5 million as a capital contribution with a direct increase to additional paid-in capital. This gain amount represents the value necessary to adjust the debt to equal the remaining undiscounted cash flows of the restructured debt, and was recorded to equity due to the related-party nature of the creditor. For Cyrus Capital, the undiscounted cash flows exceeded the recorded value of the modified and debt, and as such, the modified and new debt will be accreted up to its maturity value using the effective interest rate inherent in the restructured cash flows. Warrants issued in connection with the debt restructuring were deemed to be freestanding instruments and were recorded at a fair value of \$83.4 million on the date of issuance with a reduction to the carrying amount of the related-party debt value (prior to the application of the undiscounted cash flow test described above) and a corresponding decrease to stockholders' deficit.

The Company utilizes third-party independent valuation reports to assist the Board of Directors with the valuation of Related-Party Warrants, which incorporate a calculation of enterprise value on the Company's projected future earnings using a discounted cash flow analysis and deducting from the enterprise value the present value of the existing capital structure, debt and other obligations. Related-Party Warrants issued in 2013 with exercise prices of \$0.08 and \$18.87 were determined to have a fair value of \$8.38 per share and \$3.40 per share, respectively, based on the Black Scholes option pricing model using the following key assumptions: expected term of 5.0 years, a common stock fair value of \$8.45, a risk-free interest rate of 0.83%, no expected dividends and 70.0% estimated share price volatility.

The terms and conditions of an existing related-party note payable (the FNPA) were not affected by the 2013 Recapitalization.

The following table summarizes the 2013 Recapitalization and debt restructuring related activities on May 10, 2013 (in thousands):

	Instruments impacted by restructuring - Virgin Group	Instruments impacted by restructuring - Cyrus Capital	Related party instruments not impacted by restructuring - FNPA	Third-party debt	Total debt
Balance pre-restructuring May 10, 2013	\$ 653,428	\$ 34,128	\$ 164,095	\$ 39,462	\$ 891,113
New debt issuance (FNPA II) (1)	38,059	38,059			76,118
Issuance of warrants	(77,880)	(5,481)			(83,361)
Gain on debt restructuring:					
Debt reduction (concession) (2)	(230,295)	(4,753)			(235,048)
Reduction in future interest (2)	79,805	4,753			84,558
Gain on debt restructuring	(150,490)				(150,490)
Balance after restructuring May 10, 2013 (3)	\$ 463,117	\$ 66,706	\$ 164,095	\$ 39,462	\$ 733,380

- (1) The debt balances of the Virgin Group and Cyrus Capital each include \$0.6 million of interest accrued on the principal amount while the loan proceeds were held in escrow prior to completing the restructuring.
- (2) The Virgin Group's reduction was for principal and future interest, whereas Cyrus Capital's reduction is for future interest only.
- (3) The balance of \$463.1 million for the Virgin Group and \$66.7 million for Cyrus Capital represents the carrying values of the related-party debt, which was recorded under the accounting guidance established for

---

**Table of Contents**

troubled debt restructurings. As such, the carrying amounts differed and exceeded the contractual obligation or redemption value of \$382.8 million for the Virgin Group and \$61.4 million for Cyrus Capital, by \$80.3 million and \$5.3 million respectively, which reflects the inclusion of certain future interest payments under the troubled debt restructuring accounting described above.

The Company also amended its existing aircraft purchase agreement with Airbus in December 2012, reducing its commitment to purchase 60 A320 aircraft to 40 aircraft and deferring delivery dates to begin in 2015. 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. Under the amended agreement, the Company obtained cancellation rights for 30 of the 40 remaining aircraft, which 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.

**(4) Summary of Significant Accounting Policies**

**(a) Cash and Cash Equivalents**

Cash and cash equivalents consist of short-term, highly liquid investments with an original maturity date of three months or less when purchased. Cash equivalents primarily include money market funds and certificates of deposit.

**(b) Restricted Cash**

Restricted cash primarily consists of cash collateral securing letters of credit for airport facility leases.

**(c) 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. Since November 2014, \$100.0 million of this collateral has been satisfied by the Letter of Credit obtained from the Virgin Group on the Company's behalf in connection with the 2014 Recapitalization. Refer to Note 2 2014 Recapitalization and Note 9 Contingencies and Commitments for further information.

**(d) Fuel Derivative Financial Instruments**

The Company accounts for fuel derivative financial instruments at fair value and recognizes such instruments in the accompanying consolidated balance sheets in other current assets under prepaid expenses and other assets if the total net unsettled fair value balance is in a gain position, or other current liabilities if in a net loss position. For derivatives designated as cash flow hedges, changes in fair value of the derivative are reported in other comprehensive income and are subsequently reclassified into earnings within aircraft fuel expense when the hedged item affects earnings. For derivatives that are not designated as cash flow hedges, the Company records changes in the fair value of such derivative contracts within aircraft fuel expense in the accompanying statements of operations. These amounts include both realized gains and losses and mark to market adjustments of the fair value of derivative instruments not yet settled at the end of each period.

**(e) Impairment of Long-Lived Assets**

The Company evaluates its long-lived assets used in operations for impairment when events and circumstances indicate that the undiscounted cash flows to be generated by that asset are less than the carrying amounts of the asset and may not be recoverable. Factors that would indicate potential impairment include, but are not limited to, significant decreases in the market value of the long-lived asset, a significant change in the

**Table of Contents**

long-lived asset's physical condition and operating or cash flow losses associated with the use of the long-lived asset. If an asset is deemed to be impaired, an impairment loss is recorded for the excess of the asset book value in relation to its estimated fair value.

**(f) Property and Equipment**

The Company records its property and equipment at cost less accumulated depreciation and amortization, and depreciates these assets on a straight-line basis to their estimated residual values over their estimated useful lives. Additions and modifications that enhance the operating performance of assets are capitalized. Leasehold improvements generally are amortized on a straight-line basis over the shorter of the estimated useful life of the improvement or the remaining term of the lease. The Company capitalizes certain costs related to the acquisition and development of computer software for internal use. These costs are amortized using the straight-line method over the estimated useful life of the software, generally one to three years. Software and licenses were \$9.5 million and \$10.8 million as of December 31, 2013 and 2014, respectively. Amortization expense associated with software and licenses were \$2.4 million, \$3.0 million, and \$4.3 million, in 2012, 2013 and 2014, respectively.

Estimated useful lives and residual values for property and equipment are as follows:

	Classification in accompanying consolidated balance sheets	Estimated useful life	Residual value
Aircraft and engine leasehold improvements	Flight equipment	Lesser of useful life or lease term: 1-15 years	0%
Building leasehold improvements	Ground and other equipment	Lesser of 10 years or lease term	0%
Software and licenses	Ground and other equipment	1-3 years	0%
Computer and network equipment	Ground and other equipment	3-7 years	0%
Office furniture and other equipment	Ground and other equipment	5-10 years	0%

**(g) Capitalized Interest on Pre-Delivery Payments for Flight Equipment**

Interest attributable to funds used to finance the acquisition of new aircraft (i.e. pre-delivery payments) are capitalized as an additional cost of the related asset two years prior to the intended delivery date, when the Company estimates that the aircraft are being manufactured. Interest is capitalized at the Company's weighted-average interest rate on long-term debt or, where applicable, the interest rate related to specific borrowings. Capitalization of interest ceases and expensing commences when the asset is ready for its intended use.

**(h) Intangible Assets**

Intangible assets are comprised of domestic airport slots and operating rights in the accompanying consolidated balance sheets. The assets are recorded as indefinite-lived due to the Company's ability to renew the slots on an unlimited basis, the expectation that the slots will contribute positive cash flows for an indefinite period of time, and the Company's recent significant growth in certain slot-controlled airports. Due to the assignment of slots as indefinite-lived, the assets are not amortized but instead are tested for impairment annually or more frequently if events or changes in circumstances indicate impairment. The Company applies a fair-value-based impairment test to the carrying value of indefinite-lived intangible assets on an annual basis as of October 1, or more frequently if certain events or circumstances indicate that an impairment loss may have been incurred. The FASB standard *Testing Indefinite-Lived Intangible Assets for Impairment* gives companies the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired rather than calculating the fair value of the indefinite-lived intangible asset.

The Company first utilizes a qualitative approach and analyzes various factors to determine if events and circumstances have affected the fair value of the goodwill and indefinite-lived intangible assets. Such triggering events may include significant changes to the Company's network or capacity or other changes impacting slot



**Table of Contents**

utilization and valuation. If the Company determines it is more likely than not that the asset value may be impaired, the Company then uses the quantitative approach to assess the asset's fair value and amount of impairment.

**(i) *Deferred Rent and Deferred Rent Credits***

Deferred rent and deferred rent credits are included in current and non-current other assets or liabilities in the accompanying consolidated balance sheets based on the timing of when amounts are due or will be recognized. Deferred rent represents the Company's recognition of rent leveling under its operating leases on a straight-line basis over the lease term.

Deferred rent credits are primarily related to aircraft manufacturer incentives, deferred gains and losses on sale and leaseback transactions and aircraft lease incentives.

The Company receives manufacturer incentives on aircraft that are recognized as prepaid assets, with an offsetting deferred rent credit for leased aircraft. The prepaid asset is charged to expense as the credits are used and the deferred credit is recognized as a reduction in aircraft rent expense over the lease term. The Company also periodically receives certain manufacturer incentives in connection with the acquisition of aircraft and engines. These incentives are deferred until the aircraft and engines are delivered and then applied as a reduction of the cost of the related equipment.

Gains and losses on aircraft sale and leaseback transactions are deferred and amortized over the terms of the related leases as an adjustment to aircraft rent expense.

In connection with the 2013 Recapitalization, since the Company amended its aircraft leases and extended lease terms, a number of aircraft and engine major maintenance events that were previously estimated to occur after the original lease term are now expected to occur within the extended lease term. As a result, the Company recorded \$28.7 million of lease incentives associated with previously expensed supplemental rent payments that are now expected to be recoverable by virtue of the lease term extensions. In 2014, the Company recorded an additional \$6.5 million of lease incentives as a result of one lease term extension. These lease incentives were recorded as an increase to aircraft maintenance deposits and an increase to other liabilities in the Company's consolidated balance sheet in 2013. The Company determined that a lease incentive resulted from the lease extension when the amount expected to be reimbursed in the future exceeds the amount of maintenance deposit currently on the balance sheet plus any future payments to be made through the date of the qualifying maintenance event. Any excess amount was recorded as an incentive to the extent there were supplemental rent payments made during the lease term that had previously been expensed. The Company calculated its lease incentives on a maintenance-event-by-maintenance-event basis, consistent with the manner in which supplemental rent payments are made to the lessors.

The Company also has several leases for aircraft that were used before they were leased by the Company. Upon the occurrence of a maintenance event, the lessor will fund the cost of maintenance events for the periods in use prior to the commencement of the Company's lease for such aircraft. Consistent across all aircraft leases, the estimated value of the Company's rights under the lease to receive reimbursement for these maintenance events is recorded as a lease incentive with an offsetting liability that is amortized as a reduction in aircraft rent over the term of the related leases.

**(j) *License Fee Liability***

In connection with the 2014 Recapitalization, the Company and certain entities affiliated with the Virgin Group entered into amended and restated license agreements related to the use of the Virgin name and brand, which provided for, among other things, an increase in the quarterly license fee that the Company pays to the Virgin Group from 0.5% to 0.7% of total revenue commencing in the first quarter of 2016 until annual revenue exceeds \$4.5 billion. The Company recorded the fair value of the increase in the license fee of \$34.1 million as a

**Table of Contents**

component of equity with an offsetting increase in other long-term liabilities as it constituted part of the consideration to the Virgin Group for completing the 2014 Recapitalization. The Company estimated the incremental license fee obligation based on the present value of the additional cash flows of 0.2% of estimated total revenue over the estimated period required to reach the \$4.5 billion threshold, using a discount rate based on airline specific weighted-average cost of capital, factoring in a judgmental risk spread based on a variety of cash flow estimates. The Company will commence amortizing this liability as an offset to the increase in license fees starting the first quarter of 2016, when such increase begins.

**(k) Revenue Recognition**

The Company generates the majority of its revenue from sales of passenger tickets. The Company initially defers ticket sales as air traffic liability and recognizes passenger revenue when the passenger flight occurs. Passenger revenue also includes upgrade fees, which are recognized when the related flights occur.

Tickets expire one year from the date of issuance, if unused by the passenger. Travel credits are also issued to passengers for certain changes to flights if a residual value exists after application of any applicable change fee. Travel credits also expire one year from the date of issuance. The Company estimates and records advanced breakage for tickets and travel credits that it expects will expire unused. These estimates are based upon the Company's historical experience of expired tickets and travel credits and consider other facts, such as recent aging trends, program changes and modifications that could affect the ultimate expiration patterns of tickets and travel credits.

Other revenue consists of baggage fees, change fees, seat selection fees, passenger-related service fees, and inflight meals and entertainment. The Company recognizes revenue for baggage fee, seat selection fee, and passenger-related service fees when the associated flight occurs. Change fee revenues are recognized as they occur.

The Company is also required to collect certain taxes and fees from passengers on behalf of government agencies and remit these to the applicable agency on a periodic basis. These taxes and fees include U.S. federal transportation taxes, federal security charges and airport passenger facility charges. These taxes and fees are collected from passengers when they purchase a ticket, but are not included in passenger revenue. The Company records a liability upon collection and relieves the liability when payments are remitted to the applicable government agency.

The Company's Elevate® loyalty program provides frequent flyer travel awards to program members based upon accumulated points. Points are accumulated as a result of travel, purchases using the co-branded credit card and purchases from other participating partners. The program has an 18-month expiration period for unused points from the month of last account activity. For all points earned under the Elevate program, the Company has an obligation to provide future travel when these reward points are redeemed. With respect to points earned as a result of travel, or flown points, the Company recognizes a liability and a corresponding sales and marketing expense, representing the incremental cost associated with the obligation to provide travel in the future, as points are earned by passengers. The Company offers redemption of points for Elevate program members through travel on its own flights and its partner airlines. Incremental cost for points to be redeemed on flights is estimated based upon historical costs, which include the cost of fuel, passenger fees, complimentary beverages, insurance, miscellaneous passenger supplies and other airline payments. The Company adjusts its liability periodically for changes in estimates of incremental cost, average points to redeem and breakage estimates.

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

**Table of Contents**

from purchases through the original co-branded credit card agreement ( Original Co-Branded Agreement ), the Company recorded deferred revenue using the residual method. The fair value of a point is estimated using the average points redeemed and the estimated value of purchased tickets. The Company recognizes points redeemed as passenger revenue when the awards are redeemed and the related travel occurs. The Company recognizes the residual portion, if any, upon sale of points as other revenue associated with the other marketing services delivered.

In 2013, the Company entered into a new co-branded credit card agreement with a new partner ( New Co-Branded Agreement ). The New Co-Branded Agreement has a seven-year term beginning January 1, 2014, when the new co-branded card was introduced and services to members began. Services with standalone value provided under this agreement include: (i) points (i.e. the travel component); (ii) advertising; (iii) companion certificates for annual travel discounts up to \$150; (iv) unlimited access to the use of the Company's brand and customer list; (v) waived bag fees, which are limited to the first checked bag for the cardholder and its companion traveling on the same flight purchased using the card; (vi) unlimited waived change fees provided the ticket is purchased using the premium card; and (vii) unlimited discounts on purchases made through the Company's Reel inflight entertainment system using the co-branded credit card. Under the New Co-Branded Agreement, the credit card partner is required to provide annual guaranteed advance payments over the contract term. Any unearned advance at the end of the calendar year is carried over to the following year until the contract expires. At the end of the contract, the Company has no obligation to refund any unearned advances to the partner. As of December 31, 2013 and 2014 excess advances totaled \$10.0 million and \$8.5 million, which the Company recorded as air traffic liability.

Under the revenue recognition rules for multiple element arrangements, the Company determines best estimated selling price ( BEBP ) of each element and allocates the arrangement consideration using the relative selling price of each element. Based upon the preliminary valuation of the New Co-Branded Agreement, the majority of the value is attributable to points i.e. the travel component, advertising, brand and customer list, for which the BEBP is determined using management and market assumptions, as well as other judgments necessary to determine the estimated selling price of each element. When developing the relative selling price allocation attributable to the points i.e. travel component, the Company primarily considered the total number of points expected to be issued, the BEBP for points (specifically the value at which points could be redeemed for free or discounted travel), the number of points expected to be redeemed and the timing of redemptions. The BEBP for points is derived based upon management estimate of the redemption rate used by its guests to convert points into the equivalent ticket value for travel on either Virgin, or one of its airline partners. This estimate also considered anticipated point devaluation and discounting factors driven by redemption timing. For advertising, brand and customer list, the Company considered advertising activities, brand power, the size of the Company's customer list as well as the market royalty rate for equivalent programs. Management estimates of the BEBP will not change, but the allocation between elements may change based upon changes in the ultimate volume of sales of each element during the term of the contract. The Company recognizes and records revenue for the majority of the travel related elements in accordance with its existing policies for such services. Revenue for brand and advertising are recognized in other revenue as such services are provided ratably over the contract term. Revenue from making available unlimited services such as waived bag fees, waived change fees and inflight discounts are recognized in other revenue on a ratable basis over the contract term subject to a contract limitation based upon the proportion of cumulative points issued to total contract points expected to be issued.

The Company estimates breakage for sold points using a regression analysis model supplemented with qualitative considerations, which include the history and success of the program, as well as member behavior. In addition, the Company also considers redemption trends by performing a weighted-average redemption rate calculation to evaluate the reasonableness of the calculated breakage rates. Breakage is recorded for sold points under the redemption method using points expected to be redeemed and the recorded deferred revenue balance to determine a weighted-average rate, which is then applied to actual points redeemed. A change in assumptions as to the period over which points are expected to be redeemed, the actual redemption patterns or the estimated fair value of points expected to be redeemed could have a material impact on revenue in the year in which the change

---

**Table of Contents**

occurs as well as in future years. Management estimates could change in the future as Elevate members' behavior changes and more historical data is collected. For the New Co-Branded Credit Card Agreement, the Company estimates breakage based on the rate used in the last year of the previous credit card agreement until more data becomes available, at which point the rate will be updated based on analysis tailored specifically to the new program. Breakage estimates associated with the Original Co-Branded Agreement may also change as not all cardholders are transitioning to the new co-branded card.

**(l) *Airframe and Engine Maintenance and Repair***

The Company accounts for qualifying major engine maintenance under the deferral method wherein overhaul costs and replacement of engine limited life parts are capitalized and amortized as a component of depreciation and amortization expense up to the earlier of lease end or the estimated date for the next engine overhaul. The Company has an engine services agreement with a third-party vendor covering major maintenance for nearly all engines. Under the terms of the agreement, the Company pays a set dollar amount per engine hour flown at the time the engine repair occurs and a smaller amount per engine hour flown monthly in arrears. As of December 31, 2014, no major engine maintenance costs had been capitalized due to the young age of the Company's fleet. Regular airframe and other routine maintenance are expensed as incurred.

The Company has a separate maintenance-cost-per-hour contract for management and repair of certain rotatable parts to support airframe and engine maintenance and repair. This agreement requires monthly payments based upon utilization, such as flight hours, cycles and age of the aircraft, and in turn, the agreement transfers certain risks to the third-party service provider. Expense is recognized based on the contractual payments, as these substantially match the services being received over the contract period.

**(m) *Aircraft Maintenance Deposits***

The Company is contractually required to make supplemental rent payments to aircraft lessors, which represent maintenance reserves made solely to collateralize the lessor for future maintenance events. Under most leases, the lease agreements provide that maintenance reserves are reimbursable upon completion of the major maintenance event in an amount equal to the lesser of (i) the amount of the maintenance reserve held by the lessor associated with the specific major maintenance event or (ii) the qualifying costs related to the specific major maintenance event.

The supplemental payments that are expected to be recovered from lessors are recorded as aircraft maintenance deposits in the accompanying consolidated balance sheets. When it is not probable that amounts on deposit with lessors will be recovered, such amounts are expensed as a component of aircraft rent expense. When the underlying maintenance event is performed, the cost is either capitalized for engines or expensed for all other major maintenance and the deposit is reclassified to other receivables in the accompanying consolidated balance sheets.

The terms of the Company's aircraft lease agreements also provide that most unused maintenance reserves held by the lessor which relate to major maintenance events that fall outside of the lease term are nonrefundable at the expiration of the lease and will be retained by the lessor. The Company charges supplemental rent payments to aircraft rent expense in the accompanying consolidated statements of operations when it becomes less than probable that amounts will be recovered.

The Company makes certain assumptions at the inception of the lease and at each balance sheet date to determine the recoverability of maintenance deposits. These assumptions are based on various factors such as the estimated time between the maintenance events, the cost of future maintenance events and the number of flight hours the aircraft is estimated to be utilized before it is returned to the lessor. Changes in estimates related to maintenance reserve payments are accounted for on a prospective basis.



---

**Table of Contents**

**(n) Advertising**

The Company expenses advertising and the production costs of advertising as incurred. Advertising and marketing expense was \$42.9 million, \$38.6 million, and \$37.4 million for the years ended December 31, 2012, 2013 and 2014, respectively.

**(o) Share-Based Compensation**

Share-based compensation expense for stock options and restricted stock units is measured at fair value on the date of grant. Prior to the IPO, the Company utilized third-party independent valuation reports to assist with valuation of options and restricted stock units and used the Black-Scholes option pricing model for service condition grants. For restricted stock grants issued at the time of IPO and going forward, the Company's valuation of such stock grants will be based on the market price on grant date. The Company recognizes share-based compensation expense net of estimated forfeitures. The Company estimates its forfeiture rate based on historical activity. Share-based compensation expense is recognized over the requisite service period on a straight line basis for each separately vesting tranche of the award, including awards subject to graded vesting.

Prior to the IPO, the Company granted options and restricted stock units with performance and market-based conditions in addition to service requirements to employees and directors. With respect to certain stock awards, the performance conditions restrict exercisability or settlement until certain liquidity events occur, such as a qualifying IPO or change in control. At IPO, the performance condition was met and deferred stock compensation expense was recognized for grants that had also met service requirements. The market conditions further restrict such exercisability or settlement upon achieving certain targeted minimum market prices of the Company's publicly traded common stock. For those awards that vest over a fixed service period, if they do not become exercisable before an employee's termination, they are forfeited to the extent unvested.

**(p) Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences among the financial statements, carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Except as noted below, the Company provides a valuation allowance for net deferred tax assets when it is more likely than not that some portion, or all of its deferred tax assets, will not be realized. In determining the amount of valuation allowance necessary, a deferred tax liability related to indefinite-lived assets cannot be used as a source of taxable income to support the realization of deferred tax assets. The realization of deferred tax assets is dependent on future taxable income, including reversals of deferred tax liabilities, during the periods in which those temporary differences will become deductible. Future taxable income is dependent on the Company's financial performance, the market environment in which the Company operates, the utilization of past tax credits and the length of relevant carryback and carryforward periods.

**(q) Concentrations of Risk**

The Company's credit card holdbacks and receivables are concentrated to a few companies. These receivables do not represent a significant concentration of risk at December 31, 2014 due to the frequency with which settlement of the holdbacks takes place.

Fuel derivative instruments expose the Company to credit loss in the event of non-performance by counterparties to the agreements. The amount of such credit exposure is generally limited to the positive fair

---

**Table of Contents**

value of the Company's outstanding contracts. To manage credit risk, the Company selects counterparties based on credit assessments, limits exposure to a single counterparty by transacting with multiple large, well-known financial institutions and monitors market position relative to each counterparty. Some of the agreements require cash deposits to be placed at another institution if the counterparty credit rating drops below a specified threshold. Such provisions did not affect the Company's financial position as of December 31, 2014.

**(r) *New Accounting Standards or Updates Recently Adopted***

In July 2013, the FASB issued an accounting standards update that provides guidance on the financial statement presentation of unrecognized tax benefits when a net operating loss carryforward (NOL) or a tax credit carryforward exists. Under the new standard update, unrecognized tax benefits related to NOLs or tax credit carryforwards are to be presented in the financial statements as a reduction to a deferred tax asset. This accounting standard update became effective for the Company as of January 1, 2014. The adoption of the accounting standard update did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB and IASB jointly issued a comprehensive new revenue recognition standard that will replace most existing revenue recognition standards under U.S. GAAP and IFRS. The new standard will require the Company to recognize revenue when goods or services are transferred to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. As a result, the Company will need to use more judgments and estimates to determine when and how revenue is recognized than U.S. GAAP currently requires. The new standard will become effective for the Company on January 1, 2017. The Company believes the most significant effect of this accounting standards update will be the elimination of the incremental cost method for frequent flyer accounting, which would require the Company to re-value its liability earned by customers associated with flights points with a relative fair value approach. The Company is continuing to evaluate the new guidance and plans to provide additional information about its expected financial effect at a future date.

In June 2014, the FASB issued an accounting standards update that provides guidance on accounting for share-based compensation when the terms of an award provide that a performance target could be achieved after the requisite service period. The standard provides guidance that this performance target should not be included in the estimate of the award's grant date fair value. The standard requires compensation cost to be recognized over the required service period if it is probable that the service condition will be achieved. This guidance will be effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2015 and can be applied either prospectively or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented as an adjustment to opening retained earnings. Early adoption is permitted. The Company does not expect this accounting standards update to have a material impact on the consolidated financial statements.

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

**Table of Contents****(5) Balance Sheet Components**

Following are components of current and non-current other assets and liabilities in the accompanying consolidated balance sheets (in thousands):

**Prepaid expenses and other assets:**

	December 31,	
	2013	2014
Prepaid expenses and other assets	\$ 10,896	\$ 20,473
Aircraft maintenance deposits - current portion	12,473	401
	\$ 23,369	\$ 20,874

See Note 4 - Summary of Significant Accounting Policies for additional information about aircraft maintenance deposits.

**Other non-current assets:**

	December 31,	
	2013	2014
Deferred rent asset	\$ 24,634	\$ 57,063
Intangible assets	27,000	49,000
Other	7,386	6,216
	\$ 59,020	\$ 112,279

The Company's intangible assets consist of take-off and landing slots at LaGuardia Airport (LGA) and Ronald Reagan Washington National Airport (DCA) acquired in 2013 and in 2014, which are accounted for as indefinite lived assets. See Note 4 - Summary of Significant Accounting Policies, for additional information about Intangible Assets.

**Other current liabilities:**

	December 31,	
	2013	2014
Accrued salaries, wages and benefits	\$ 21,292	\$ 36,101
Fuel hedge payable, net		12,730
Accrued taxes and fees for passenger travel	13,057	12,510
Accrued property taxes	10,779	9,797
Other	28,624	29,585
	\$ 73,752	\$ 100,723

Fuel hedge payable is net of \$14.4 million in margin calls deposited with the Company's counterparties. See Note 7 - Financial Derivative Instruments and Risk Management for more information.

**Other liabilities, non-current:**

December 31,

Edgar Filing: Virgin America Inc. - Form S-1

	2013	2014
Deferred rent credits	\$ 57,672	\$ 57,036
License fee liability		34,102
Other	1,875	15,674
	\$ 59,547	\$ 106,812

F-21

**Table of Contents**

See Note 4 Summary of Significant Accounting Policies for additional information about deferred rent credits associated with lease incentives.

License fee liability represents the increased Virgin Group license fee payment accrual in connection with the 2014 Recapitalization. See Note 4 Summary of Significant Accounting Policies for additional information.

**(6) Fair Value**

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value for assets and liabilities, the Company considers the principal or most advantageous market in which it would transact, and it also considers assumptions that market participants would use when pricing the asset or liability. The accounting guidance establishes a fair value hierarchy based upon the level of independent, objective evidence available to support the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. As a basis for considering such assumptions, the fair value hierarchy is as follows:

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

The following is a listing of the Company's assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the fair value hierarchy as of December 31, 2013 and 2014 respectively (in thousands):

	December 31, 2013			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Cash equivalents	\$ 45,005	\$	\$	\$ 45,005
Restricted cash	12,425			12,425
Heating oil collars fuel derivative instruments asset, net		811		811
Brent calls derivative instrument asset, net		1,609		1,609
	\$ 57,430	\$ 2,420	\$	\$ 59,850
<b>Assets (Liability)</b>				
December 31, 2014				
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 339,211	\$	\$	\$ 339,211
Restricted cash	18,775			18,775
Heating oil collars fuel derivative instruments liability		(27,170)		(27,170)
Brent calls derivative instrument asset, net		50		50
	\$ 357,986	\$ (27,120)	\$	\$ 330,866

Cash and cash equivalents include money market securities or operating cash held off-shore that are considered to be highly liquid and easily tradable. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within the fair value hierarchy. The Company maintains cash and cash equivalents with various high-quality financial institutions.



---

**Table of Contents**

The Company's fuel derivative instruments are privately negotiated contracts and are not traded on public exchanges. The Company's derivative instruments are primarily classified as Level 2, as they are not actively traded and are valued using pricing models that use observable market inputs. Inputs to the valuation models include contractual terms, market prices, yield curves, fuel price curves and measures of volatility.

The Company utilizes third-party independent valuation reports to assist with valuation of related-party warrants and related debt balances, which incorporate a calculation of enterprise value on the Company's projected future earnings using a discounted cash flow analysis and deducting from the enterprise value the present value of the existing capital structure, debt and other obligations. Related-party warrants issued solely as equity transactions prior to the 2013 Recapitalization were recorded in additional paid-in capital in the accompanying consolidated balance sheets. Related-party warrants issued in connection with debt and in connection with the 2013 Recapitalization were recorded as a reduction of the related debt in the accompanying consolidated balance sheets, with an offset to stockholders' equity. Since significant unobservable inputs are used in determining fair value, warrants are categorized as Level 3 in the fair value hierarchy. See Note 10 Stockholders Equity for additional information.

A significant portion of the Company's debt is privately negotiated with related parties. The estimated fair value of related-party debt was \$621.0 million and \$38.8 million at December 31, 2013 and 2014, respectively. The estimated fair value of the non-related party debt includes financing associated with aircraft pre-delivery payments of \$51.2 million and \$39.4 million at December 31, 2014 and 2013, respectively, 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.

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

The Company's results of operations are inherently dependent on the cost of aircraft fuel, which is the Company's single largest expense. Aircraft fuel prices have significant exposure to price volatility and fluctuate based upon market expectations such as demand and supply as well as other economic factors. Increases in aircraft fuel prices may adversely impact the Company's financial performance, operating cash flow and financial position as a greater amount of cash may be needed in order to obtain aircraft fuel for operation. Since aircraft fuel is not widely traded on an organized futures exchange, the Company purchases futures contracts on commodities that are highly correlated to aircraft fuel prices. The Company's fuel risk management strategy is to reduce fuel price volatility while managing the Company's cash and margin exposure. The Company does not purchase or hold any derivatives financial instruments for trading purposes. 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 exits these contracts by entering into offsetting trades and locks 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 will utilize 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 December 31, 2014, the total commitment related to FFP contracts was \$14.1 million, for which the related fuel will be purchased during 2015. 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. The accounting standard governing designation of hedges involves stringent documentation requirements, including documentation of hedging strategy, statistical analysis to qualify a commodity for hedge accounting both on a historical and a prospective basis and strict contemporaneous documentation that is

**Table of Contents**

required at the time each hedge is designated. The Company assesses the effectiveness of each of its individual hedges on a monthly basis. 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. This treatment of fuel hedge derivatives exposes the Company to the risk that its hedges may not be effective in offsetting changes in the cost of fuel and therefore may not continue to qualify under hedge accounting. Hedge ineffectiveness results when the change in fair value of the derivative instruments exceeds the change in the value of the Company's expected future cash outflow relating to fuel purchases and consumption. 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 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 consolidated balance sheets as of December 31, 2013 and 2014 (in thousands):

<b>Derivatives designated as cash flow hedges</b>	<b>Consolidated balance sheet location</b>	<b>Fair value of derivatives as of December 31,</b>	
		<b>2013</b>	<b>2014</b>
Fuel derivative instruments Heating oil collars	Current assets	\$ 769	\$
	Current liabilities		(24,762)
Fuel derivative instruments Brent calls	Current assets	1,424	
	Current liabilities		(84)
<b>Total current assets (liabilities)</b>		<b>\$ 2,193</b>	<b>\$ (24,846)</b>

<b>Derivatives not designated as cash flow hedges</b>	<b>Consolidated balance sheet location</b>	<b>Fair value of derivatives as of December 31,</b>	
		<b>2013</b>	<b>2014</b>
Fuel derivative instruments Heating oil collars	Current assets	\$ 42	\$
	Current liabilities		(2,408)
Fuel derivative instruments Brent calls	Current assets	185	
	Current liabilities		134
<b>Total current assets (liabilities)</b>		<b>\$ 227</b>	<b>\$ (2,274)</b>

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



**Table of Contents**

The following table summarizes the effect of fuel derivative instruments in the consolidated statements of operations for the years ended December 31, 2012, 2013 and 2014, respectively (in thousands):

Derivatives accounted for as hedging instruments under ASC 815	Consolidated financial statement location	Gains (losses) on derivative contracts for the year ended December 31,		
		2012	2013	2014
Fuel derivative instruments	Aircraft fuel expense	\$ (3,473)	\$ (2,597)	\$ (5,759)
Total impact to the consolidated statements of operations		\$ (3,473)	\$ (2,597)	\$ (5,759)

Derivatives not accounted for as hedging instruments under ASC 815	Consolidated financial statement location	Gains (losses) on derivative contracts for the year ended December 31,		
		2012	2013	2014
Fuel derivative instruments	Aircraft fuel expense	\$ (261)	\$ (1,849)	\$ (4,808)
Total impact to the consolidated statements of operations		\$ (261)	\$ (1,849)	\$ (4,808)

Amounts excluded from the assessment of hedge effectiveness were not material for the fiscal periods presented. At December 31, 2014, the Company estimates that approximately \$26.1 million net derivative losses related to its cash flow hedges included in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

The effect of fuel derivative instruments designated as cash flow hedges and the underlying hedged items on the consolidated statements of operations for the years ended December 31, 2013 and 2014, respectively, is summarized as follows (in thousands):

Fuel derivatives designated as cash flow hedges	Amount of gain (loss) recognized in AOCI on derivatives (Effective portion)		Gain (loss) reclassified from AOCI into income (Fuel expense) (Effective portion)		Amount of gain (loss) recognized into income (Ineffective portion)	
	2013	2014	2013	2014	2013	2014
Fuel derivative instruments	\$ 307	\$ (33,230)	\$ (2,557)	\$ (5,468)	\$ (40)	\$ (291)

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

	December 31,	
	2013	2014
Derivatives designated as hedging instruments:		
Fuel derivative instruments Heating oil collars	23	36
Fuel derivative instruments Brent calls	18	16
	41	52
Derivatives not designated as hedging instruments:		
Fuel derivative instruments Heating oil collars	1	3
Fuel derivative instruments Brent calls	3	13

Edgar Filing: Virgin America Inc. - Form S-1

	4	16
Total	45	68

F-25

**Table of Contents**

As of December 31, 2014, the Company had entered into fuel derivative contracts for approximately 23% of its forecasted aircraft fuel requirements for 2015 at a weighted-average cost per gallon of \$2.52.

The Company presents its fuel derivative instruments at net fair value in the accompanying consolidated balance sheets. The Company's master netting arrangements with counterparties allow for net settlement under certain conditions. As of December 31, 2013 and 2014 information related to these offsetting arrangements was as follows (in thousands):

	December 31, 2013					
	Derivatives offset in consolidated balance sheet			Derivatives eligible for offsetting		
	Gross derivative amounts	Gross derivative amounts offset in consolidated balance sheet	Net amount	Gross derivative amounts	Gross derivative amounts eligible for offsetting	Net amount
Fair value of assets	\$ 2,467	\$ (47)	\$ 2,420	\$ 2,467	\$ (47)	\$ 2,420
Fair value of liabilities	(47)	47		(47)	47	

	December 31, 2014					
	Derivatives offset in consolidated balance sheet			Derivatives eligible for offsetting		
	Gross derivative amounts	Gross derivative amounts offset in consolidated balance sheet	Net amount	Gross derivative amounts	Gross derivative amounts eligible for offsetting	Net amount
Fair value of assets	\$ 256	\$ (256)	\$	\$ 256	\$ (256)	\$
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)

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 \$14.4 million of collateral posted related to outstanding fuel hedge contracts at December 31, 2014, which is reflected in the 2014 table above.

**(8) Long-Term Debt**

In May 2013, the Company executed a series of agreements with its investors to recapitalize the Company. See Note 3 2013 Recapitalization for additional information.

In November 2014, in connection with the IPO, the Company entered into the 2014 Recapitalization Agreement with certain security holders that provided for extinguishment of the principal and accrued but unpaid interest outstanding pursuant to the Related-Party Notes. See Note 2 2014 Recapitalization for additional information.

**Table of Contents**

Long-term debt including accrued paid-in-kind interest consisted of the following at December 31, 2013 and 2014, respectively (in thousands):

	December 31, 2013	December 31, 2014
Related-party debt:		
Virgin Group (a)	\$ 463,117	\$ 50,295
Cyrus Capital (b)	71,013	
FNPA debt (c)	173,839	
Third-party debt:		
5.2% 5.3% Pre delivery payments loan (d)	39,462	51,240
Term loan credit facility (e)		40,000
Total debt	747,431	141,535
Less: current maturities (d)		(33,824)
Less: discount on Virgin Group debt (a)		(11,447)
Long term debt	\$ 747,431	\$ 96,264

(a) The 2013 debt balance represents the Virgin Group's portion of restructured debt (issued in the form of notes) accounted for in accordance with troubled debt restructuring accounting guidance. It was recorded at an effective interest rate of 0% and had redemption value of \$398.6 million as of December 31, 2013. See Note 3 2013 Recapitalization for additional information.

The 2014 debt balance represents the recorded value and accrued interest of the \$50.0 million Post-IPO Note issued in November 2014 as part of the 2014 Recapitalization. The fair value of the note of \$38.5 million at the date of issuance was calculated using an effective interest rate of 8.5%. At December 31, 2014, the redemption value of this note was \$50.3 million. The Post-IPO Note bears payment-in-kind interest at 5.0% per year, compounded annually, and is due on November 19, 2022, or on November 19, 2020 if the Company terminates the Letter of Credit Facility prior to its expiration. The Post-IPO Note may be redeemed at the option of the Company at any time in the amount equal to the then-outstanding principal of the Post-IPO Note, including accrued interest. Upon a change of control or a qualified sale, the holder of the Post-IPO Note can cause the Company to redeem all of the principal at the redemption price then in effect. The Post-IPO Note is currently unsecured, and the Company is restricted from incurring any future secured indebtedness related to the Company's unencumbered assets unless the Post-IPO Note is secured on a *pari passu* basis with such debt.

All of the related-party debt held by Virgin Group prior to the 2014 Recapitalization was extinguished in November 2014 in connection with the 2014 Recapitalization. Refer to Note 2 2014 Recapitalization for additional information. The difference between the redemption and the recorded value was recorded as an adjustment to APIC. See Note 2 2014 Recapitalization for additional information.

(b) The 2013 debt balance represents Cyrus Capital's portion of restructured debt (issued in the form of notes) accounted for in accordance with troubled debt restructuring accounting guidance. It was recorded at an effective interest rate of 10% and had redemption value of \$66.8 million as of December 31, 2013. See Note 3 2013 Recapitalization for additional information.

Related-party debt payable to Cyrus Capital was extinguished in November 2014 in connection with the 2014 Recapitalization. Refer to Note 2 2014 Recapitalization for further discussion.

(c) The 2013 debt balance represents the recorded value of the FNPA notes held by Cyrus Capital. The FNPA notes were issued in December 2011, when the Company raised \$150.0 million at a stated interest rate of 17%, of which 50% was paid quarterly and the rest was treated as payable in kind, compounded annually. At December 31, 2013, the redemption value of the notes was \$177.5 million.

---

**Table of Contents**

All FNPA debt, which was held by Cyrus Capital, was extinguished in November 2014 in connection with the 2014 Recapitalization. See Note 2 2014 Recapitalization for additional information on debt extinguishment.

- (d) In connection with the Company's aircraft PDP obligations with Airbus, the Company has a credit agreement with lenders for the Company's PDP commitments. Interest on borrowings under the credit agreement accrues monthly at a rate of 5% plus LIBOR. The PDP credit agreement is secured by the Company's aircraft purchase rights under the Company's purchase agreement with Airbus. The Company will repay advances and related interest allocable to each aircraft in full upon the delivery date of the individual aircraft, and upon repayment, the security for such aircraft's purchase rights will be released. The current portion of the debt represents the PDP loan advances due with the delivery of the five aircraft in 2015.
- (e) In April 2014, the Company entered into a five-year term loan credit facility for \$40.0 million to finance the purchase of domestic airport operating rights with principal repayable in full at maturity. The term loan credit facility is secured by certain of the Company's take-off and landing rights at DCA, LGA and JFK. Amounts borrowed under this term loan accrue interest at a rate of LIBOR plus 3.5%, provided that LIBOR is not less than 1.0%, or a comparable alternative rate based on other interest rate indices. The term loan requires compliance with certain covenants including semi-annual, third-party slot appraisal valuation requirements. As of December 31, 2014, the Company is in compliance with all debt covenants.

**(9) Contingencies and Commitments**

**(a) Contingencies**

The Company is subject to legal proceedings, claims, investigations and proceedings 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 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.

---

## **Table of Contents**

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 evaluated the recoverability of the deposits, credits and related capitalized interest in connection with the anticipated purchase of the 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 \$94.3 million of pre-delivery payments, of which \$68.3 million relates to the next 10 and \$26.0 million to the last 30 aircraft, in its accompanying consolidated balance sheets as of December 31, 2014, \$51.2 million of which was financed by a third party.

Committed expenditures not subject to cancellation rights for these aircraft and separately sourced spare engines, including estimated amounts for contractual price escalations and pre-delivery payment deposits, will total approximately \$396.1 million at December 31, 2014. 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.

### ***Operating Leases***

In connection with the 2013 Recapitalization described in Note 3, the Company executed a series of amendments to its aircraft leases. The aircraft lease amendments resulted in extensions of varying lengths by lease for periods from three to five years, up to 15 years from date of the aircraft manufacture, reductions to base monthly rent, maintenance deposits or both through monthly cash rebates ( Lease Rebates ). Certain aircraft lease extensions will be at fixed rates based upon the fair market value of the aircraft as determined by a qualified appraisal at the start of the lease extension period. The Company estimated the extension rates utilizing current independent aircraft appraisals and current market lease rates and has factored in future demand for the leased aircraft while giving consideration to newer, more fuel-efficient aircraft expected to be delivered in the marketplace during the extension period. All amended leases were re-evaluated to determine if they qualified as a capital lease and were determined to be operating leases under the new lease terms. Thus, as of December 31, 2014, the Company leased all 53 of the aircraft it operates, as well as its spare engines, under operating leases.

Lease Rebates received at the start of the amended leases are accounted for as an incentive to be recorded as a reduction of rent expense on a straight-line basis over the lease term. Payment of future Lease Rebates are contingent on the Company maintaining \$75.0 million of unrestricted cash as of the last day of each month and recognized as a reduction in rent expense when the liquidity requirement is met. Under the amended lease agreements, for substantially all of the lessors who are providing Lease Rebates from monthly base rent, the Company is obligated to refund 25% of all the Lease Rebates received through December 31, 2016 in the first quarter of 2017 or on a pro-rata basis with any debt repayment occurring prior to the first quarter of 2017. Refundable Lease Rebates are recorded as a component of the deferred rent balance in the consolidated financial statements. As a result of the repayment of related-party debt in connection with the 2014 Recapitalization, the Company accelerated \$2.5 million of refundable Lease Rebates to December 2014. The aggregate lease rebates earned and recorded as contingent rent for the year ended December 31, 2013 and 2014 were \$11.1 million and \$19.8 million, respectively.

In addition, as certain lease terms were extended, certain major aircraft and engine maintenance events are expected to fall within the extended lease terms. As a result, the Company recorded lease incentives associated

**Table of Contents**

with supplemental rent payments that were previously expensed that are now expected to be recoverable by virtue of the lease term extensions. The Company recorded these lease incentives as an increase to aircraft maintenance deposits and an increase to other liabilities in the consolidated balance sheet in 2014.

The Company also leases airport space, office space and other equipment, which expire in various years through 2022. The Company has funded \$67.6 million as of December 31, 2014 in cash to various lessors to serve as collateral for base rent deposits related to all of its leases.

The Company recorded rent expense, net of Lease Rebates, of \$270.8 million, \$243.9 million, and \$233.9 million, on all non-cancelable operating leases in 2012, 2013, and 2014, respectively, including \$15.5 million, \$3.0 million, and \$3.8 million, in 2012, 2013 and 2014, respectively, for supplemental rent as further described in Note 4 Summary of Significant Accounting Policies Aircraft Maintenance Deposits.

**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. This allowed these companies to release approximately \$100.0 million of cash collateral to the Company, which was used by the Company to repay principal and accrued interest due under certain of the 5% Notes held by the Virgin Group. Refer to Note 2 2014 Recapitalization for more information. The Letter of Credit Facility will be provided for a period of up to five years from November 18, 2014 and contains an annual commitment fee equal to 5% per annum of the daily maximum amount available to be drawn, accruing on daily basis from the date of issuance. The fee is payable by the Company to the Virgin Group quarterly and is recorded in other income (expense). In addition, the Company is responsible for annual fees associated with the issuance and maintenance of the Letter of Credit Facility. 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. The Company is restricted from incurring any future secured indebtedness related to its unencumbered assets unless the reimbursement obligations to the Virgin Group are secured on a *pari passu* basis with such secured debt. The Letter of Credit Facility will be reduced or terminated to the extent that collateral requirements are decreased or eliminated by the credit card transaction processors.

**Summary of Future Payment Obligations**

As of December 31, 2014, the Company has the following contractual payment commitments (in thousands):

Year	Long-term debt including related-party (1)	Aircraft and engine purchases (2)	Aircraft and engine leases (3)	Maintenance deposits (4)	Other leases (5)	Total
2015	\$ 33,824	\$ 211,899	\$ 225,123	\$ 8,906	\$ 27,047	\$ 506,799
2016	17,416	184,250	216,977	9,047	26,207	453,897
2017			203,823	9,419	27,291	240,533
2018	40,000		188,423	9,882	24,083	262,388
2019	50,295		172,082	10,468	16,884	249,729
Thereafter			486,823	40,682	32,102	559,607
	\$ 141,535	\$ 396,149	\$ 1,493,251	\$ 88,404	\$ 153,614	\$ 2,272,953

(1) Includes accrued interest; excludes future interest of \$23.5 million to be accrued through November 2022.

(2) Represents non-cancelable contractual payment commitments for aircraft and engines.

(3) Represents future minimum lease payments under non-cancelable operating leases with initial terms in excess of one year, including renewal payments for signed lease extensions and excluding lease rebates.

**Table of Contents**

- (4) Represents the fixed portion of supplemental rent under lessor contracts for maintenance reserve payment commitments; excludes variable future amounts that will be based on actual flight hours.
- (5) Represents future minimum lease payments under non-cancelable building, airport station and equipment leases.

The table above excludes the Company's commitment to pay royalties of 0.5% in 2015 of the Company's operating revenue for the use of the Company's brand name to a related party. This license fee will increase to 0.7% starting the first quarter of 2016 until the Company's total annual revenue exceeds \$4.5 billion, at which time the annual license fee would resume to 0.5%. Refer to 2014 Recapitalization for additional information.

**(10) Stockholders' Equity**

In conjunction with its IPO and the 2014 Recapitalization in November 2014, the Company amended and restated its certificate of incorporation to authorize the issuance of common stock, non-voting common stock, and preferred stock. All pre-existing classes of common stock and convertible preferred stock were converted to common stock or non-voting common stock in connection with the 2014 Recapitalization. See Note 2 2014 Recapitalization for additional information.

Employee LLC was formed in 2010 to facilitate the distribution of incentives to eligible employees, which do not include the Company's officers, upon the qualified public offering of the Company's common stock. The Company loaned \$3.0 million to Employee LLC, which used the proceeds of this note to purchase limited liability company interests in VAI Partners LLC, a fund managed by Cyrus Capital, which ultimately entitled Employee LLC to 231,210 shares of the Company's Class A common stock. Under variable interest entity accounting guidelines, the Company consolidated Employee LLC as the Company is the primary beneficiary of Employee LLC. The Company's liability with respect to Employee LLC was limited to the Company's initial investment of \$3.0 million. At December 31, 2013, the shares of Class A common stock owned by VAI Partners LLC and ultimately attributable to Employee LLC were presented as fully outstanding voting shares, as they held key voting and other rights. In November 2014, VAI Partners LLC distributed the shares held by it, including 231,210 shares that VAI Partners LLC distributed to Employee LLC. In turn, Employee LLC sold all of its outstanding shares in connection with the IPO. Upon the sale of the shares, total proceeds of \$5.3 million were paid out to eligible employees as cash bonuses and were recorded as compensation expense in the accompanying consolidated statement of operations.

Prior to the 2014 Recapitalization, the Company had seven classes of common stock. Effective with the 2014 Recapitalization, all pre-existing classes of common stock were converted to common stock or non-voting common stock, subject to U.S. federal statutory and/or regulatory laws with respect to ownership and control of U.S. airlines by non-U.S. citizens. Refer to Stockholders' Equity as follows:

		Shares authorized	
		2013	2014
Voting Common Stock	(a)		650,000,000
Non-Voting Common Stock	(b)		100,000,000
Class A	(c)	56,630,503	
Class A-1	(d)	29,143	
Class B	(e)	924,867	
Class C	(f)	47,688,845	
Class D	(e)	13	
Class E	(g)	13	
Class F	(e)	13	
Class G	(h)	1,987,035	
		107,260,432	750,000,000



**Table of Contents**

		Shares issued and outstanding	
		As of December 31, 2013	2014
Voting Common Stock			36,267,148
Non-Voting Common Stock			6,852,738
Class A	(j)	248,308	
Class A-1	(j)	29,143	
Class B	(j)	424,221	
Class C	(j)		
Class D	(i)	13	
Class E	(g)	13	
Class F	(i)	13	
Class G	(j)	111,241	
		812,952	43,119,886

- (a) Voting Common Stock is entitled to one vote per share.
- (b) Non-Voting Common Stock does not have the ability to vote on any matters.
- (c) Class A common stock was entitled to one vote per share.
- (d) Class A-1 common stock was entitled to 20 votes per share.
- (e) Class B, Class D and Class F common stock was entitled one vote per share in the aggregate and was reserved for foreign stockholders.
- (f) Class C common stock did not have voting rights and was reserved for issuance upon the exercise of outstanding warrants.
- (g) Class E common stock did not have voting rights. All shares of Class E common stock were previously held by a former officer. These shares were canceled in September 2014 and became no longer outstanding.
- (h) Class G common stock did not have voting rights and was reserved for issuance of stock grants to employees, contractors and directors.
- (i) Class D and Class F common stock reached their automatic conversion date into Class B common stock in May 2014 and became no longer outstanding. The conversion did not increase total Class B shares outstanding.
- (j) These classes of shares converted to Common Stock in November 2014 as a result of the 2014 Recapitalization. Refer to Note 2 2014 Recapitalization for additional information.

The votes per share on all matters that require a vote by the Company's stockholders are set forth in the Eleventh Amended and Restated Certificate of Incorporation.

**Preferred Stock**

In connection with the IPO in November 2014, the Company authorized the issuance of 10,000,000 shares of preferred stock, of which none are issued and outstanding at December 31, 2014. Prior to the IPO, the Company had previously authorized the issuance of 1,109,812 shares of redeemable convertible preferred stock, of which 1,109,811 shares were issued and outstanding at December 31, 2013 and up to the date of the 2014 Recapitalization in November 2014. The redeemable convertible preferred stockholders were entitled to receive dividends on a *pari passu* basis with the common stock and thus were participating securities. No dividends had been declared in 2012, 2013 or 2014. The redeemable convertible preferred stock previously outstanding prior to the IPO was converted to common stock in connection with the 2014 Recapitalization and all shares of redeemable convertible authorized were canceled. Refer to Note 2 2014 Recapitalization for additional information.

**Outstanding Related-Party Warrants**

In November 2014, in connection with the 2014 Recapitalization, Related-Party Warrants to purchase 26,067,475 shares of common stock were exchanged without receipt of cash consideration for 5,742,543 shares

**Table of Contents**

of common stock. The 2014 Recapitalization Agreement also provided that the remaining Related-Party Warrants to purchase an aggregate of 16,175,126 shares of common stock were canceled in their entirety. The Company had no warrants outstanding at December 31, 2014. See Note 2 2014 Recapitalization for additional information.

Just prior to the 2014 Recapitalization event, the following Related-Party Warrants were outstanding:

Issued title			Date issued	Aggregate shares issuable	Exercise price	Expiration date	Common Shares Issued at 2014 Recapitalization
Class A Warrants	Cyrus Capital, Virgin Group	(a)	5/31/2007	43,122	\$ 0.08	5/31/2037	42,980
Class A Warrants	Cyrus Capital, Virgin Group	(a)	7/31/2007	30,802	0.08	7/31/2037	30,699
Class C-2 Warrants	Virgin Group	(a)	5/31/2007	178,311	0.08	5/31/2037	177,725
Class C-4 Warrants	Virgin Group	(a)	7/31/2007	63,682	0.08	7/31/2037	63,472
Class C-5 Warrants	Virgin Group	(b)	1/12/2010	7,948,140	37.74	1/12/2040	Cancelled
Class C-6 Warrants	Cyrus Capital	(b)	1/12/2010	278,847	37.74	1/12/2040	Cancelled
Class C-7 Warrants	Cyrus Capital, VAI MBO Investors LLC	(b),(c)	1/12/2010	1,324,689	75.49	1/12/2040	Cancelled
Class C-8 Warrants	Cyrus Capital	(b),(c)	1/12/2010	2,649,380	113.23	1/12/2040	Cancelled
Class C-9 Warrants	Cyrus Capital	(b),(c)	1/12/2010	3,974,070	150.98	1/12/2040	Cancelled
Class C-11 Warrants	Cyrus Capital	(b)	12/9/2011	255,001	26.42	12/9/2041	45,761
Class C-12 Warrants	Cyrus Capital	(b)	12/9/2011	2,295,022	26.42	12/9/2041	411,870
Class C-14 Warrants	Virgin Group	(b)	5/10/2013	20,593,027	18.87	5/10/2043	3,695,697
Class C-14 Warrants	Virgin Group	(b)	5/10/2013	986,487	0.08	5/10/2043	983,249
Class C-15 Warrants	Cyrus Capital	(b)	5/10/2013	1,622,021	18.87	5/10/2043	291,090
				42,242,601			5,742,543

- (a) Warrants were exercisable immediately, subject to U.S. federal statutory and/or regulatory laws with respect to ownership and control of U.S. airlines by non-U.S. citizens.
- (b) Warrants exercisable upon a qualified public offering.
- (c) Warrants expired upon the earlier of (i) the expiration date set forth in the table above, (ii) a qualified public offering at a per-share price less than the applicable exercise price, (iii) a change of control or (iv) an other liquidity event at a per-share price less than the applicable exercise price per share.

Note: The Class C warrants series were not exercisable if the exercise would violate U.S. federal statutory and/or regulatory laws with respect to the ownership and control of U.S. airlines by non-U.S. citizens.

Class C-10 and Class C-13 warrants to purchase 59,543 and 36,495 shares, respectively, held by a former officer as of December 31, 2013, were exchanged for an outstanding loan and canceled in September 2014. These warrants were not included in the table above because they were canceled prior to the 2014 Recapitalization.

The Company utilizes third-party independent valuation reports to assist with valuation of related-party warrants and related debt balances, which incorporate a calculation of enterprise value on the Company's projected future earnings using a discounted cash flow analysis and deducting from the enterprise value the present value of the then existing capital structure, debt and other obligations. Related-party warrants issued in solely equity transactions prior to the 2013 Recapitalization were recorded as additional paid-in capital in the accompanying consolidated balance sheets. Related-party warrants issued in connection with debt and in connection with the 2013 Recapitalization were recorded as a reduction of the related debt in the accompanying consolidated balance sheets, with an offset to stockholders' equity. In 2011, related party-warrants were issued in connection with the FNPA notes and were determined to have a fair value of \$2.26 per share based on the Black Scholes option pricing model using the following key assumptions: expected term of 6.3 years, a risk-free interest rate of 1.35%, no expected dividends and 70.0% estimated share price volatility. Related-party warrants issued in 2012 were not significant. Refer to Note 3 2013 Recapitalization for additional information related to warrants issued in 2013.



---

**Table of Contents**

In May 2013, in connection with the 2013 Recapitalization, certain notes and warrants were exchanged for Class C-14 warrants to purchase approximately 1.0 million shares of Class C common stock with an exercise price of \$0.08 per share. This transaction resulted in a concession of the original obligation to the related-party debt. In addition, the Company issued Class C-14 and Class C-15 warrants to purchase an aggregate of approximately 22.2 million shares of Class C common stock with an exercise price of \$18.87 per share. See Note 3 2013 Recapitalization for additional information.

**(11) Share-based Compensation**
**(a) *Share-based Compensation Plans***

In November 2005, the Company adopted the 2005 Virgin America Inc. Stock Incentive Plan (the 2005 Plan), which had been amended and restated. The total number of shares that could be issued under the 2005 Plan as of December 31, 2013 was 1,771,423, of which 13 such shares were reserved for Class E common stock, and the remaining shares were reserved for Class G common stock. For awards granted under the 2005 Plan that were forfeited or were canceled before being exercised or settled, the shares underlying the awards were added back to the shares available for grant under the 2005 Plan.

In November 2014, the Company adopted the 2014 Virgin America Inc. Equity Incentive Award Plan (the 2014 Plan), which supercedes the 2005 Plan. There are 1,017,570 shares available for issuance under the Plans, which includes 600,000 shares available for issuance under the 2014 Plan in addition to 417,570 shares available for issuance from the 2005 Plan that rolled over into the 2014 Plan. An annual increase in shares available for issuance under the 2014 Plan on the first day of each year beginning in 2015 and ending in 2024 is subject to the approval of the Compensation Committee of the Board of Directors and is limited to 2.5% of the common stock outstanding at the end of the preceding fiscal year and subject to an overall cap of 13.9 million shares of common stock that may be issued under the 2014 Plan in the aggregate. If any shares subject to an award are forfeited, expire or become tax settled shares withheld, these shares will be added back to shares available for future grant under the 2014 Plan, and thus will be added back to the shares available for issuance. As of December 31, 2014, the Company had 555,782 shares available for grant under the 2014 Plan.

The 2014 Plan is administered by the Compensation Committee of the Board of Directors. The 2005 Plan was administered by the Board. The Board may grant stock awards, including incentive stock options (ISOs), nonqualified stock options (NSOs), stock appreciation rights, restricted stock and restricted stock units (RSUs) to employees, consultants and non-employee directors of the Company, the vesting of which may be performance-based or market-based along with a requisite service requirement. Certain awards granted prior to the IPO were subject to continuing employment and achieving an IPO and require meeting certain stock price thresholds in order to vest or become exercisable. Under the 2005 Plan, stock options granted have an exercise price of at least 100% of the fair market value of the underlying stock at the time of grant and have an exercise term of ten years from grant date. Stock awards under the 2005 Plan generally vest in annual installments over a two to four year schedules. RSUs granted under the 2005 Plan have contractual vesting and settlement restrictions which are based on certain liquidity events such as IPO and exercisability restrictions such as certain stock price thresholds. The majority of RSUs granted under the 2005 Plan will vest upon meeting market conditions. The Company had not previously recognized expense on these awards prior to November 2014 as the performance condition was not deemed probable of occurring. The Company recognized \$7.7 million expense in the fourth quarter 2014 for these options and RSUs as the performance condition associated with the IPO event was met.

RSUs granted to the members of the Board of Directors and to the Company's chief executive officer (CEO) prior to the IPO were granted outside of the 2005 Plan, and were previously part of the overall Class G shares of common stock authorized for issuance. RSUs granted to the Board members prior to IPO generally vest based upon meeting a one-year service period. RSUs granted to the CEO prior to the IPO generally have service periods of up to four years.

**Table of Contents**

Stock grants under the 2014 Plan made to members of the Board and to employees are in the form of RSUs with service condition of generally three years.

Stock option activity granted under the 2005 Plan and superceded by the 2014 Plan (collectively referred to as the Plan ) as of December 31, 2014 is as follows:

	Service Options	Performance Options	Weighted Average Exercise Price	Weighted Average Contractual Term (Years)
Outstanding as of December 31, 2013	136,746	911,796	\$ 16.68	8.39
Granted	1,324	20,532	8.45	
Forfeited / canceled	(1,839)	(18,984)	15.26	
Exercised	(1,718)		13.89	
Outstanding as of December 31, 2014	134,513	913,344	15.95	7.31
Options vested and expected to vest as of December 31, 2014	133,714	908,889	\$ 15.98	7.30
Options vested and exercisable as of December 31, 2014	115,839		\$ 25.22	4.03
Unrecognized compensation (in thousands)	\$ 82	(1) \$ 155	(2)	

- (1) The Company expects to recognize this share-based compensation expense over a weighted-average remaining recognition period of 1.19 years.
- (2) The Company expects to recognize this share-based compensation expense over a weighted-average remaining recognition period of 0.77 years.

The total intrinsic value of options exercised and the fair value of service condition options granted to employees that vested during each of the years ended December 31, 2012, 2013, and 2014 were de minimus. The aggregate intrinsic value for options outstanding and options exercisable represents the total pretax intrinsic value based on the fair value of the Company's common stock of \$43.25 per share that would have been received by the option holders had those options holders exercised their stock options as of December 31, 2014. The aggregate intrinsic value of options outstanding at December 31, 2014 is \$29.4 million and options exercisable is \$2.8 million. The options outstanding not yet exercisable are subject to stock price covenants which restrict exercise until stock price performance metrics are met.

With respect to the stock option grants containing performance-based conditions, no share-based compensation expense was recorded in 2012 and 2013, and \$4.6 million expense was recorded in 2014. At December 31, 2014, unrecognized compensation related to these stock options is approximately \$0.2 million.

RSU activity granted under the Plan is as follows:

	Service restricted stock units	Performance restricted stock units	Total restricted stock units	Weighted average grant date fair value per share	Aggregate grant date fair value (in thousands)
Unvested as of December 31, 2013		261,165	261,165	\$ 8.45	\$ 2,208
Granted	340,411	40,375	380,786	21.88	8,331
Vested					
Forfeited and canceled		(5,761)	(5,761)	8.45	(50)
Unvested as of December 31, 2014	340,411	295,779	636,190	\$ 16.49	\$ 10,489



**Table of Contents**

Pre-IPO RSU activity granted outside of the Plan is as follows:

	Service restricted stock units	Performance restricted stock units	Total restricted stock units	Weighted average grant date fair value per share	Aggregate grant date fair value (in thousands)
Unvested as of December 31, 2013	26,493	604,384	630,877	\$ 10.18	\$ 6,421
Granted	51,520		51,520	8.45	435
Vested	(26,493)		(26,493)	8.45	(226)
Forfeited and canceled					
Unvested as of December 31, 2014	51,520	604,384	655,904	\$ 10.11	\$ 6,630

Prior to the IPO, the Company granted certain performance-based and market-based RSU awards that were not subject to continued employment of the award holder. Accordingly, compensation expense related to these awards was recognized over the service period.

As of December 31, 2014 total unrecognized compensation expense for RSUs granted under all Plans and outside the Plans was approximately \$8.6 million to be recognized over a weighted-average remaining recognition period of 1.72 years.

In addition to stock compensation associated with options and RSUs as described in the preceding notes, in November 2014, 217,898 shares of common stock were issued to employees and directors at the completion of the IPO under the 2014 Plan as approved by the Company's Board of Directors. The Company recorded \$5.0 million in stock compensation expense and an increase in additional paid in capital, based on the number of shares multiplied by the initial price of the common stock in the offering. These shares became fully issued and outstanding upon issuance.

The Company estimated the fair value of stock options granted using the Black-Scholes option valuation model with the following assumptions:

	Year Ended December 31,		
	2012	2013	2014
Expected volatility	53.0%	70%	70%
Risk-free interest rate	1.04%	0.71%-1.34%	1.86%-1.89%
Dividend yield			
Expected term (in years)	6.3	5.0	6.3
Weighted-average fair value of options granted	\$ 9.44	\$ 3.85	\$ 5.45

The expected stock price volatility assumptions were determined by examining the historical volatilities for industry peers for the time period equal to the expected term as the Company's common stock is not publicly traded.

The risk-free interest rate assumption is based upon U.S. Treasury instruments whose term is consistent with the expected term of the Company's stock options at the time of grant.

The expected dividend assumption is based on the Company's history and expectation of dividend payouts.

For options with exercise prices equal to the fair value of the Company's common stock at the date of grant, the expected term of the options is generally based on the simplified average approach based on the options' vesting term and the contractual term of the options, as the Company did not have sufficient historical information to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior. For options with exercise prices which exceed the fair value of the Company's common stock at the grant date, the Company estimated the expected term based on peer companies' reported experience.

**Table of Contents**

The Company records share-based compensation expense only for those awards expected to vest using an estimated forfeiture rate based upon the Company's historical pre-vesting forfeiture experience. Share-based compensation expense is recorded in salaries, wages and benefits in the accompanying consolidated statements of operations. Total share-based compensation expense recorded for 2012, 2013, 2014, including stock options and RSUs granted under both the 2014 and 2005 Plans and outside of the Plans, as well as a grant of shares of common stock on the IPO date was \$0.2 million, \$0.4 million, and \$14.0 million, respectively. In May 2013, the Company modified all outstanding options with performance and market conditions to reduce the exercisability restriction from \$37.74 per share to \$26.42 per share. This had a de minimus impact on the consolidated statement of operations for the year ended December 31, 2013.

No material income tax benefit has been recognized relating to share-based compensation expense and no tax benefits have been realized from exercised stock options. Stock-based awards activity did not have an impact on cash flows from financing activities for 2012, 2013 and 2014.

**(b) *Teammate Stock Purchase Plan***

In November 2014, the Company adopted the Teammate Stock Purchase Plan (TSPP), under which 160,000 shares of the Company's common stock have been reserved for issuance to eligible employees. An annual increase on the first day of each year beginning in 2015 and ending in 2024 is subject to approval by the Compensation Committee of the Board of Directors, limited to 1% of the common stock outstanding at the end of the preceding year and subject to an overall cap of 4.8 million shares of common stock that may be issued under the TSPP in the aggregate. Employees are offered shares bi-annually through two six-month offering periods, which begin on February 15 and August 15 of each year. Employees may purchase a limited number of shares of the Company's stock via regular payroll deductions at a discount of 10% of the market value at the end of the six-month offering period. Employees may deduct up to 10% of payroll up to \$25,000 per year, with a cap of 5,000 shares per employee per offering period. The TSPP is scheduled to terminate on January 3, 2024. No shares have been issued under the TSPP as of December 31, 2014. The first offering period begins in February 2015.

**(12) Employee Benefit Plans**

**(a) *401(k) Plan***

The Company sponsors a retirement savings 401(k) defined contribution plan covering all employees that includes Company matching contributions. Company contributions expensed in 2012, 2013, and 2014 were \$4.9 million, \$6.0 million, and \$10.6 million, respectively.

Until December 31, 2013, the Company matched 100% of the first 5% of employee contributions. Beginning January 1, 2014, the Company match increased to 125% of the first 6% of employee contributions.

There is no waiting period for eligibility for Company matching.

Subsequent to year end, the Company adopted a new discretionary 401(k) company contribution in 2015 called 401(k) Plus under which the Company will make additional 401(k) contributions of 4.5% of salary for pilots and 1.5% for all other teammates. 401(k) Plus contributions will be evaluated annually by the Board of Directors and may change in future years. The new plan contributions will take effect beginning in 2015.

**(b) *Profit Sharing Plan***

The Company's teammate profit-sharing program generally provides that, for each year in which the Company has an annual pre-tax profit, it will pay 15% of that profit net of profit-sharing expense to substantially all of its teammates (other than officers and certain management teammates who are not eligible). For the year ended December 31, 2014, the Company adjusted pre-tax income to exclude certain IPO related expenses, as the Company considered these expenses one-time, non-operational items that should not reduce the profit-sharing



**Table of Contents**

basis for teammates. For the year ended December 31, 2012, the Company did not record profit-sharing expense as it incurred a pre-tax loss in each of those years. The Company recorded profit-sharing expense of \$2.1 million and \$14.4 million, respectively for the years ended December 31, 2013 and 2014, respectively.

Subsequent to year end, the Company has adopted a change in the annual teammate profit-sharing program in 2015, which will become effective with the 2016 payout. A threshold will be implemented in 2015 on pre-tax income net of profit-sharing expense, determined by multiplying \$1.5 million times the average number of aircraft in the Company's fleet for the full year. For 2015, the pre-tax income threshold is expected to be approximately \$81.0 million. The Company will accrue 15% profit-sharing for teammates on pre-tax income net of profit-sharing expense above this threshold, and the Company will not incur any profit-sharing compensation on pre-tax income up to the \$81.0 million threshold.

**(13) Income Taxes**

The expense for income taxes consists of the following (in thousands):

	Year Ended December 31,		
	2012	2013	2014
Current:			
Federal	\$	\$	\$
State	15	317	(23)
Deferred:			
Federal			1,110
State			92
	\$ 15	\$ 317	\$ 1,179

The following table shows significant components of the Company's deferred tax assets and liabilities (in thousands). These are classified in other current and non-current assets and liabilities:

	December 31,	
	2013	2014
<b>Deferred tax assets:</b>		
Capitalized start-up costs	\$ 24,612	\$ 21,610
License fee liability		12,914
Gain on debt restructuring	27,485	
Share-based compensation	6,539	5,162
Accruals and reserves	24,803	46,503
Unrealized loss on fuel hedges	0	12,022
Net operating loss carryforwards	234,263	245,384
Total deferred tax assets	317,702	343,595
<b>Deferred tax liabilities:</b>		
Unrealized gain on fuel hedges	(631)	
Manufacturers incentives	(26)	(26)
Maintenance deposits	(50,960)	(80,354)
Deferred aircraft rent	(3,968)	(19,756)
Related-party debt		(4,334)
Indefinite lived slots		(1,201)
Property and equipment	(686)	(1,030)
Total deferred tax liabilities	(56,271)	(106,701)
Less: Valuation allowance	(261,431)	(238,095)

Edgar Filing: Virgin America Inc. - Form S-1

Net deferred tax liability	\$	\$ (1,201)
----------------------------	----	------------

F-38

**Table of Contents**

Deferred taxes as presented in the consolidated balance sheets are as follows (in thousands):

	<b>December 31,</b>	
	<b>2013</b>	<b>2014</b>
Current deferred tax assets	\$ 22,479	\$ 40,502
Valuation allowance	(18,731)	(28,066)
<b>Net current deferred tax assets</b>	<b>3,748</b>	<b>12,436</b>
Current deferred tax liabilities	(4,560)	(178)
<b>Net current deferred tax assets (liabilities)</b>	<b>\$ (812)</b>	<b>\$ 12,258</b>
Non-current deferred tax assets	\$ 291,255	\$ 303,093
Valuation allowance	(242,700)	(210,029)
<b>Net non-current deferred tax assets</b>	<b>48,555</b>	<b>93,064</b>
Non-current deferred tax liabilities	(47,743)	(106,523)
<b>Net non-current deferred tax assets (liabilities)</b>	<b>\$ 812</b>	<b>\$ (13,459)</b>

Net current deferred tax assets and liabilities are included in Prepaid expenses and other assets and Other current liabilities, respectively, in the consolidated balance sheets. Net non-current deferred tax assets and liabilities are included in Other non-current assets and Other liabilities, respectively, in the consolidated balance sheets.

For the year ended December 31, 2014, the Company recorded a deferred tax liability and tax expense of \$1.2 million resulting from the difference between the book and tax basis of indefinite-lived intangible assets that are not available to cover net deferred tax assets subject to a valuation allowance.

The Company's expense (benefit) for income taxes differs from that using the federal statutory rate due to the following (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
Federal income tax at the statutory rate	\$ (50,880)	\$ 3,661	\$ 21,451
Permanent items	2,723	1,526	651
State income taxes, net of federal tax benefit	(4,830)	325	1,758
Change valuation allowance	53,002	(5,195)	(22,681)
<b>Total income tax expense</b>	<b>\$ 15</b>	<b>\$ 317</b>	<b>\$ 1,179</b>

At December 31, 2014, the Company had NOLs of approximately \$633.2 million for federal income tax purposes that expire beginning in 2027 and continuing through 2034, and the Company has NOLs of approximately \$433.9 million for state income tax purposes that expire beginning in 2017 and continuing through 2036. The NOL amounts in the preceding sentence include NOLs that are currently estimated to be in excess of limitations imposed under Section 382, as described below.

**Table of Contents**

The Company had valuation allowances of \$261.4 million and \$238.1 million as of December 31, 2013 and 2014, respectively. Valuation allowance changes in each period were exclusively driven by changes in net deferred tax assets including NOLs.

	Year Ended December 31,		
	2012	2013	2014
Balance at beginning of year	\$ 267,966	\$ 306,005	\$ 261,432
Charged to provision	53,002	(5,195)	(22,681)
Charged to equity		(38,298)	(6,898)
Charged to OCI	(14,963)	(1,080)	6,242
Balance at end of year	\$ 306,005	\$ 261,432	\$ 238,095

Section 382 of the Internal Revenue Code of 1986, as amended ( Section 382 ), imposes limitations on a corporation's ability to utilize NOLs if it experiences an ownership change. In general terms, an ownership change results from a cumulative change in the equity ownership of certain stockholders by more than 50 percentage points over a three-year period. In the event of an ownership change, utilization of the Company's pre-charge NOLs would be subject to annual limitation under Section 382, which is generally determined by multiplying the value of the Company's stock at the time of the ownership change by the applicable long-term tax-exempt rate. Multiple Section 382 limitations can be created by multiple ownership changes. In cases of multiple ownership changes, a subsequent ownership change can reduce, but not increase, the size of the Section 382 limitation that applies to pre-change losses from an earlier ownership change. As a result of a January 2010 equity restructuring, the Company experienced a Section 382 ownership change, and the Company estimates that certain of its federal and state NOLs will be subject to limitation as a result of this change. As a result of the 2014 Recapitalization and the IPO, the Company believes it has experienced another Section 382 ownership change. The Company has not yet completed the final calculation of the estimated limitation for the 2014 ownership change, but based on the Company's current calculations, the Company does not believe it will experience limitations on the use of these NOLs in the near term. The Company expects to finalize the analysis before the filing of 2014 tax returns.

In accordance with applicable income tax accounting guidance, the Company recorded an unrecognized tax benefit of approximately \$5.0 million for the year ended December 31, 2012. The unrecognized tax benefit balance did not change in the periods ended December 31, 2013 and 2014. Changes in the unrecognized tax benefit will have no impact on the effective tax rate due to the existence of the valuation allowance. The Company estimates that the unrecognized tax benefit will not significantly change within the next 12 months.

A reconciliation of the gross unrecognized tax benefits is as follows:

	Year Ended December 31,		
	2012	2013	2014
Balance at beginning of year	\$	\$ 5,043	\$ 5,043
Increase (decrease) for tax positions taken in prior years			
Increase for tax positions taken in the current year	5,043		
Decrease for settlements with taxing authorities			
Decrease for lapsing of the statute of limitations			
Balance at end of year	\$ 5,043	\$ 5,043	\$ 5,043

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions and has identified its state tax return in California as a major tax jurisdiction. With few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2006. In California, the income tax years 2006 through 2013 remain open to examination.

---

**Table of Contents**

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. The Company had no accruals for the payment of interest and penalties at December 31, 2013 or 2014.

**(14) Related-Party Transactions**

The Company licenses the use of its brand name from certain entities affiliated with the Virgin Enterprises Limited, a company incorporated in England and Wales ( VEL ). VEL is an affiliate of one of the Company's largest stockholder, the Virgin Group, which has two designees on the Board of Directors. Under the trademark license, the Company has the exclusive right to operate its airline under the brand name Virgin America within the United States (including Puerto Rico), Canada and Mexico, as well as the right to operate from any of the foregoing countries to points in the Caribbean. In December 2013, the Company entered into an amendment of the license agreement which expands the rights of Virgin Atlantic Airways, an affiliate of both the Company and VX Holdings L.P. to code share with other airlines. Royalties payable for use of the license are 0.5% of revenues. In November 2014, in connection with the 2014 Recapitalization and the IPO, the Company entered into amended and restated license agreements which provided for, among other things:

An extension of the Company's right to use the Virgin name and brand for a term of 25 years after November 13, 2014, and

Commencing in the first quarter of 2016, an increase in the annual license fee to the Virgin Group from 0.5% to 0.7% of total revenue, until the Company's total annual revenue exceeds \$4.5 billion, at which time the annual license fee would resume 0.5%.

The Company recorded the fair value of the increase of \$34.1 million as a reduction in related-party debt and an increase in other long-term liabilities as it is a part of the consideration to the Virgin Group for completing the 2014 Recapitalization. Refer to Note 2 2014 Recapitalization for additional details.

The Company paid license fees of \$6.7 million, \$7.1 million, and \$7.4 million during the years ended December 31, 2012, 2013 and 2014, respectively. The Company has accrued unpaid royalty fees of \$1.8 million at both December 31, 2013 and 2014.

As of December 31, 2014 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 have other significant investments in the Company. 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 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 Capital Partners L.P. (which includes Cyrus Aviation Holdings, LLC), the largest single U.S. investor owns approximately 29.0% as of December 31, 2014.

As of December 31, 2014, 29.9% of the Company's \$130.1 million debt is held by related-party investors. All of the Company's previously outstanding related-party debt was extinguished in November 2014 as part of the 2014 Recapitalization. See Note 2 2014 Recapitalization for additional information. In connection with this, the Company incurred \$113.7 million, \$68.4 million, and \$33.7 million of related-party interest expense for the years ended December 31, 2012, 2013 and 2014, respectively. Commencing in November 2014, the Company began to incur an annual commitment fee on the \$100.0 million Letter of Credit Facility issued by the Virgin Group. The fee is equal to 5.0% per annum of the daily maximum amount available to be drawn, accruing on daily basis from the date of issuance and is payable quarterly. For the year ended December 31, 2014 the Company recorded \$0.6 million commitment fee in other income (expense) in the accompanying consolidated statement of operations.

**(15) Net Income Per Share**

Basic and diluted net income (loss) per share are computed using the two-class method for periods prior to the completion of the Company's IPO, which is an allocation method that determines net income (loss) per share

**Table of Contents**

for common stock and participating securities. The undistributed earnings are allocated between common stock and participating securities as if all earnings had been distributed during the period presented.

Basic net income (loss) per share is calculated by taking net income (loss), less earnings allocated to participating securities, divided by the basic weighted-average common shares outstanding. Shares of convertible preferred stock are considered participating securities because they are entitled to participate *pari passu* in any dividends declared and paid on the common stock on an as-converted to common stock basis.

Diluted net income (loss) per share is calculated using the more dilutive of the if-converted method and the two-class method. Because the Company's convertible preferred stock participated *pari passu* in any dividends declared and paid on the common stock on an as-converted to common stock basis, the diluted earnings per share are the same under both methods. Therefore the two-class method has been presented below.

For periods prior to the completion of the Company's IPO, the basic weighted-average common shares outstanding included shares of Class A, Class A-1, and Class B common stock, but excluded Class D, Class E and Class F common stock as the holders of these classes were not entitled to dividends or distributions declared on common stock until the initial investments of the Company's initial stockholders had been returned. The basic weighted-average common shares outstanding also excluded Class G common stock, which did not participate in dividends or distributions and were director and employee stock awards. Class D and Class F common stock reached their automatic conversion date and were converted into Class B common stock in May 2014 and thus were no longer outstanding at the date of the Company's IPO. The conversion did not increase total Class B shares outstanding. All previously outstanding shares of Class E common stock were canceled in September 2014 and were also no longer outstanding at the date of the Company's IPO. Subsequent to the Company's IPO, the exercise or settlement of all options and RSUs will result in the issuance of common stock that participates in dividends and distributions; thus, all options and RSUs have been included in diluted EPS for the period subsequent to the IPO, if the effect is dilutive.

**Table of Contents**

For periods prior to the completion of the Company's IPO, the diluted net income (loss) per share calculations included shares of Class A, Class A-1, and Class B common stock, as well as warrants to purchase shares of Class A and Class C common stock where the warrant exercise price was below the fair value of the underlying common stock and therefore had a dilutive effect. Stock options and unvested RSUs were excluded from the calculation of diluted net income (loss) per share because exercise or settlement of these awards would have resulted in issuance of Class G common stock, which did not participate in dividends or distributions. Immediately prior to the consummation of the IPO in November 2014, all outstanding shares of preferred stock and all classes of common stock were converted to shares of voting common stock or non-voting common stock. As a result, voting and non-voting, which participate equally in dividends and distributions, are the only outstanding equity in the Company as of December 31, 2014 and are included in basic EPS for the period outstanding. 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 share and per share data):

	<b>For the Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>BASIC:</b>			
Net (loss) income	\$ (145,388)	\$ 10,144	\$ 60,109
Less: net income allocated to participating securities		(6,215)	(8,093)
Net (loss) income attributable to common shareholders	\$ (145,388)	\$ 3,929	\$ 52,016
Weighted-average common shares outstanding	701,671	701,671	6,175,786
Basic net (loss) income per share	\$ (207.20)	\$ 5.60	\$ 8.42
<b>DILUTED:</b>			
Net (loss) income	\$ (145,388)	\$ 10,144	\$ 60,109
Less: net income allocated to participating securities		(4,084)	(6,850)
Net (loss) income attributable to common shareholders	\$ (145,388)	\$ 6,060	\$ 53,259
Weighted-average common shares outstanding-basic	701,671	701,671	6,175,786
Effect of dilutive potential common shares		945,150	1,294,610
Weighted-average common shares outstanding-diluted	701,671	1,646,821	7,470,396
Diluted net (loss) income per share	\$ (207.20)	\$ 3.68	\$ 7.13

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>For the Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
Warrants to purchase common stock	20,090	33,124	
Stock option awards			17
Restricted stock awards			

Table of Contents

**4,852,942 Shares**

**Common Stock**

**Barclays**

**Deutsche Bank Securities**

**Cowen and Company**

**Imperial Capital**

**Raymond James**



**Table of Contents****PART II****Item 13. Other Expenses of Issuance and Distribution**

The following table sets forth the costs and expenses, other than underwriting discounts, payable in connection with the sale and distribution of the securities being registered. All amounts are estimated except the SEC registration fee and the FINRA filing fee. All the expenses below will be paid by Virgin America.

<b>Item</b>	<b>Amount</b>
SEC registration fee	\$ 22,412
FINRA filing fee	29,432
Legal fees and expenses	400,000
Accounting fees and expenses	300,000
Printing and engraving expenses	200,000
Blue Sky fees and expenses	15,000
Miscellaneous fees and expenses	33,156
 Total	 \$ 1,000,000

**Item 14. Indemnification of Directors and Officers**

Virgin America Inc. is a Delaware corporation. Section 145 of the Delaware General Corporation Law authorizes a court to award, or a corporation's board of directors to grant, indemnity to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities, including reimbursement for expenses incurred, arising under the Securities Act of 1933, as amended. Our amended and restated certificate of incorporation permits indemnification of our directors, officers, employees and other agents to the maximum extent permitted by the Delaware General Corporation Law, and our amended and restated bylaws provide for indemnification of our directors, officers, employees and other agents to the maximum extent permitted by the Delaware General Corporation Law. In addition, we have entered into indemnification agreements with our directors, officers and some employees containing provisions which are in some respects broader than the specific indemnification provisions contained in the Delaware General Corporation Law. The indemnification agreements may require us, among other things, to indemnify our directors against certain liabilities that may arise by reason of their status or service as directors and to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified. Reference is also made to Section 7 of the underwriting agreement to be filed as Exhibit 1.1 hereto, which provides for indemnification by the underwriters of our officers and directors against certain liabilities.

**Item 15. Recent Sales of Unregistered Securities:**

During the last three years, the Company made sales of the following unregistered securities:

***Warrant Agreements***

In November 2012, the Company entered into warrant agreements with Frederick Reid, who served as the Company's first Chief Executive Officer until December 2007, and Joyce Reid, his spouse, pursuant to which the Company granted to them warrants to purchase an aggregate of 23,181 shares of common stock at an exercise price of \$37.74 per share and warrants to purchase an aggregate of 72,857 shares of common stock at an exercise price of \$75.49 per share. Half of the shares under each of these warrants vested immediately, and the other half would have vested upon the occurrence of a liquidity event, including a public offering, subject to certain conditions. The warrants would have expired on January 12, 2040 or immediately after the earlier closing of a liquidity event, including a public offering and were exercisable only upon the occurrence of a liquidity event, including a public offering, provided that any exercise would not violate any U.S. statute or regulation concerning the ownership and control of a U.S. airline by non-U.S. citizens. In September 2014, these warrants were cancelled unexercised.



## **Table of Contents**

In May 2013, in connection with the cancellation of a portion of the Company's then outstanding related-party debt, the Company entered into warrant agreements with the Virgin Group and Cyrus Capital pursuant to which it granted (i) warrants to purchase an aggregate of 1,622,021 shares of common stock at an exercise price of \$18.87 per share to Cyrus Capital, (ii) warrants to purchase an aggregate of 20,593,027 shares of common stock at an exercise price of \$18.87 per share to the Virgin Group, and (iii) warrants to purchase an aggregate of 986,487 shares of common stock at an exercise price of \$0.08 per share to the Virgin Group. The warrants would have expired in May 2043 and would have only been exercisable after they had been transferred in specified circumstances (provided that any exercise thereafter would not have violated any U.S. statute or regulation concerning the ownership and control of a U.S. airline by non-U.S. citizens) or in connection with the settlement of such warrants to an underwriter in connection with a public offering. None of the warrants remain outstanding after the 2014 Recapitalization described below.

### ***Note Purchase Agreements***

In May 2013, the Company issued \$75.0 million of senior secured notes to the Virgin Group and Cyrus Capital. The notes bore interest at a rate of 17.0% per annum, compounded annually. The principal and accrued interest on the notes would have become due on June 9, 2016 if not earlier repaid or redeemed. The notes were redeemable at the Company's option at any time and at the lenders' option upon a change of control or certain qualified sales. The Company also would have been required to redeem the notes upon the incurrence of any senior debt. The notes were secured by substantially all of the Company's assets. None of the notes remain outstanding after the 2014 Recapitalization on described below.

### ***Equity Awards***

From January 1, 2012, until the filing of its registration statement on Form S-8 in 2014, the Company issued and sold an aggregate of 2,114 shares of common stock upon the exercise of options issued to certain directors, officers, employees, consultants and service providers under the 2005 Stock Incentive Plan at a weighted-average exercise price of \$13.72 per share for aggregate cash consideration of approximately \$29,000.

From January 1, 2012, until the filing of its registration statement on Form S-8 in 2014, the Company granted options to certain directors, officers, employees, consultants and service providers under the 2005 Stock Incentive Plan with respect to an aggregate of 825,192 shares of common stock, at a weighted-average exercise price of \$15.18 per share.

From January 1, 2012, until the filing of its registration statement on Form S-8 in 2014, the Company granted to certain directors, officers, employees, consultants and other service providers an aggregate of 319,654 RSUs to be settled in shares of common stock under the 2005 Stock Incentive Plan.

Since January 1, 2012, the Company granted to certain directors, including its chief executive officer, an aggregate of 445,943 RSUs to be settled in shares of common stock outside of the 2005 Stock Incentive Plan and outside of the 2014 Equity Incentive Award Plan.

### ***2014 Recapitalization***

On November 13, 2014, in connection with the consummation of the Company's initial public offering and pursuant to a recapitalization agreement, the Company issued an aggregate of (i) 5,742,543 shares of common stock to the former holders of certain related-party warrants in exchange for such certain related-party warrants without receipt of cash consideration; (ii) 22,159,070 shares of common stock to the former holders of certain related-party notes in exchange for such certain related-party notes and (iii) an aggregate of 1,950,937 shares of common stock to the former holders of the Company's outstanding shares of convertible preferred stock and Class A, Class A-1, Class B, Class C and Class G common stock in exchange for such shares of stock.

## **Table of Contents**

### ***Post-IPO Note***

On November 19, 2014, in connection with the transactions contemplated by the recapitalization described above, the Company issued a new note with a principal amount of \$50.0 million to the Virgin Group in exchange for the cancellation of \$50.0 million of outstanding principal of related-party notes held by the Virgin Group.

### ***Stock Issuance Agreement***

On November 13, 2014, the Company issued 39,582 shares of common stock to certain of its aircraft lessors in partial settlement of accelerated lease obligations to such lessors triggered by the repayment of the related-party notes as part of the recapitalization described above.

Unless otherwise stated, the sales of the above securities were deemed to be exempt from registration under the Securities Act in reliance upon Sections 3(a)(9) or 4(a)(2) of the Securities Act or Regulation D or Regulation S promulgated thereunder, or Rule 701 promulgated under Section 3(b) of the Securities Act as transactions by an issuer not involving any public offering or pursuant to benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in these transactions. All recipients had adequate access, through their relationships with Virgin America, to information about Virgin America. There were no underwriters employed in connection with any of the transactions set forth in Item 15.

### **Item 16. Exhibits and Financial Statements**

See the Exhibit Index, which follows the signature pages hereto and is incorporated herein by reference.

### **Item 17. Undertakings**

The undersigned registrant hereby undertakes that:

(1) for purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective; and

(2) for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 14, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, we have duly caused this Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 16, 2015

**VIRGIN AMERICA INC.**

By: */s/ C. David Cush*  
*C. David Cush*  
*President and Chief Executive Officer*

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints C. David Cush, Peter D. Hunt and John J. Varley, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement and to sign any registration statement for the same offering covered by the Registration Statement that is to be effective upon filing pursuant to Rule 462 promulgated under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<i>/s/ C. David Cush</i>	President and Chief Executive Officer	March 16, 2015
C. David Cush	(principal executive officer and Director)	
<i>/s/ Peter D. Hunt</i>	Senior Vice President & Chief	March 16, 2015
Peter D. Hunt	Financial Officer (principal financial and accounting officer)	
<i>/s/ Donald J. Carty</i>	Director and Chairman of the Board	March 16, 2015
Donald J. Carty		
<i>/s/ Samuel K. Skinner</i>	Director and Vice Chairman of the	March 16, 2015
Samuel K. Skinner	Board	
<i>/s/ Cyrus F. Freidheim, Jr.</i>	Director	March 16, 2015

Cyrus F. Freidheim, Jr.

II-4

**Table of Contents**

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<i>/s/ Stephen C. Freidheim</i>	Director	March 16, 2015
Stephen C. Freidheim		
<i>/s/ Evan M. Lovell</i>	Director	March 16, 2015
Evan M. Lovell		
<i>/s/ Robert A. Nickell</i>	Director	March 16, 2015
Robert A. Nickell		
<i>/s/ John R. Rapaport</i>	Director	March 16, 2015
John R. Rapaport		
<i>/s/ Stacy J. Smith</i>	Director	March 16, 2015
Stacy J. Smith		

II-5

**Table of Contents****EXHIBIT INDEX**

Exhibit Number	Exhibit Description	Form	Incorporated by Reference		Provided Herewith
			Exhibit Number	Filing Date	
1.1	Form of Underwriting Agreement				X
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	
4.1	Specimen Common Stock Certificate	S-1/A	4.1	11/13/14	
5.1	Opinion of Latham & Watkins LLP				X
10.1	General Terms Agreement No. CFM-04-0012B, dated as of June 14, 2004, between Best Air Holdings, Inc. and CFM International, Inc., as amended by Amendment No. 1, dated November 18, 2005, and as supplemented by Letter Agreement No. 1 dated June 14, 2004 (as amended by Amendment No. 1 to Letter Agreement No. 1, dated October 10, 2005, Amendment No. 2 to Letter Agreement No. 1, dated August 2, 2006, Amendment No. 3 to Letter Agreement No. 1, dated October 8, 2010 and Amendment No. 4 to Letter Agreement No. 1, dated December 29, 2010), Letter Agreement No. 2-2 dated November 1, 2013, Letter Agreement No. 4 dated November 9, 2010, Letter Agreement No. 5 dated April 18, 2011 (as amended by Amendment No. 1 to Letter Agreement No. 5, dated December 20, 2012) and Letter Agreement No. 6 dated October 3, 2011 (as amended by Amendment No. 1 to Letter Agreement No. 6, dated December 20, 2012)	S-1/A	10.1	10/7/14	
10.2	Amended and Restated Engine Services Agreement, dated as of October 22, 2008, between Virgin America Inc. and GE Engine Services, Inc., as amended by Amendment No. 1, dated July 24, 2009, Amendment No. 2, dated November 29, 2010, Amendment No. 3, dated March 21, 2011, Amendment No. 4, dated April 18, 2011 and Amendment No. 5, dated January 8, 2013	S-1/A	10.2	10/7/14	
10.3	Rate Per Flight Hour Agreement for Engine Shop Maintenance Services, dated as of October 1, 2011, between Virgin America Inc. and CFM International, Inc., as amended by Amendment No. 1, dated December 20, 2012	S-1/A	10.3	10/7/14	
10.4	Signatory Agreement, dated as of November 5, 2009, between Virgin America Inc. and U.S. Bank National Association, as amended by First Amendment, effective as of July 25, 2013 and Second Amendment, dated February 3, 2014	S-1/A	10.4	11/3/14	
10.5	Signatory Agreement, dated as of August 14, 2012 between Virgin America Inc. and Elavon Financial Services Limited	S-1/A	10.5	11/3/14	
10.6	Signatory Agreement, dated as of June 1, 2010 between Virgin America Inc. and U.S. Bank National Association	S-1/A	10.6	11/3/14	
10.7	Signatory Agreement, dated as of June 1, 2010 between Virgin America Inc. and Elavon Canada Company	S-1/A	10.7	11/3/14	



**Table of Contents**

Exhibit Number	Exhibit Description	Form	Incorporated by Reference		Provided Herewith
			Exhibit Number	Filing Date	
10.8	Payment Processing Support Services Agreement, dated as of January 20, 2014 by and between Elavon, Inc. and Virgin America Inc	S-1/A	10.8	11/3/14	
10.9	Terms and Conditions of Worldwide Acceptance of the American Express Card by Airlines, dated as of September 1, 2006, by and between Virgin America Inc. and American Express Travel Related Services Company, Inc.	S-1/A	10.9	9/16/14	
10.10	Amendment to the Terms and Conditions of Worldwide Acceptance of the American Express Card by Airlines, dated November 18, 2014, by and between Virgin America Inc. and American Express Travel Related Services Company, Inc.	10-K	10.10	3/3/15	
10.11	Registration Rights Agreement, dated November 13, 2014, among Virgin America Inc. and certain of its stockholders	8-K	99.1	11/19/14	
10.12	Co-Brand Credit Card Program Agreement, dated as of May 16, 2013, by and between Virgin America Inc. and Comenity Capital Bank	S-1/A	10.11	10/10/14	
10.13	Trade Mark License Agreement, dated as of April 9, 2007, by and among Virgin America Inc., VAL Trademark Three Limited and Virgin Enterprises Limited, as amended by Amendment No. 1 dated March 1, 2013	S-1/A	10.12	8/25/14	
10.14	Trade Mark License Agreement, dated as of November 24, 2008, by and among Virgin America Inc., Virgin Enterprises Limited, Virgin Money Investment Holdings Limited and Virgin Money Investment Group Limited	S-1	10.13	7/28/14	
10.15	Office Lease Agreement, dated as of December 9, 2005, between CA-Bay Park Plaza Limited Partnership and Virgin America Inc., as amended by First Amendment, dated as of July 1, 2009, Second Amendment, dated as of March 1, 2010, Third Amendment, dated as of November 5, 2010, Fourth Amendment, dated as of March 28, 2011, Fifth Amendment, dated as of January 23, 2012, Sixth Amendment, dated as of July 31, 2012 and Seventh Amendment, dated as of January 29, 2014	S-1/A	10.14	8/25/14	
10.16	A320 Aircraft Purchase Agreement, dated as of December 29, 2010, between Airbus S.A.S. and Virgin America Inc., as amended by Amendment No. 1 dated as of March 23, 2011 (as supplemented by Letter Agreement No. 1 to Amendment No. 1, dated March 23, 2011), Amendment No. 2 dated as of September 30, 2011 (as supplemented by Letter Agreement No. 1 to Amendment No. 2, dated September 30, 2011), Amendment No. 3 dated as of December 14, 2012 (as supplemented by Letter Agreement No. 1 to Amendment No. 3, dated December 14, 2012 and Letter Agreement No. 2 to Amendment No. 3, dated December 14, 2012), Amendment No. 4 dated as of October 1, 2012 and Amendment No. 5 dated as of December 14, 2012 (as supplemented by Letter Agreement	S-1/A	10.15	10/7/14	

**Table of Contents**

Exhibit Number	Exhibit Description	Incorporated by Reference			Provided Herewith
		Form	Exhibit Number	Filing Date	
	No. 1 to Amendment No. 5, dated December 14, 2012), and as supplemented by Letter Agreement No. 1 dated as of December 29, 2010, Letter Agreement No. 2 dated as of December 29, 2010, Letter Agreement No. 3 dated as of December 29, 2010, Letter Agreement No. 4 dated as of December 29, 2010, Letter Agreement No. 5A dated as of December 29, 2010, Letter Agreement No. 5B dated as of December 29, 2010, Letter Agreement No. 5C dated as of December 29, 2010, Letter Agreement No. 5D dated as of December 29, 2010, Letter Agreement No. 5E dated as of December 29, 2010, Letter Agreement No. 5F dated as of December 29, 2010, Letter Agreement No. 6 dated as of December 29, 2010, Letter Agreement No. 7 dated as of December 29, 2010, Letter Agreement No. 8 dated as of December 29, 2010, Letter Agreement No. 9 dated as of December 29, 2010, Letter Agreement No. 10 dated as of December 29, 2010				
10.17+	Amended and Restated 2005 Virgin America Inc. Stock Incentive Plan	S-1	10.16	7/28/14	
10.18+	Form of Stock Option Agreement under 2005 Stock Incentive Plan	S-1	10.17	7/28/14	
10.19+	Form of Restricted Stock Unit Agreement under 2005 Stock Incentive Plan	S-1	10.18	7/28/14	
10.20+	Virgin America Inc. 2014 Equity Incentive Award Plan	S-1/A	10.19	11/3/14	
10.21+	Form of Stock Option Agreement under 2014 Equity Incentive Award Plan	S-1/A	10.20	11/3/14	
10.22+	Form of Restricted Stock Agreement under 2014 Equity Incentive Award Plan	S-1/A	10.21	11/3/14	
10.23+	Form of Restricted Stock Unit Agreement under 2014 Equity Incentive Award Plan	S-1/A	10.22	11/3/14	
10.24+	Employee Stock Purchase Plan	S-1/A	10.23	11/3/14	
10.25+	Offer Letter by and between Virgin America Inc. and David Cush dated as of December 18, 2007	S-1	10.24	7/28/14	
10.26+	Offer Letter by and between Virgin America Inc. and Frances Fiorillo dated as of January 20, 2006	S-1	10.25	7/28/14	
10.27+	Offer Letter by and between Virgin America Inc. and Steve Forte dated as of March 15, 2013	S-1	10.26	7/28/14	
10.28+	Offer Letter by and between Virgin America Inc. and Peter Hunt dated as of May 26, 2011	S-1	10.27	7/28/14	
10.29+	Offer Letter by and between Virgin America Inc. and John MacLeod dated as of July 18, 2012	S-1	10.28	7/28/14	
10.30+	Offer Letter by and between Virgin America Inc. and John Varley dated as of June 22, 2010	S-1	10.29	7/28/14	
10.31+	Form of Change in Control and Severance Agreement	S-1/A	10.30	11/3/14	
10.32+	Management Incentive Compensation Plan	S-1	10.31	7/28/14	

**Table of Contents**

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Form</b>	<b>Incorporated by Reference</b>		<b>Provided Herewith</b>
			<b>Exhibit Number</b>	<b>Filing Date</b>	
10.33	Second Amended and Restated Note Purchase Agreement, dated as of December 9, 2011, among Virgin America Inc., Virgin Management Limited, VA Holdings (Guernsey) LP and the Bank of Utah, as collateral agent, as amended by Amendment No. 1, dated as of May 10, 2013	S-1/A	10.33	9/8/14	
10.34	Second Amended and Restated Additional Note Purchase Agreement, dated as of December 9, 2011, among Virgin America Inc., Virgin Management Limited, VA Holdings (Guernsey) LP, the Cyrus Parties (as defined therein) and the Bank of Utah, as collateral agent, as amended by Amendment No. 1, dated as of May 10, 2013	S-1/A	10.34	9/8/14	
10.35	Amended and Restated Third Note Purchase Agreement, dated as of December 9, 2011, among Virgin America Inc., Virgin Management Limited, VA Holdings (Guernsey) LP, the Cyrus Parties (as defined therein) and the Bank of Utah, as collateral agent, as amended by Amendment No. 1, dated as of May 10, 2013	S-1/A	10.35	9/8/14	
10.36	Fourth Note Purchase Agreement, dated as of December 9, 2011, among Virgin America Inc., Virgin Management Limited, the Cyrus Parties (as defined therein) and the Bank of Utah, as collateral agent, as amended by Amendment No. 1, dated as of May 10, 2013	S-1/A	10.36	9/8/14	
10.37	Fifth Note Purchase Agreement, dated as of May 10, 2013, among Virgin America Inc., Virgin Management Limited, the Cyrus Parties (as defined therein) and the Bank of Utah, as collateral agent	S-1/A	10.37	9/8/14	
10.38	Form of Seventh Closing Warrant Agreement, between Virgin America Inc. and certain entities affiliated with Virgin Group Holdings Limited	S-1/A	10.44	9/8/14	
10.39	Form of Seventh Closing Warrant Agreement, between Virgin America Inc. and certain funds affiliated with or related to Cyrus Capital Partners, L.P.	S-1/A	10.45	9/8/14	
10.40	Form of Indemnification Agreement between Virgin America Inc. and its directors and executive officers	S-1/A	10.32	10/7/14	
10.41	Recapitalization Agreement, dated November 13, 2014, among Virgin America Inc. and certain of its stockholders	8-K	99.2	11/19/14	
10.42	Note Purchase Agreement, dated November 19, 2014, between Virgin America Inc. and Virgin Management Limited	8-K	99.3	11/19/14	
10.43	Letter of Credit Reimbursement Agreement, dated November 18, 2014, between Virgin America Inc. and Virgin Holdings Limited	8-K	99.4	11/19/14	
10.44	Letter Agreement, dated November 13, 2014, between Virgin America Inc. and certain affiliates of Virgin Group Holdings Limited	8-K	99.5	11/19/14	

**Table of Contents**

Exhibit Number	Exhibit Description	Form	Incorporated by Reference		Provided Herewith
			Exhibit Number	Filing Date	
10.45	Amended and Restated Virgin America Trade Mark License, dated November 13, 2014, among Virgin America Inc., Virgin Aviation TM Limited and Virgin Enterprises Limited	8-K	99.6	11/19/14	
10.46	Securities Purchase Agreement, dated November 2, 2014, among Virgin America Inc., Cyrus Aviation Holdings, LLC, VX Holdings, L.P. and PAR Investment Partners, L.P.	8-K	99.7	11/19/14	
14.1	Code of Business Conduct and Ethics	S-1	14.1	11/3/14	
23.1	Consent of Ernst & Young LLP, independent registered public accounting firm				X
23.2	Consent of Latham & Watkins LLP (included in Exhibit 5.1)				X
24.1	Power of Attorney (included on the signature page of this Registration Statement)				X

+ Indicates a management contract or compensatory plan or arrangement.  
 Confidential treatment granted for certain portions of this Exhibit pursuant to Rule 406 under the Securities Act or Rule 24b-2 under the Exchange Act, which portions are omitted and filed separately with the Securities and Exchange Commission.