UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

December 14, 2016
(Date of earliest event reported)

ALASKA AIR GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation)

1-8957	**91-1292054**
(Commission File Number)	(IRS Employer Identification No.)

19300 International Boulevard, Seattle, Washington	**98188**
(Address of Principal Executive Offices)	(Zip Code)

(206) 392-5040
(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Introductory Note

As previously disclosed, on April 1, 2016, Alaska Air Group, Inc., a Delaware corporation ("Air Group"), Virgin America Inc., a Delaware corporation ("Virgin America"), and Alpine Acquisition Corp., a Delaware corporation and wholly owned subsidiary of Air Group ("Merger Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement"). On December 14, 2016, pursuant to the terms of the Merger Agreement, Merger Sub merged with and into Virgin America (the "Merger"), with Virgin America surviving the Merger as a direct wholly-owned subsidiary of Air Group.

On December 14, 2016, Air Group filed with the Securities and Exchange Commission a Current Report on Form 8-K (the "Initial Report") announcing, among other things, the closing of the Merger. This Current Report on Form 8-K/A is filed solely for the purpose of amending the Intial Report to provide the financial statements of Virgin America and the pro forma information required by Items 9.01(a) and 9.01(b), respectively, of Form 8-K.

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Businesses Acquired

The audited consolidated balance sheets of Virgin America as of December 31, 2015 and December 31, 2014, the consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of convertible preferred stock and stockholders' equity (deficit) and consolidated statements of cash flows of Virgin America for each of the three years in the period ended December 31, 2015 and the notes related thereto, as well as the related Report of Independent Registered Public Accounting Firm, issued by Ernst & Young LLP, dated February 29, 2016 are attached as Exhibit 99.1 and incorporated herein by reference.

The unaudited condensed consolidated balance sheets of Virgin America Inc. as of September 30, 2016 and December 31, 2015, the consolidated statements of operations and the consolidated statements of comprehensive income of Virgin America Inc. for the three and nine months ended period ended September 30, 2016 and September 30, 2015, the condensed statements of cash flows of Virgin America Inc. for the nine months ended September 30, 2016 and 2015, and the notes thereto, are attached as Exhibit 99.2 and incorporated herein by reference.

(b) Pro Forma Financial Information

The unaudited pro forma condensed combined balance sheet of Air Group as of September 30, 2016 and the unaudited pro forma condensed combined statement of operations of Air Group for the nine months ended September 30, 2016 and for the year ended December 31, 2015, and the notes related thereto, are attached as Exhibit 99.3 and incorporated herein by reference.

(d) Exhibits

Exhibit 23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm for Virgin America Inc.
Exhibit 99.1	Audited consolidated balance sheets of Virgin America Inc. as of December 31, 2015 and December 31, 2014, the consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of convertible preferred stock and stockholders' equity (deficit) and consolidated statements of cash flows of Virgin America Inc. for each of the three years in the period ended December 31, 2015 and the notes related thereto, and the related Report of Independent Registered Public Accounting Firm, issued by Ernst & Young LLP, dated February 29, 2016.
Exhibit 99.2	Unaudited condensed consolidated balance sheets of Virgin America Inc. as of September 30, 2016 and December 31, 2015, the consolidated statements of operations and the consolidated statements of comprehensive income of Virgin America Inc. for the three and nine months ended period ended September 30, 2016 and September 30, 2015, the condensed consolidated statements of cash flows of Virgin America Inc. for the nine months ended September 30, 2016 and 2015 and the notes related thereto.
Exhibit 99.3	Unaudited pro forma condensed combined balance sheet of Alaska Air Group as of September 30, 2016 and the unaudited pro forma condensed combined statements of operations of Alaska Air Group, Inc. for the nine months ended September 30, 2016 and the year ended December 31, 2015, and the notes related thereto.

Signatures

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

Alaska Air Group, Inc.

By: /s/ Christopher M. Berry
Christopher M. Berry
Vice President Finance and Controller

Date: February 23, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Virgin America Inc.

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

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

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

/s/ Ernst & Young

San Francisco, California
February 29, 2016

Virgin America Inc.

Consolidated Balance Sheets
(in thousands, except share and per share data)

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

See accompanying notes to the consolidated financial statements.

Virgin America Inc.

Consolidated Balance Sheets
(in thousands, except share and per share data)

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

See accompanying notes to the consolidated financial statements.

Virgin America Inc.

Consolidated Statements of Operations
(in thousands, except per share data)

	Year Ended December 31,		
	2015	**2014**	**2013**
Operating revenues:			
Passenger	$ 1,362,871	$ 1,334,088	$ 1,296,929
Other	166,713	155,879	127,749
Total operating revenues	1,529,584	1,489,967	1,424,678
Operating expenses:			
Aircraft fuel	347,676	499,102	507,035
Salaries, wages and benefits	289,635	257,367	196,477
Aircraft rent	219,770	184,357	202,071
Landing fees and other rents	143,842	133,128	122,621
Sales and marketing	124,771	113,203	106,599
Aircraft maintenance	57,307	60,069	61,854
Depreciation and amortization	18,637	14,486	13,963
Other operating expenses	150,707	131,840	133,177
Total operating expenses	1,352,345	1,393,552	1,343,797
Operating income:	177,239	96,415	80,881
Other income (expense):			
Interest expense-related-party	(3,572)	(33,708)	(68,439)
Interest expense	(7,286)	(3,811)	(2,854)
Capitalized interest	4,220	2,668	534
Interest income and other	(2,451)	(276)	339
Total other expense	(9,089)	(35,127)	(70,420)
Income before income tax	168,150	61,288	10,461
Income tax expense (benefit)	(172,387)	1,179	317
Net income	340,537	$ 60,109	$ 10,144
Net income per share:			
Basic	$ 7.82	$ 8.42	$ 5.60
Diluted	$ 7.66	$ 7.13	$ 3.68
Shares used for computation:			
Basic	43,547	6,176	702
Diluted	44,466	7,470	1,647

See accompanying notes to the consolidated financial statements

Virgin America Inc.

Consolidated Statements of Comprehensive Income
(In thousands)

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

See accompanying notes to the consolidated financial statements

Virgin America Inc.
Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)
(In thousands, except share data)

	Convertible preferred stock		Common stock		Treasury stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' equity (deficit)
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**				
Balances at December 31, 2012	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)
Balances at December 31, 2013	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)
Balances at December 31, 2014	—	$ —	43,119,886	$ 431	—	$ —	$ 1,237,944	$ (753,016)	$ (26,106)	$ 459,253
Net income	—	—	—	—	—	—	—	340,537	—	340,537
Issuance of common stock	—	—	1,058,080	11	—	—	7,642	—	—	7,653
Shares repurchased for tax withholdings on vesting of restricted stock units	—	—	—	—	168,449	(5,038)	—	—	—	(5,038)
Share-based compensation	—	—	—	—	—	—	5,951	—	—	5,951
Other	—	—	—	—	—	—	(13)	—	—	(13)
Other comprehensive loss	—	—	—	—	—	—	—	—	(196)	(196)
Balances at December 31, 2015	—	—	44,177,966	$ 442	168,449	$ (5,038)	$ 1,251,524	$ (412,479)	$ (26,302)	$ 808,147

See accompanying notes to the consolidated financial statements

Virgin America Inc.
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,		
	2015	**2014**	**2013**
Cash flows from operating activities:			
Net income	$ 340,537	$ 60,109	$ 10,144
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	18,637	14,486	13,963
Share-based compensation	6,088	13,985	383
Paid-in-kind interest expense and accretion	3,572	20,673	54,258
Deferred income taxes	(172,562)	1,201	—
Loss on asset disposition	136	121	—
Unrealized (gain) loss on fuel derivative instruments	(1,795)	3,432	1,318
Changes in operating assets and liabilities:			
(Increase) decrease in receivables, net	3,858	75,330	(5,665)
Increase in prepaid expenses and other assets	(3,691)	(1,827)	(369)
Increase in other non-current assets	(24,145)	(31,621)	(7,895)
Increase in aircraft maintenance deposits	(10,553)	(29,765)	(38,134)
Increase in aircraft lease deposits	(7,572)	(89)	(320)
Increase in restricted cash	(1,025)	(6,350)	(2,065)
Increase in accounts payable	11,999	7,911	586
Increase in air traffic liability	24,374	11,589	22,372
Increase (decrease) in other current liabilities	18,725	(372)	10,565
Decrease in other non-current liabilities	(9,064)	(3,208)	(8,538)
Net cash provided by operating activities	197,519	135,605	50,603
Cash flows from investing activities:			
Acquisition of property and equipment and intangible assets	(248,766)	(41,775)	(41,996)
Pre-delivery payments for flight equipment	(5,805)	(13,385)	—
Net cash used in investing activities	(254,571)	(55,160)	(41,996)
Cash flows from financing activities:			
Net proceeds of equity issuance	7,580	277,621	3
Proceeds of debt issuance	195,000	—	75,000
Proceeds of term loan facility	—	40,000	—
Debt issuance costs	(3,569)	(401)	—
Payment of long-term debt and capital lease obligations	(35,215)	(156,523)	(3,969)
Shares repurchased for tax withholdings	(5,038)	—	—
Share-based withholding tax payments	—	(2,158)	—
Net cash provided by financing activities	158,758	158,539	71,034
Net increase in cash and cash equivalents	101,706	238,984	79,641
Cash and cash equivalents, beginning of period	394,643	155,659	76,018
Cash and cash equivalents, end of period	$ 496,349	$ 394,643	$ 155,659
Supplemental disclosure:			
Cash paid during the period for:			
Interest	$ 5,258	$ 16,118	$ 17,209
Income tax	101	279	74
Non-cash transactions:			
Non-cash borrowings - pre-delivery payments for flight equipment	17,416	11,778	—
Fixed asset acquisitions in accounts payable	11,100	913	545
Gain on debt restructuring	—	—	150,490
Fair value of warrant issuance	—	—	83,361
Non-cash effect of lease incentives	(4,164)	6,545	30,137
Non-cash effect of 2014 Recapitalization	—	521,485	—

See accompanying notes to the consolidated financial statements

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, 2015 include the accounts of the Company and its variable interest entities, for which it was the primary beneficiary. See Note 7—Long-Term Debt 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.The Company reclassified certain amounts from other revenue to passenger revenue for the years ended December 31, 2014 and 2013 related to tickets that are past their flight date that expire unused. These amounts were not material to any of the periods presented.

In April 2015, the Financial Accounting Standards Board ("FASB") issued an accounting standards update that simplifies the guidance related to presentation of debt issuance costs. The guidance requires presentation of debt issuance costs on the balance sheet as a direct deduction from the face amount of that note, consistent with debt discounts. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years with early adoption permitted. The Company elected to early adopt the standard during fourth quarter of December 31, 2015 retrospectively as required. This resulted in reclassification of $0.4 million of debt issuance costs at December 31, 2014 from other non-current assets to long-term debt.

In November 2015, the FASB issued an accounting standards update that requires all deferred income tax assets and liabilities to be presented as non-current on the consolidated balance sheet. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years with early adoption permitted. The Company elected to early adopt this accounting standards update during the fourth quarter of December 31, 2015 retrospectively, as permitted. This resulted in reclassification of $12.2 million deferred current tax assets from prepaid expenses and other assets to reduce non-current liabilities at December 31, 2014.

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 to eligible teammates, which do not include officers, from the sale of Employee LLC shares. Immediately prior to the IPO, the Company completed the 2014 Recapitalization. Refer to Note 2 — Recapitalizations for additional information.

(2) Recapitalizations

(a) ***2014 Recapitalization***

In November 2014, immediately prior to the consummation of the IPO, the Company entered into a recapitalization agreement with the Virgin Group, Cyrus Capital and certain other security-holders (which transactions are referred to herein as the "2014 Recapitalization"). A portion of its then outstanding related-party debt and accrued interest ("Related-Party Notes") with recorded value of $728.3 million was repaid by $156.5 million in cash and exchanged for a $50.0 million Post-IPO Note held by the Virgin Group. The Post-IPO Note was recorded at the estimated fair value of $38.5 million, calculated using an effective interest rate of 8.5% at the time of the issuance, determined based on an estimated market rate for unsecured instruments with similar terms. The remainder of the Related-Party Notes was exchanged for 22,159,070 shares of common stock based on the IPO offering price and the remaining outstanding contractual value of the debt. In the case of certain 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. In addition, 1,950,937 shares of convertible preferred stock and Class A, Class A-1, Class B and Class G common stock were converted into shares of common stock on a one-to-one basis. Outstanding warrants to purchase 26,067,475 shares of our common stock were exchanged without receipt of cash consideration for 5,742,543 shares of common stock and the remaining outstanding warrants to purchase an aggregate of 16,175,126 shares of common stock were canceled in their entirety. Excess of the recorded amount of debt and preferred stock above the cash and other consideration to be received were presented as additional paid-in capital.

(b) 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 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.

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 recognized a restructuring gain of $150.5 million as a capital contribution with a direct increase to additional paid-in capital. 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 and a corresponding decrease to stockholders' deficit.

(3) 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) ***Receivables, net***

Receivables, net includes credit card and other receivables. Credit card holdbacks and related 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 were 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. In June 2015, the Company entered into agreements with its credit card processors to reduce the holdback requirements to 0% and the $100.0 million Letter of Credit Facility was terminated. The credit card processors have the right to increase the credit card holdback amount in the future depending on the Company's financial condition. As of December 31, 2015, the Company recorded $9.3 million in credit card receivables. As of December 31, 2014, the Company had no net holdbacks outstanding as a result of the Letter of Credit Facility, and $9.6 million of credit card receivables.

(d) ***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. Interest rate swaps are accounted for and reported in a similar manner. 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 for fuel derivatives and within interest expense for interest rate swaps 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 or within interest 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. At maturity, gains or losses on fuel derivatives will be fully recognized in realized gains and losses in the accompanying consolidated statements of operations, and gain or losses on interest rate swaps will be amortized over the term of the underlying loan from Accumulated Other Comprehensive Income to realized gains and losses in the accompanying consolidated statements of operations.

(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 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 had $72.1 million and $42.8 million of aircraft equipment as of December 31, 2015 and 2014 and recorded $7.5 million, $6.1 million and $6.3 million depreciation expense for the years ended December 31, 2015, 2014 and 2013. 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 $13.1 million and $10.8 million as of December 31, 2015 and 2014, respectively. Amortization expense associated with software and licenses were $5.6 million, $4.3 million, and $3.0 million in 2015, 2014 and 2013, 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**
Purchased airframes and engines	Flight equipment	25 years	15%
Aircraft equipment	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%

In 2015, the Company purchased $244.4 million of aircraft airframes and engines, of which $49.1 million related to aircraft not yet placed into service as of December 31, 2015. Depreciation expense associated with these assets was $1.3 million for the year ended December 31, 2015.

(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 can utilize a quantitative or qualitative approach to determine impairment. If a qualitative approach is used, the Company will analyze 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 utilization and valuation. If the Company determines it is more likely than not that the asset value may be impaired under the qualitative approach, then additional quantitative analysis will be performed 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. 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 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 in proportion to forecast revenues over the 12 year estimated life of the increased royalty rate.

(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 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, which began 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 Red® 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, 2015 and 2014, advances exceeding the revenue recognition model limits were recorded as air traffic liability for $11.3 million and $8.5 million, respectively.

Under the revenue recognition rules for multiple element arrangements, the Company determines best estimated selling price ("BESP") 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 BESP 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 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 upon management estimate of the redemption rate used by its guests to convert points into the equivalent ticket value for travel on either Virgin America, 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 BESP 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 redemption-based approach where redemption behavior is predicted based on member type and historic 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 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.

(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, 2015, $3.2 million of major engine maintenance costs had been capitalized and is being amortized over the remaining term of the lease . 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 rotable 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 qualified for reimbursement from maintenance reserves held by the lessor associated with the specific major maintenance event or (ii) the qualifying costs related to the specific major maintenance event.

The maintenance reserve 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. The determination of probability of recovery is based on a more-likely-than-not probability threshold, in accordance with applicable authoritative guidance. 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.

When any lease terms are extended, the Company records lease incentives for any previously expensed supplemental rent payments that are now expected to be recoverable for qualified major aircraft and engine maintenance events that were previously expected to occur outside the lease term and are now expected to occur within the extended lease term. The Company records these lease incentives as an increase to aircraft maintenance deposits and an increase to other liabilities in the consolidated balance sheet. The Company determines that there is a lease incentive when the amount that it expects 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. The Company records any excess amount as an incentive to the extent there were supplemental rent payments made during the lease term that had previously been expensed. The Company calculates lease incentives on a maintenance event by maintenance event basis, consistent with the manner in which supplemental rent payments are made to its lessors.

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, including replacement of engine LLPs, the estimated cost of future maintenance events, the number of flight hours the aircraft is estimated to be utilized before it is returned to the lessor, and the estimated proceeds from any sale of used LLPs. Changes in estimates related to maintenance reserve payments are accounted for on a prospective basis. However if it is no longer probable that the recorded value of deposits is recoverable, which would generally occur when it is determined that the event will not occur during the term of the lease, the deposits are immediately charged to aircraft rent expense.

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

(n) ***Advertising***

The Company expenses advertising and the production costs of advertising as incurred. Advertising and marketing expense was $41.2 million, $37.4 million and $38.6 million for the years ended December 31, 2015, 2014 and 2013, respectively.

(o) ***Share-Based Compensation***

Share-based compensation expense 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 stock option grants. For restricted stock grants with time-based vesting conditions issued at IPO and subsequent, the Company’s valuation of such stock grants is based on the market price on grant date. For restricted stock awards with market-based conditions, the Company values the grants using a Monte-Carlo simulation provided by an independent valuation specialist. 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. For restricted stock awards subject to performance conditions, the probability of performance achievement is assessed on a quarterly basis and expense is adjusted accordingly.

Prior to the IPO, the Company granted stock 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 restricted exercisability or settlement until certain liquidity events occur, such as a qualifying IPO or change in control. Upon the 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. Valuation allowances are recorded to reduce deferred tax assets to the amount that will more likely than not be realized.

(q) ***Concentrations of Risk***

The Company's credit card receivables are concentrated to a few companies. These receivables do not represent a significant concentration of risk at December 31, 2015 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 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, 2015.

(r) ***New Accounting Standards or Updates Recently Adopted***

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

In January 2016, the FASB issued an accounting standards update that amends various aspects of existing accounting guidance for financial instruments, primarily equity investments. Some of the main provisions of the guidance include measurement of equity investments at fair value with changes in fair value recognized in net income; separate presentation of the portion of the total change in fair value of a liability resulting from change in the instrument-specific credit risk in other comprehensive income; simplified impairment assessment method for equity investments without readily determinable fair values; eliminated disclosure requirements for certain financial instruments measured at amortized cost; and use of the exit price notion when measuring fair value of financial instruments for disclosure purposes. The guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect this accounting standards update to have a material impact on its consolidated financial statements.

In June 2015, the FASB issued an accounting standards update that corrects differences between original accounting guidance and the accounting guidance codification, clarifies the accounting guidance, corrects references and makes minor improvements affecting a variety of accounting topics. Transition guidance varies based on the amendments in the update. The amendments in the update that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company does not expect this accounting standards update to have a material impact on its consolidated financial statements.

In February 2015, the FASB issued an accounting standards update that eliminates the deferral of FAS 167, which has allowed entities with interests in certain investment funds to follow the previous consolidation guidance in FASB Interpretation No. ("FIN") 46(R), and makes other changes to both the variable interest model and the voting model. In some cases, consolidation conclusions will change. In other cases, reporting entities will need to provide additional disclosures about entities that currently aren't considered variable interest entities ("VIEs") but will be considered VIEs under the new guidance provided they have a variable interest in those VIEs. The guidance will be effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. The Company does not expect this accounting standards update to have a material impact on the consolidated financial statements.

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

In May 2014, the FASB and the International Accounting Standards Board ("IASB") jointly issued a comprehensive new revenue recognition standard that will replace most existing revenue recognition standards under U.S. GAAP and International Financial Reporting Standards ("IFRS"). The new standard will require the Company to recognize revenue when goods or services are transferred to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. As a result, the Company will need to use more judgments and estimates to determine when and how revenue is recognized than U.S. GAAP currently requires. In August 2015, the FASB issued an accounting standards update that provides a one-year deferral of the effective date for the new revenue standard for public and non-public entities, resulting in an effective date for the Company of January 1, 2018. 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.

(4) Balance Sheet Components

Following are components of current and non-current other assets and liabilities in the accompanying consolidated balance sheets (in thousands):

Other non-current assets:

	December 31,			
		2015		2014
Deferred rent asset		86,579		57,063
Intangible assets		49,000		49,000
Other		1,693		6,216
	$	137,272	$	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 3—Summary of Significant Accounting Policies, for additional information about Intangible Assets.

Other current liabilities:

	December 31,			
		2015		2014
Accrued salaries, wages and benefits	$	47,032	$	36,101
Fuel derivatives liability		17,850		12,730
Accrued taxes and fees for passenger travel		12,757		12,510
Other		39,496		39,382
	$	117,135	$	100,723

Fuel derivatives liability is net of $9.7 million in margin calls deposited with the Company's counterparties. See Note 6—Financial Derivative Instruments and Risk Management for more information.

Other liabilities, non-current:

	December 31,			
		2015		2014
Deferred rent credits	$	48,219	$	57,036
License fee liability		34,102		34,102
Other		1,731		3,484
	$	84,052	$	94,622

See Note 3—Summary of Significant Accounting Policies for additional information about deferred rent credits associated with lease incentives and license fee liability. License fee liability represents the increased Virgin Group license fee payment accrual in connection with the 2014 Recapitalization.

(5) 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, 2015 and 2014 respectively (in thousands):

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

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

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.

The Company's 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 following are estimated fair values of the Company's debt at December 31, 2015 and 2014 (in thousands):

	Carrying value	Estimated fair value
Third-party debt:		
Aircraft-related term loans	$ 193,618	$ 197,233
Pre–delivery payment loans	34,823	34,823
Term loan credit facility	40,000	40,000
Related-party debt:		
Virgin Group	42,421	47,592

The estimated fair values of the Company’s related-party debt and aircraft-related term loans were based on rates currently offered for debt with similar maturities and terms. The carrying value of the airport slots term loan credit facility approximated fair value because it has a variable interest rate that approximates rates that would currently be available to the Company on borrowings for similar assets. The carrying value of the pre-delivery payment loans approximated fair value due to their short-term nature. 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.

(6) Financial Derivative Instruments and Risk Management

(a) ***Fuel Derivatives***

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 changed its fuel hedging program strategy by discontinuing the purchase of call options and collars, and began utilizing forward swaps on jet fuel, heating oil and crude oil to lock in future fuel purchase prices. The Company’s remaining heating oil collars matured by the end of the second quarter 2015 and the remaining Brent call options matured by the end of the third quarter.

The Company utilizes FFP contracts with its fuel service provider as part of its risk management strategy, wherein fixed prices are negotiated for set volumes of future purchases of fuel. The Company takes physical delivery of the future purchases. The Company has applied the normal purchase and normal sales exception for these commitments. As of December 31, 2015, the total commitment related to FFP contracts was $7.5 million, for which the related fuel will be purchased during 2016.

The Company designates the majority of its fuel hedge derivatives contracts as cash flow hedges under the applicable accounting standard, if they qualify for hedge accounting. 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 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.

(b) ***Interest Rate Swaps***

The Company enters into interest rate swaps to protect against adverse fluctuations in interest rates associated with variable rate debt financing by reducing its exposure to variability in cash flows related to the future interest payments on the financing for committed aircraft. The interest rate swaps are designated cash flow hedges, and swap the underlying base indexed interest rates of one aircraft delivered in 2015 for $33.0 million notional of aircraft financing with a 12-year term at 2.4% and for $6.0 million of the subordinated aircraft financing at 1.7% with a six-year term. These swaps matured as of December 31, 2015. The Company also entered into interest rate swaps on the underlying base indexed interest rates of one aircraft to be delivered in 2016 for $34.0 million notional debt with a 12-year term at 2.1%. The fair value of active interest rate swaps at December 31, 2015 is $0.2 million, which is reflected in other current receivables in the accompanying consolidated balance sheet. The AOCI balance at December 31, 2015 is a loss of $0.7 million and includes the value of interest rate swaps that matured in 2015 and are being amortized to interest expense over the term of the debt in the accompanying consolidated statement of operations.

(c) ***Summary of Derivative Instruments***

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, 2015 and 2014 (in thousands):

Derivatives designated as cash flow hedges	Consolidated balance sheet location	Fair value of derivatives as of December 31, 2015	Fair value of derivatives as of December 31, 2014
Fuel derivative instruments—Brent calls	Current liabilities	—	(24,762)
Fuel derivative instruments—Heating oil swaps	Current liabilities	(17,895)	—
Fuel derivative instruments—Jet fuel swaps	Current liabilities	(9,655)	(84)
Total current liabilities		(27,550)	$ (24,846)
Interest rate swaps	Current assets	155	—
Total current assets		$ 155	$ —

Derivatives not designated as cash flow hedges	Consolidated balance sheet location	Fair value of derivatives as of December 31, 2015	Fair value of derivatives as of December 31, 2014
Fuel derivative instruments—Heating oil collars	Current liabilities	$ —	$ (2,408)
Fuel derivative instruments—Brent calls	Current liabilities	—	134
Total current liabilities		$ —	$ (2,274)

As of December 31, 2015, the Company has deposited $9.7 million as collateral with two of its counterparties to comply with margin call requirements related to fuel 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, 2015, offsetting the net fuel hedge liability of $27.6 million. Thus the total net current liability related to fuel hedges is $17.9 million at December 31, 2015.

The following table summarizes the effect of fuel derivative instruments in the consolidated statements of operations for the years ended December 31, 2015, 2014 and 2013, 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,		
		2015	2014	2013
Fuel derivative instruments	Aircraft fuel expense	$ (40,204)	$ (5,759)	$ (2,597)
Interest rate swaps	Interest expense	(12)	—	—
Total impact to the consolidated statements of operations		$ (40,216)	$ (5,759)	$ (2,597)

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,		
		2015	2014	2013
Fuel derivative instruments	Aircraft fuel expense	$ (1,005)	$ (4,808)	$ (1,849)
Total impact to the consolidated statements of operations		$ (1,005)	$ (4,808)	$ (1,849)

At December 31, 2015, the Company estimates that approximately $25.7 million derivative losses related to its cash flow fuel hedges included in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

The effect of interest rate swap instruments in the consolidated statement of operations for the year ended December 31, 2015, is immaterial. There were no interest rate swap instruments for the year ended December 31, 2014. At December 31, 2015, the amount of net derivative losses related to interest rate swaps included in AOCI that will be reclassified into earnings within the next 12 months is deminimus.

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, 2015 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 or Interest expense) (Effective portion)		Amount of gain (loss) recognized into income (Ineffective portion)	
	2015	2014	2015	2014	2015	2014
Fuel derivative instruments	$ (38,628)	$ (33,230)	$ (39,003)	$ (5,468)	$ (1,201)	$ (291)
Interest rate swaps	(665)	—	(12)	—	—	—

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

	December 31, 2015	December 31, 2014
Derivatives designated as hedging instruments:		
Fuel derivative instruments—Heating oil collars (gallons)	—	36
Fuel derivative instruments—Brent calls (gallons)	—	16
Fuel derivative instruments—Heating oil swaps (gallons)	38	—
Fuel derivative instruments—Jet fuel swaps (gallons)	25	—
Interest rate swaps (dollars)	34	—
Derivatives not designated as hedging instruments:		
Fuel derivative instruments—Heating oil collars (gallons)	—	3
Fuel derivative instruments—Brent calls (gallons)	—	13

As of December 31, 2015, the Company had entered into fuel derivative contracts for approximately 32% of its forecasted aircraft fuel requirements for 2016 at a weighted-average cost per gallon of $1.60, excluding related fuel taxes.

The Company presents its 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, 2015, no amounts were available for offset. As of December 31, 2014, information related to these offsetting arrangements was as follows (in thousands):

	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 $9.7 million and $14.4 million of collateral posted related to outstanding fuel hedge contracts at December 31, 2015, and December 31, 2014, respectively.

(7) Long-Term Debt

Long-term debt including accrued paid-in-kind interest consisted of the following at December 31, 2015 and 2014, respectively (in thousands):

	December 31, 2015	December 31, 2014
Third-party debt:		
Aircraft-related term loans (a)	$ 193,618	$ —
Pre–delivery payment loans (b)	34,823	51,240
Term loan credit facility (c)	40,000	40,000
Total third-party debt	268,441	91,240
Related-party debt:		
Virgin Group (d)	52,808	50,295
Total debt	321,249	141,535
Less: current maturities (a),(b)	(48,843)	(33,824)
Less: unamortized debt issuance costs (a),(c)	(3,121)	(401)
Less: discount on Virgin Group debt (d)	(10,387)	(11,447)
Long–term debt	$ 258,898	$ 95,863

(a) In April 2015, the Company executed aircraft-related debt facility agreements for $195.0 million with three financing parties to finance approximately 80% of the net purchase price of the Company's five 2015 A320ceo aircraft deliveries. The Company closed and funded each tranche on the date of each of the aircraft deliveries from June through December 2015. The Company financed $168.6 million with senior debt facilities subject to 12-year repayment terms with an average interest rate of 4.6% and $26.4 million with subordinated debt facilities subject to six-year repayment terms with an average interest rate of 6.8%. Principal and interest is payable quarterly in arrears with $1.4 million of principal repaid during 2015. As of December 31, 2015, total unamortized debt issuance costs were $2.8 million. Loans related to two of the aircraft are pre-payable with a premium prior to the third anniversary of such advance date and at par thereafter, subject to payment of early termination charges, if applicable. Loans related to three of the aircraft are not pre-payable prior to the third anniversary of the issuance date and are pre-payable at par thereafter, subject to payment of early termination charges, if applicable.

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

(b) In connection with the Company's aircraft pre-delivery payment ("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 2016.

(c) 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. As of December 31, 2015 total unamortized debt issuance costs related to the facility were $0.3 million. The term loan requires compliance with certain covenants including semi-annual, third-party slot appraisal valuation requirements.

(d) In November 2014, the Company issued a $50.0 million note (the "Post-IPO Note") in connection with 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%. The effective interest rate increased to 9.8% in June 2015 as a result of the change in the term of the Post-IPO Note in connection with the cancellation of the Letter of Credit Facility described in Note 2 - Summary of Significant Accounting Policies. At December 31, 2015, the redemption value of this note was $52.8 million. The Post-IPO Note bears payment-in-kind interest at 5.0% per year, compounded annually, and is due on November 19, 2020. 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.

As of December 31, 2015, the Company is in compliance with all debt covenants.

(8) 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.

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 $72.4 million of pre-delivery payments, of which $46.4 million relates to the next five and $26.0 million to the last 30 aircraft, in its accompanying consolidated balance sheets as of December 31, 2015, $34.8 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 $211.9 million in 2016. In October 2015, the Company executed debt facility agreements to finance the Company's five 2016 aircraft deliveries for $199.3 million. This financing represents approximately 80% of the net purchase price of the A320 CEO aircraft. Each of the loans will be closed and funded on the date of each respective aircraft delivery. The Company will finance $168.2 million through senior debt facility agreements with terms of 12 years and $31.1 million through subordinate debt facility agreements with terms of seven years. Principal and interest will be payable quarterly in arrears. All of the debt will accrue interest which, if fixed at current rates would average 4.4%. The debt agreements have no financial covenants. The Company entered into interest rate swaps on the underlying base indexed interest rates of one aircraft for $34.0 million notional of aircraft financing with a 12-year term at 2.1%. Refer to Note 6 for further information. The Company took delivery of two aircraft in February 2016 as scheduled and drew the related financing in connection with such deliveries, which increased long-term debt by $78.0 million.

Operating Leases

As of December 31, 2015, the Company leased 53 of the 58 aircraft in its fleet, as well as four of its five spare engines, under operating leases and executed a commitment to lease 10 new Airbus A321neos in 2017 and 2018.

In connection with the 2013 Recapitalization described in Note 2, 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"). These Lease Rebates 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, 2015 and 2014 were $19.5 million and $19.8 million.

In December 2015, the Company entered into lease agreements for ten A321neo aircraft to be delivered between 2017 and 2018. The Company has the option to purchase up to four of the ten aircraft no less than six months prior to the delivery date. The lease agreements have terms of 12 years with an option to renew for up to two consecutive renewal terms. The Company evaluated the lease agreements and determined that the leases would qualify as operating leases. Rent payments are variable and adjust based on fluctuations in LIBOR or other interest rate benchmark adjustments as defined in the contract, with an option to fix rates and related rent payments for several of the leases at the time of aircraft delivery. The Company made deposits totaling $8.4 million on the ten aircraft and will be required to make additional deposits equal to one month rent if the Company's unrestricted cash is less than 15% of trailing twelve month revenues two business days prior to delivery. The Company is not required to make maintenance reserve payments on these aircraft.

The Company also leases airport space, office space and other equipment, which expire in various years through 2022. The Company has funded $75.1 million and $67.6 million as of December 31, 2015 and 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 $235.3 million, $233.9 million and $243.9 million on all non-cancelable operating leases in 2015, 2014, and 2013, respectively, including $37.8 million, $3.8 million, and $3.0 million in 2015, 2014 and 2013, respectively, for supplemental rent as further described in Note 3—Summary of Significant Accounting Policies—Aircraft Maintenance Deposits.

Summary of Future Payment Obligations

As of December 31, 2015, 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
2016	$	48,843	$	211,867	$	220,244	$	8,951	$	29,222	$	519,127
2017		14,926		—		218,481		9,391		30,380		273,178
2018		55,567		—		238,532		10,190		27,021		331,310
2019		66,597		—		232,505		10,820		18,778		328,700
2020		14,646		—		212,982		11,417		14,780		253,825
Thereafter		120,670		—		827,615		25,638		30,440		1,004,363
	$	321,249	$	211,867	$	1,950,359	$	76,407	$	150,621	$	2,710,503

(1) Includes accrued paid-in-kind interest; excludes future interest of $14.2 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. Commitment table includes expected rent payments for A321neo aircraft not yet in the Company's fleet: for these A321neo aircraft to be received in 2017 and 2018, assumes that all ten aircraft will be leased, includes minimum lease payments and does not include amounts related to variable rent adjustments subject to interest rate fluctuations as defined in the contract.

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

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

The table above 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.

(9) 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— Recapitalizations for additional information.

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. As of December 31, 2015 and 2014 Stockholders' Equity was follows:

		Shares authorized	
		December 31,	
		2015	2014
Voting Common Stock	(a)	650,000,000	650,000,000
Non-Voting Common Stock	(b)	100,000,000	100,000,000
		750,000,000	750,000,000

		Shares issued	
		As of December 31,	
		2015	2014
Voting Common Stock	(c)	37,807,501	36,267,148
Non-Voting Common Stock		6,852,738	6,852,738
		44,660,239	43,119,886

	Shares issued and outstanding	
	December 31,	
	2015	2014
Voting Common Stock	37,325,228	36,267,148
Non-Voting Common Stock	6,852,738	6,852,738
	44,177,966	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) Includes 313,824 shares from restricted stock awards and 168,449 shares of treasury stock.

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.

(a) ***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 were issued and outstanding at December 31, 2015 and 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 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 were declared in 2015, 2014 or 2013. 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—Recapitalizations for additional information.

(b) ***Treasury Stock***

The Company withholds and retires shares of common stock to cover employees' portion of required tax withholdings when employee equity awards issued outside of the Plan vest. These shares were valued at the market price of the common stock on the date of settlement. As of December 31, 2015, the Company held 168,449 shares of treasury stock. The Company did not hold treasury stock prior to 2015.

(10) 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 was amended and restated. In November 2014, the Company adopted the 2014 Virgin America Inc. Equity Incentive Award Plan (the "2014 Plan"), which superceded the 2005 Plan. There were 1,017,570 shares available for issuance under the Plans at December 31, 2014, which included 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. The Board approved an increase to the number of shares available for issuance under the 2014 Plan in 2015. 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, 2015, the Company had 1,387,467 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. 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.

Stock grants under the 2014 Plan made to members of the Board and to employees are in the form of RSUs or restricted stock awards with a service condition of generally three years.

In November 2015, the Company granted restricted stock awards with service, market and performance conditions ("PSAs") and restricted stock awards with service conditions ("RSAs") to officers. The PSAs have a three-year cliff vesting service requirement. The RSAs have a three year service requirement for which vesting occurs annually over the three year requisite service period. The performance conditions of the PSAs are based on metrics measured by the Company's financial performance relative to certain peer airlines, and the market condition is based on stock price performance relative to certain peers (total shareholder return or "TSR"). The maximum PSA payout is 200% of target shares and the minimum payout is zero. Target shares is considered shares granted at 100% of available share payout. The market metric TSR is used as a share multiplier after the performance metric determines the number of base shares achieved. If performance metrics are not achieved (i.e. "0%"), then the TSR multiplier would have no effect. Expense for PSAs is recognized based on the expected achievement at each reporting period that is reassessed by the Company on a quarterly basis.

There were no stock options granted in 2015. Stock option activity under the 2005 Plan and superceded by the 2014 Plan (collectively referred to as "the Plan") as of December 31, 2015 is as follows:

	Service Options	Performance Options	Weighted Average Exercise Price	Weighted Average Contractual Term (Years)
Outstanding as of December 31, 2014	134,513	913,344	$ 15.95	7.31
Granted	—	—	—	
Forfeited / canceled	(18,274)	(29,049)	39.78	
Exercised	(65,244)	(408,939)	14.62	
Outstanding as of December 31, 2015	50,995	475,356	15.01	6.77
Options vested and expected to vest as of December 31, 2015	50,909	474,922	$ 15.02	6.77
Options vested and exercisable as of December 31, 2015	46,457	434,509	$ 15.47	6.70
Unrecognized compensation (in thousands)	$ 22 (1)	$ 14 (2)		

(1) The Company expects to recognize this share-based compensation expense over a weighted-average remaining recognition period of 0.83 years.
(2) The Company expects to recognize this share-based compensation expense over a weighted-average remaining recognition period of 0.39 years.

The total intrinsic value of options exercised and total grant-date fair value of service condition options vested during the year ended December 31, 2015 was $10.1 million and $0.1 million, respectively, and during each of the years ended 2014 and 2013 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 $36.01 per share that would have been received by the option holders had those options holders exercised their stock options as of December 31, 2015. The aggregate intrinsic value of options outstanding at December 31, 2015 is $11.1 million and options exercisable is $9.9 million.

With respect to the stock option grants containing performance-based conditions, $0.1 million expense was recorded in 2015, $4.6 million expense was recorded in 2014, and no share-based compensation expense was recorded in 2013.

Restricted stock award activity granted under the 2014 Plan is as follows:

	Service stock awards	Performance stock awards	Total stock awards	Weighted average grant date fair value per share	Aggregate grant date fair value (in thousands)
Unvested as of December 31, 2014	—	—	—	$ —	$ —
Granted	160,858	76,483	237,341	37.84	8,981
Vested	—	—	—	—	—
Forfeited and canceled	—	—	—	—	—
Unvested as of December 31, 2015	160,858	76,483	237,341	$ 37.84	$ 8,981

The performance restricted stock awards shown above are presented at target share payout. As of December 31, 2015, total unrecognized compensation expense for restricted stock awards granted under the 2014 Plan was approximately $7.5 million to be recognized over a weighted-average remaining recognition period of 2.87 years.

RSU activity granted under the 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, 2014	340,411	295,779	636,190	$ 16.49	$ 10,489
Granted	174,777	—	174,777	34.64	
Vested	(112,056)	(271,352)	(383,408)	13.01	(4,988)
Forfeited and canceled	(24,058)	(1,490)	(25,548)	21.75	
Unvested as of December 31, 2015	379,074	22,937	402,011	$ 27.36	$ 11,001

Pre-IPO RSU activity granted outside of the 2005 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, 2014	51,520	604,384	655,904	$ 10.11	$ 6,630
Granted	—	—	—	—	
Vested	(38,273)	(311,138)	(349,411)	11.17	(3,902)
Forfeited and canceled	—	—	—	—	
Unvested as of December 31, 2015	13,247	293,246	306,493	$ 8.90	$ 2,728

As of December 31, 2015, total unrecognized compensation expense for RSUs granted under all Plans and outside the Plans was approximately $9.3 million to be recognized over a weighted-average remaining recognition period of 1.74 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.

RSAs are valued based on the grant date market price and are recognized over the requisite service period on a straight line basis.

The grant date fair value of the PSAs was determined through the use of a Monte Carlo simulation model, which utilizes multiple input variables that determine the probability of satisfying the market condition requirements. The valuation assumptions are as follows:

	Year Ended December 31, 2015
Expected volatility	41.60%
Risk free interest rate	0.94%
Expected term (in years)	2.14
Expected dividends	—%
Correlation co-efficient	0.50

The expected stock price volatility assumption is based on a combination of the Company's historical volatility since the IPO and the historical volatilities for industry peers for the time period equal to the expected term.

The risk-free interest rate assumption is based on U.S. Treasury instruments whose term is consistent with the expected term.

The expected term is commensurate with the time remaining until the end of the TSR performance period.

The expected dividend assumption is based on the Company's history and expectation of dividend payouts.

The correlation co-efficient is based on the Company's historical daily prices relative to the Index.

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 2015, 2014, 2013, including stock options, restricted stock awards, 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 $6.1 million, $14.0 million, and $0.4 million, respectively.

During 2015, there was $2.2 million of tax benefit recognized in income related to stock-based compensation. No material income tax benefit was recognized relating to share-based compensation for 2014 and 2013. No tax benefits were realized from exercised stock options for 2015, 2014 and 2013. Stock-based awards activity did not have an impact on cash flows from financing activities for 2015, 2014 and 2013.

(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 were 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. The Board approved an increase to the number of shares available for issuance under the TSPP in 2015. 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. There have been 20,496 shares issued under the TSPP at an average price of $31.56 per share as of December 31, 2015.

(11) **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 2015, 2014, and 2013 were $17.4 million, $10.6 million, and $6.0 million, respectively.

Beginning January 1, 2014, the Company match increased to 125% of the first 6% of employee contributions. Until December 31, 2013, the Company matched 100% of the first 5% of employee contributions.

There is no waiting period for eligibility for Company matching.

Effective January 1, 2015, the Company adopted a new discretionary 401(k) company contribution 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.

(b) ***Profit Sharing Plan***

Starting in 2015, 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% above the threshold on 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 profit sharing). This threshold is 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 was $81.4 million. Prior to 2015, there was no threshold. 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 basis for teammates. The Company recorded profit-sharing expense of $20.5 million, $14.4 million, and $2.1 million, respectively for the year ended December 31, 2015, 2014, and 2013.

(12) Income Taxes

The expense for income taxes consists of the following (in thousands):

	Year Ended December 31, 2015	2014	2013
Current:			
Federal	$ —	$ —	$ —
State	175	(23)	317
Deferred:			
Federal	(156,076)	1,110	—
State	(16,486)	92	—
	$ (172,387)	$ 1,179	$ 317

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, 2015	2014
Deferred tax assets:		
Capitalized start-up costs	$ 18,717	$ 21,610
License fee liability	12,885	12,914
Share-based compensation	2,857	5,162
Accruals and reserves	41,768	46,503
Unrealized loss on fuel hedges	10,656	12,022
Net operating loss carryforwards	249,900	245,384
Total deferred tax assets	336,783	343,595
Deferred tax liabilities:		
Manufacturers incentives	(173)	(26)
Maintenance deposits	(82,472)	(80,354)
Deferred aircraft rent	(31,412)	(19,756)
Related-party debt	(3,925)	(4,334)
Indefinite lived slots	(2,433)	(1,201)
Property and equipment	(44,925)	(1,030)
Total deferred tax liabilities	(165,340)	(106,701)
Less: Valuation allowance	—	(238,095)
Net deferred tax asset (liability)	$ 171,443	$ (1,201)

As of December 31, 2015, the Company presented net non-current asset of $171.4 million as a separate line item on the consolidated balance sheets. As of December 31, 2014 the net non-current liability of $1.2 million was included in "Other liabilities." The Company elected to early adopt the 2015 accounting standards update effective December 31, 2015 on a retroactive basis, resulting in a reclassification of net current deferred tax liabilities to non-current presentation in the accompanying consolidated balance sheet as of December 31, 2014. The Company's expense (benefit) for income taxes differs from that using the federal statutory rate due to the following (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Federal income tax at the statutory rate	$ 58,853	$ 21,451	$ 3,661
Permanent items	732	651	1,526
State income taxes, net of federal tax benefit	4,679	1,758	325
Other	1,444	—	—
Change—valuation allowance	(238,095)	(22,681)	(5,195)
Total income tax expense (benefit)	$ (172,387)	$ 1,179	$ 317

At December 31, 2015, the Company had NOLs of approximately $691.0 million for federal income tax purposes that expire beginning in 2027 and continuing through 2035, and the Company has NOLs of approximately $359.3 million for state income tax purposes that expire beginning in 2017 and continuing through 2037. A total of $20.5 million of the federal net operating loss and $10.8 million of the state net operating loss carryforward are related to excess tax benefits as a result of stock option exercises, and therefore will be recorded in additional paid-in capital in the period that they become realized. During the year ended December 31, 2015, the Company did not realize any excess tax benefits as a result of stock option exercises, therefore, there were no amounts recorded to additional paid-in capital.

During the fourth quarter of 2015, after considering all positive and negative evidence and the four sources of taxable income, the Company concluded that its deferred income tax assets are more likely than not to be realized. In evaluating the likelihood of utilizing its net federal and state deferred tax assets, the significant relevant factors that the Company considered were: (1) its recent history of and forecasted profitability; (2) tax planning strategies; and (3) future impact of taxable temporary differences. In 2015, the Company was no longer in a three year pretax cumulative loss position. Additionally, the Company projects significant pretax income in 2016 and beyond even after stress testing for various levels of fuel price, PRASM and CASM. Therefore, the Company recognized a $173.5 million benefit in the fourth quarter 2015 in connection with releasing all of its valuation allowance, resulting in a $172.4 million net benefit in its provision for income taxes. The Company had no valuation allowances as of December 31, 2015 and had a valuation allowance of $238.1 million as of December 31, 2014. The change in valuation allowance between 2013 and 2014 were exclusively driven by changes in net deferred tax assets including NOLs. The change from 2014 to 2015 was due to the reversal of the valuation allowance in the fourth quarter of 2015.

	2015	2014
Balance at beginning of year	$ 238,095	$ 261,432
Charged to provision	(238,095)	(22,681)
Charged to equity	—	(6,898)
Charged to OCI	—	6,242
Balance at end of year	$ —	$ 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 has experienced another Section 382 ownership change. The Company does not believe these limitations will prevent it from realizing the benefit of all its NOLs based on projections of future taxable income and the annual limitation. As of December 31, 2015, the Company had $691.0 million of federal NOLs available, which includes $329.7 million of NOLs generated prior to the 2010 change that are now subject to multiple limitations, $315.3 million of NOLs that are subject to the 2014 Section 382 limitation and $46.0 million of NOLs that are unlimited. Based on the most restrictive limitation as of December 31, 2015, $341.0 million of federal NOLs (including unlimited NOLs) are available to offset taxable income in 2016. The limitation will increase annually such that by 2019 substantially all available NOLs as of December 31, 2015 will be available to be used to offset taxable income.

The Company's unrecognized tax benefits related to uncertain tax provisions were approximately $5.0 million for the years ended December 31, 2015 and 2014. When recognized, the unrecognized tax benefit will impact the effective tax rate. 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:

	2015	2014	2013
Balance at beginning of year	$ 5,043	$ 5,043	$ 5,043
Increase (decrease) for tax positions taken in prior years	—	—	—
Increase for tax positions taken in the current year	—	—	—
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 2014 remain open to examination.

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, 2015 or 2014.

(13) 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—Recapitalizations for additional details.

The Company paid license fees of $7.7 million, $7.4 million and $7.1 million during the years ended December 31, 2015, 2014 and 2013. The Company has accrued unpaid royalty fees of $2.0 million and $1.8 million at December 31, 2015 and 2014.

As of December 31, 2015, Virgin Group Holdings Limited owns approximately 18.3% 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 entities affiliated with Cyrus Aviation Holdings, LLC, the largest single U.S. investor, owns approximately 27.9% as of December 31, 2015.

As of December 31, 2015, 16.4% of the Company's $321.2 million contractual 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 $3.6 million, $33.7 million and $68.4 million of related-party interest expense for the years ended December 31, 2015, 2014 and 2013. Commencing in November 2014 , the Company began to incur an annual commitment fee on the $100.0 million Letter of Credit Facility issued by the Virgin Group. The fee was equal to 5.0% per annum of the daily maximum amount available to be drawn, accruing on daily basis from the date of issuance and was payable quarterly. In June 2015, the Company canceled the Letter of Credit Facility in conjunction with the elimination of the credit card holdback requirement and stopped incurring related commitment fees. For the years ended December 31, 2015 and 2014, the Company recorded $2.5 million and $0.6 million in commitment fees related to this Letter of Credit Facility in other income (expense) in the accompanying consolidated statement of operations.

(14) 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 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. 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 stock, which participate equally in dividends and distributions, are the only outstanding equity in the Company as of December 31, 2015 and December 31, 2014 and are included in basic EPS for the period outstanding.

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. Subsequent to the Company's IPO, the exercise or settlement of all options, RSUs and restricted stock will result in the issuance of common stock that participates in dividends and distributions; thus, in-the-money options and unvested RSUs and restricted stock awards have been included in diluted EPS for the period subsequent to the IPO, if the effect is dilutive, and if the stock awards have met the performance or market conditions during the reporting period in association with contingently issuable share reporting guidance. The following table sets forth the computation of the Company's basic and diluted net income per share attributable to common stock for the periods presented (in thousands, except per share data):

	Year Ended December 31,		
	2015	2014	2013
BASIC:			
Net income	$ 340,537	$ 60,109	$ 10,144
Less: net income allocated to participating securities	—	(8,093)	(6,215)
Net income attributable to common shareholders	$ 340,537	$ 52,016	$ 3,929
Weighted-average common shares outstanding	43,547	6,176	702
Basic net income per share	$ 7.82	$ 8.42	$ 5.60
DILUTED:			
Net income	$ 340,537	$ 60,109	$ 10,144
Less: net income allocated to participating securities	—	(6,850)	(4,084)
Net income attributable to common shareholders	$ 340,537	$ 53,259	$ 6,060
Weighted-average common shares outstanding-basic	43,547	6,176	702
Effect of dilutive potential common shares	919	1,294	945
Weighted-average common shares outstanding-diluted	44,466	7,470	1,647
Diluted net income per share	$ 7.66	$ 7.13	$ 3.68

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):

	Year Ended December 31,		
	2015	2014	2013
Warrants to purchase common stock	—	—	33,124
Stock option awards	7	17	—
Restricted stock awards	30	—	—
Restricted stock units	14	—	—

Exhibit 99.2

Virgin America Inc.

Condensed Consolidated Balance Sheets
(In thousands)

	September 30, 2016	December 31, 2015
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 614,278	$ 496,349
Receivables, net	37,218	19,556
Prepaid expenses and other assets	17,940	10,675
Total current assets	669,436	526,580
Property and equipment:		
Flight equipment	645,345	373,199
Ground and other equipment	99,474	85,471
Less accumulated depreciation and amortization	(118,586)	(92,173)
	626,233	366,497
Pre-delivery payments for flight equipment	25,960	72,402
Total property and equipment, net	652,193	438,899
Aircraft maintenance deposits	235,376	216,207
Aircraft lease deposits	57,287	58,330
Restricted cash	21,559	19,800
Deferred income taxes	91,776	171,443
Other non-current assets	166,639	137,272
	572,637	603,052
Total assets	$ 1,894,266	$ 1,568,531

See accompanying notes to the condensed consolidated financial statements.

Virgin America Inc.

Condensed Consolidated Balance Sheets
(In thousands)

	September 30, 2016	December 31, 2015
	(Unaudited)	
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 52,762	$ 76,603
Air traffic liability	230,623	174,853
Other current liabilities	117,972	117,135
Long-term debt-current portion	30,581	48,843
Total current liabilities	431,938	417,434
Long-term debt	395,881	216,477
Long-term debt-related parties	45,505	42,421
Other long-term liabilities	81,733	84,052
Total liabilities	955,057	760,384
Contingencies and commitments (Note 5)		
Stockholders' equity		
Preferred stock	—	—
Common stock	444	442
Treasury stock	(6,856)	(5,038)
Additional paid-in capital	1,260,223	1,251,524
Accumulated deficit	(305,123)	(412,479)
Accumulated other comprehensive loss	(9,479)	(26,302)
Total stockholders' equity	939,209	808,147
Total liabilities and stockholders' equity	$ 1,894,266	$ 1,568,531

See accompanying notes to the condensed consolidated financial statements.

Virgin America Inc.

Consolidated Statements of Operations
(In thousands, except per share data) (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	**2015**	**2016**	**2015**
Operating revenues:				
Passenger	$ 395,817	$ 366,089	$ 1,095,953	$ 1,015,162
Other	49,368	44,792	138,967	122,957
Total operating revenues	445,185	410,881	1,234,920	1,138,119
Operating expenses:				
Salaries, wages and benefits	82,759	74,995	244,772	214,485
Aircraft fuel	76,566	86,480	218,237	268,781
Aircraft rent	47,901	47,088	143,008	137,779
Landing fees and other rents	41,389	38,128	121,286	106,181
Sales and marketing	35,845	32,632	103,663	89,715
Aircraft maintenance	17,112	15,838	50,844	42,327
Depreciation and amortization	10,582	4,465	27,860	12,792
Other operating expenses	42,377	37,387	133,497	109,150
Total operating expenses	354,531	337,013	1,043,167	981,210
Operating income:	90,654	73,868	191,753	156,909
Other expense:				
Interest expense	(5,028)	(1,672)	(12,816)	(4,503)
Interest expense-related-party	(1,036)	(953)	(3,085)	(2,581)
Capitalized interest	—	1,100	635	3,409
Other income (expense), net	134	(95)	425	(2,523)
Total other expense	(5,930)	(1,620)	(14,841)	(6,198)
Income before income tax	84,724	72,248	176,912	150,711
Income tax expense	32,926	392	69,556	1,081
Net income	$ 51,798	$ 71,856	$ 107,356	$ 149,630
Net income per share:				
Basic	$ 1.17	$ 1.65	$ 2.42	$ 3.45
Diluted	$ 1.15	$ 1.61	$ 2.39	$ 3.36
Shares used for computation:				
Basic	44,407	43,642	44,319	43,375
Diluted	45,018	44,588	44,855	44,554

See accompanying notes to the condensed consolidated financial statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	**2015**	**2016**	**2015**
Net income	$ 51,798	$ 71,856	$ 107,356	$ 149,630
Fuel derivative financial instruments:				
Change in unrealized gains (losses) on fuel derivative instruments, net of tax benefit (expense) of $1,001 and $0 for the three months ended September 30, 2016 and 2015, and ($4,363) and $0 for the nine months ended September 30, 2016 and 2015	(1,646)	(17,359)	7,185	(15,808)
Net fuel derivative losses reclassified into earnings, net of tax benefit (expense) of ($174) and $0 for the three months ended September 30, 2016 and 2015, and ($6,370) and $0 for the nine months ended September 30, 2016 and 2015	287	4,921	10,491	29,236
Interest rate swap derivative financial instruments:				
Change in unrealized losses on interest rate swaps, net of tax benefit of $572 for the nine months ended September 30, 2016	—	—	(973)	—
Net interest rate swap losses reclassified into earnings, net of tax expense of $30 and of $54 for the three and nine months ended September 30, 2016	48	—	120	—
Other comprehensive income (loss)	(1,311)	(12,438)	16,823	13,428
Total comprehensive income	$ 50,487	$ 59,418	$ 124,179	$ 163,058

See accompanying notes to the condensed consolidated financial statements

Virgin America Inc.

Condensed Consolidated Statements of Cash Flows
(In thousands) (Unaudited)

	Nine months ended September 30,	
	2016	**2015**
Cash flows from operating activities	$ 204,858	$ 173,745
Cash flows from investing activities:		
Acquisition of property and equipment	(249,264)	(115,135)
Pre-delivery payments for flight equipment	—	(5,805)
Net cash used in investing activities	(249,264)	(120,940)
Cash flows from financing activities:		
Net proceeds of equity issuance	2,621	5,155
Proceeds of debt issuance	214,750	78,000
Debt issuance costs	(2,448)	(1,621)
Payment of long-term debt	(50,770)	(13,539)
Shares repurchased for tax withholdings	(1,818)	(3,736)
Net cash provided by financing activities	162,335	64,259
Net increase in cash and cash equivalents	117,929	117,064
Cash and cash equivalents, beginning of period	496,349	394,643
Cash and cash equivalents, end of period	$ 614,278	$ 511,707
Non-cash transactions:		
Fixed assets in accounts payable	$ 13,968	$ 1,939
Non-cash loan borrowings on pre-delivery payments for flight equipment	—	17,416

See accompanying notes to the condensed consolidated financial statements

(1) Basis of Presentation

The condensed consolidated financial statements of Virgin America Inc. (the "Company") for the three and nine months ended September 30, 2016 include the accounts of the Company and its variable interest entities, for which it was the primary beneficiary. These unaudited condensed consolidated financial statements and related notes should be read in conjunction with the Company's 2015 audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 ("2015 Form 10-K").

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

On April 1, 2016, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Alaska Air Group, Inc. ("Alaska Air Group" or "Parent") and Alpine Acquisition Corp. ("Merger Sub"), its wholly-owned subsidiary. The Merger Agreement provides that Merger Sub will merge with and into the Company, with the Company surviving as a subsidiary of Parent (the "Merger").

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

The closing of the acquisition is subject to the approval by the Company's stockholders, performance by the parties of all their obligations under the Merger Agreement, regulatory approvals and the satisfaction of other customary closing conditions, as set forth in further detail in the Merger Agreement. The Company obtained stockholder approval on July 26, 2016 and anticipates that it will complete the transaction in the fourth quarter of 2016, however, the Company cannot predict with certainty whether and when any of the remaining required closing conditions will be satisfied or if the Merger will close.

For the three months and nine months ended September 30, 2016, the Company incurred $1.6 million and $7.7 million of costs related to the Merger Agreement.

New and Recently Adopted Accounting Standards

In August 2016, the Financial Accounting Standards Board (the "FASB") issued an accounting standards update to address how certain cash receipts and cash payments are presented and classified in the statement of cash flows with the objective of reducing the existing diversity in practice. The update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect this accounting standards update to have a material impact on its consolidated financial statements.

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

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

In May 2014, the FASB and the International Accounting Standards Board ("IASB") jointly issued a comprehensive new revenue recognition standard that will replace most existing revenue recognition standards under U.S. GAAP and International Financial Reporting Standards ("IFRS"). The new standard will require the Company to recognize revenue when goods or services are transferred to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. As a result, the Company will need to use more judgments and estimates to determine when and how revenue is recognized than U.S. GAAP currently requires. In August 2015, the FASB issued an accounting standards update that provides a one-year deferral of the effective date for the new revenue standard for public and non-public entities, resulting in an effective date for the Company of January 1, 2018. In March 2016, the FASB issued an accounting standards update to improve the operability and understandability of the implementation guidance on principal versus agent considerations in the new revenue recognition standard. In April 2016, the FASB issued an accounting standards update to improve the guidance and reduce the cost and complexity of applying the guidance on identifying performance obligations in a contract and to improve the operability and understandability of the licensing implementation guidance in the new revenue recognition standard. In May 2016, the FASB issued an accounting standards update to make several narrow scope improvements and to provide a practical expedient for contract modifications at transition. The Company believes the most significant effect of the accounting standards update will be the elimination of the incremental cost method for frequent flyer accounting, which would require the Company to re-value its liability earned by customers associated with flights points with a relative fair value approach. The Company is in the process of evaluating the new guidance on its consolidated financial statements.

(2) Fair Value

The accounting guidance establishes a fair value hierarchy as follows:

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

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 September 30, 2016 and December 31, 2015 respectively (in thousands):

	September 30, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets (Liability)				
Cash equivalents	$ 511,827	$ —	$ —	$ 511,827
Restricted cash	21,559	—	—	21,559
Heating oil swaps - fuel derivative instruments	—	441	—	441
Jet fuel swaps - fuel derivative instruments	—	2,313	—	2,313
	$ 533,386	$ 2,754	$ —	$ 536,140

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

The following are estimated fair values of the Company's debt at September 30, 2016 (in thousands):

	Carrying value	**Estimated fair value**
Third-party debt:		
Aircraft-related term loans	$ 392,430	$ 386,718
Term loan credit facility	40,000	40,000
Related-party debt:		
Virgin Group	45,505	52,277

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

(3) Financial Derivative Instruments and Risk Management

(a) Fuel Derivatives

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

The Company's remaining heating oil collars matured by the end of the second quarter 2015 and the remaining Brent call options matured by the end of the third quarter 2015.

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. The Company did not have any commitments related to FFP contracts outstanding at September 30, 2016.

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

(b) Interest Rate Swaps

The Company enters into interest rate swaps to protect against adverse fluctuations in interest rates associated with variable rate debt financing by reducing its exposure to variability in cash flows related to the future interest payments on the financing for committed aircraft. The interest rate swaps are designated cash flow hedges. The Company has no active swaps as of September 30, 2016. The AOCI loss balance of $2.0 million at September 30, 2016 relates to interest rate swaps that matured in 2015 and 2016, which is being amortized to interest expense over the term of the debt in the accompanying consolidated statements of operations.

(c) Summary of Derivative Instruments

All of the Company's derivatives were designated as cash flow hedges at September 30, 2016 and December 31, 2015. The following tables present the fair value of derivative assets and liabilities that are designated as hedging instruments, as well as the location of the asset and liability balances within the condensed consolidated balance sheets as of September 30, 2016 and December 31, 2015 (in thousands):

		Fair value of derivatives as of	
Derivatives designated as cash flow hedges	**Consolidated balance sheet location**	**September 30, 2016**	**December 31, 2015**
Fuel derivative instruments—Heating oil swaps	Current liabilities	$ —	$ (17,895)
Fuel derivative instruments—Jet fuel swaps	Current liabilities	—	(9,655)
Total current liabilities		$ —	$ (27,550)
Fuel derivative instruments—Heating oil swaps	Current assets	$ 441	$ —
Fuel derivative instruments—Jet fuel swaps	Current assets	2,313	—
Interest rate swaps	Current assets	—	155
Total current assets		$ 2,754	$ 155

As of September 30, 2016, the Company had no collateral deposited to comply with margin call requirements. As of December 31, 2015, the Company had deposited $9.7 million as collateral with two of its counterparties to comply with margin call requirements related to derivative losses that exceeded the portfolio's credit limit. The Company recorded margin call deposits in other current liabilities in the accompanying condensed consolidated balance sheet as an offset to fuel hedge liability. Total fuel hedge net current assets was $2.8 million at September 30, 2016, and at December 31, 2015, the total current liability was $17.9 million.

The following table summarizes the effect of derivative instruments in the condensed consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015 (in thousands):

Derivatives accounted for as hedging instruments under ASC 815	**Consolidated financial statement location**	**Gains (losses) on derivative contracts for the three months ended**		**Gains (losses) on derivative contracts for the nine months ended**	
		September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Fuel derivative instruments	Aircraft fuel expense	$ (379)	$ (5,340)	$ (18,125)	$ (29,774)
Interest rate swaps	Interest expense	78	—	174	—
Total impact to the consolidated statements of operations		$ (301)	$ (5,340)	$ (17,951)	$ (29,774)

Derivatives not accounted for as hedging instruments under ASC 815	**Consolidated financial statement location**	**Gains (losses) on derivative contracts for the three months ended**		**Gains (losses) on derivative contracts for the nine months ended**	
		September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Fuel derivative instruments	Aircraft fuel expense	$ —	$ (1,242)	$ —	$ (889)
Total impact to the consolidated statements of operations		$ —	$ (1,242)	$ —	$ (889)

At September 30, 2016, the Company estimates that approximately $2.7 million of net fuel derivative gains related to its cash flow fuel hedges included in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

At September 30, 2016, the Company estimates that approximately $0.3 million of net derivative losses related to its interest rate swaps included in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

The effect of derivative instruments designated as cash flow hedges and the underlying hedged items on the condensed consolidated statements of operations for three and nine months ended September 30, 2016 and 2015, respectively, is summarized as follows (in thousands):

	Amount of gain (loss) recognized in AOCI on derivatives (Effective portion)		**Gain (loss) reclassified from AOCI into income (Fuel expense or interest expense) (Effective portion)**		**Amount of gain (loss) recognized into income (Ineffective portion)**	
	Three months ended		**Three months ended**		**Three months ended**	
Derivatives designated as cash flow hedges	**September 30, 2016**	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Fuel derivative instruments	$ (2,647)	$ (16,221)	$ (461)	$ (4,921)	$ 82	$ (419)
Interest rate swaps	—	(1,138)	(78)	—	—	—

Derivatives designated as cash flow hedges	**Amount of gain (loss) recognized in AOCI on derivatives (Effective portion)**		**Gain (loss) reclassified from AOCI into income (Fuel expense or interest expense) (Effective portion)**		**Amount of gain (loss) recognized into income (Ineffective portion)**	
	Nine months ended		**Nine months ended**		**Nine months ended**	
	September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Fuel derivative instruments	$ 11,548	$ (14,712)	$ (16,861)	$ (29,236)	$ (1,264)	$ (538)
Interest rate swaps	(1,545)	(1,096)	(174)	—	—	—

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

	September 30, 2016	**December 31, 2015**
Derivatives designated as hedging instruments:		
Fuel derivative instruments—Heating oil swaps (gallons)	1	38
Fuel derivative instruments—Jet fuel swaps (gallons)	8	25
Interest rate swaps (dollars)	$ —	$ 34

As of September 30, 2016, the Company had entered into fuel derivative contracts for approximately 17% of its forecasted aircraft fuel requirements for the fourth quarter of 2016 at a weighted-average cost per gallon of $1.16, excluding related fuel taxes.

The Company presents its derivative instruments at net fair value in the accompanying condensed consolidated balance sheets. The Company's master netting arrangements with counterparties allow for net settlement under certain conditions. As of September 30, 2016 and December 31, 2015, no fuel derivative or interest rate swap amounts were available for offset.

(4) Long-Term Debt

During the first half of 2016, the Company took delivery of five aircraft as scheduled. Simultaneously, the Company executed financing agreements totaling $168.2 million with senior debt facilities subject to 12-year repayment terms with an average interest rate of 3.9% and $31.1 million with subordinated debt facilities subject to seven-year repayment terms with an average interest rate of 6.5%. Principal and interest are payable quarterly in arrears. Loans related to two aircraft are pre-payable any time. Loans related to the other three aircraft are not pre-payable prior to the third anniversary of the delivery date (for two aircraft) or issuance date (for one aircraft) and are pre-payable at par thereafter, subject to payment of early termination charges, if applicable. The debt agreements have no financial covenants.

In 2016, the Company financed $15.5 million of the purchase price of two spare engines acquired in the past year with debt facilities subject to 7-year repayment terms and at a 90-day floating rate based on LIBOR. Principal and interest are payable quarterly in arrears. The loans related to the engines are not pre-payable prior to the third anniversary of the delivery date and are pre-payable at par thereafter. The debt agreements have no financial covenants.

Long-term debt including accrued paid-in-kind interest consisted of the following as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Third-party debt:		
Aircraft-related term loans	$ 392,430	$ 193,618
Pre–delivery payment loans	—	34,823
Term loan credit facility	40,000	40,000
Total third-party debt	432,430	268,441
Related-party debt:		
Virgin Group	54,774	52,808
Total debt	487,204	321,249
Less: current maturities	(30,581)	(48,843)
Less: unamortized debt issuance costs	(5,968)	(3,121)
Less: discount on Virgin Group debt	(9,269)	(10,387)
Long–term debt	$ 441,386	$ 258,898

In connection with three of the 2015 aircraft-related term loans and three of the 2016 aircraft-related term loans, special purpose entities were formed to authorize and issue senior and junior secured notes and to acquire, finance, own and lease to the Company certain aircraft. Under variable interest entity accounting guidelines, the Company consolidated these entities because the Company is the primary beneficiary. As of September 30, 2016, the entities' assets consisted of six aircraft leased to the Company and its only liabilities consisted of notes payable in relation to the financing of such aircraft.

(5) Contingencies and Commitments

(a) Contingencies

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

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

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

(b) Commitments

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

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

The Company evaluated the recoverability of the deposits, credits and related capitalized interest in connection with the anticipated purchase of aircraft in future periods and determined them to be recoverable. If the Company ultimately exercises its cancellation rights for up to 30 aircraft, it would incur a loss of deposits and credits of up to $26.0 million as a cancellation fee. Because the Company concluded that the deposits and credits are recoverable and that it is not likely to incur cancellation fees, the Company did not record such fees and maintained such deposits as pre-delivery payments in its accompanying condensed consolidated balance sheet as of September 30, 2016.

The Company had six spare engines on hand as of September 30, 2016, four of which were leased under operating lease contracts and two of which were purchased in the past twelve months. During 2016, the Company financed $15.5 million of the purchase price of the two engines with debt facilities in each case subject to a 7-year repayment term and a 90 day floating interest rate based on three month LIBOR.

(6) Related-Party Transactions

The Company licenses the use of its brand name from certain entities affiliated with Virgin Enterprises Limited, a company incorporated in England and Wales (“VEL”). VEL is an affiliate of one of the Company’s largest stockholders, the Virgin Group, which has an employee who sits on the Company's board of directors. In connection with the recapitalization agreement the Company entered into in November 2014, the annual license fee to the Virgin Group increased from 0.5% to 0.7% of total revenue starting January 1, 2016. The annual license fee increase will resume at 0.5% once the Company’s total revenue for four consecutive quarters exceeds $4.5 billion. The Company paid license fees of $3.1 million and $2.1 million for the three months ended September 30, 2016 and 2015 and $8.1 million and $5.7 million for the nine months ended September 30, 2016 and 2015. The Company has accrued unpaid royalty fees of $3.1 million and $2.0 million at September 30, 2016 and December 31, 2015.

As of September 30, 2016, the Virgin Group, through its affiliates including Virgin Group Holdings Limited, owned approximately 18.2% of the Company’s issued and outstanding voting stock and all of the outstanding related-party debt. In order to comply with requirements under U.S. law governing the ownership and control of U.S. airlines, at least 75% of the voting stock of the Company must be held by U.S. citizens and at least two-thirds of the Company's board of directors must be U.S. citizens. U.S. citizen investors own over 75% of the voting stock of the Company, of which Cyrus Aviation Holdings, LLC, the largest single U.S. investor, owned approximately 27.7% as of September 30, 2016.

As of September 30, 2016, 9.6% of the Company’s $472.0 million debt was held by related-party investors. The Company incurred $1.0 million of related-party interest expense for both the three months ended September 30, 2016 and 2015 and $3.1 million and $2.6 million for the nine months ended September 30, 2016 and 2015. Commencing in November 2014, the Company began to incur an annual commitment fee on the $100.0 million Letter of Credit Facility issued by the Virgin Group. The fee was equal to 5.0% per annum of the daily maximum amount available to be drawn, accruing on a daily basis from the date of issuance and was payable quarterly. In June 2015, the Company canceled the Letter of Credit Facility in conjunction with the elimination of its credit card holdback requirement and stopped incurring related commitment fees. For the nine months ended September 30, 2015, the Company recorded $2.5 million in commitment fees related to this Letter of Credit Facility in other income (expense) in the accompanying condensed consolidated statement of operations.

(7) Income Taxes

The provision for income taxes for the three and nine months ended September 30, 2016 was $32.9 million and $69.6 million as compared to $0.4 million and $1.1 million for the three and nine months ended September 30, 2015. The Company’s effective tax rate was approximately 38.9% and 39.3% for the three and nine months ended September 30, 2016 compared to 0.5% and 0.7% for the three and nine months ended September 30, 2015. The differences were primarily related to the effects of the valuation allowance the Company had on its deferred tax assets through the first three quarters of 2015 that was fully released as of December 31, 2015. The effective tax rates for the three and nine months ended September 30, 2016 differ from the statutory rate of 35% primarily as a result of state taxes, nondeductible meals and entertainment expenses, and nondeductible merger-related costs.

(8) Net Income Per Share

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
BASIC:				
Net income	$ 51,798	$ 71,856	$ 107,356	$ 149,630
Weighted-average common shares outstanding	44,407	43,642	44,319	43,375
Basic net income per share	$ 1.17	$ 1.65	$ 2.42	$ 3.45
DILUTED:				
Net income	$ 51,798	$ 71,856	$ 107,356	$ 149,630
Weighted-average common shares outstanding-basic	44,407	43,642	44,319	43,375
Effect of dilutive potential common shares	611	946	536	1,179
Weighted-average common shares outstanding-diluted	45,018	44,588	44,855	44,554
Diluted net income per share	$ 1.15	$ 1.61	$ 2.39	$ 3.36

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Stock option awards	—	1	—	9
Restricted stock units	—	1	—	1
ESPP	—	—	34	—

Alaska Air Group

Exhibit 99.4

Unaudited Pro Forma Condensed Combined Financial Information

Unaudited Pro Forma Information

The following financial information and related notes present the unaudited pro forma condensed combined balance sheets and statements of operations based upon the combined historical financial statements of Alaska Air Group, Inc., ("Air Group") and Virgin America Inc., ("Virgin America"), after giving effect to Air Group's purchase of all the issued and outstanding shares of Virgin America by means of a merger (the "Merger"). The information is intended to reflect the impact of the Merger on Air Group on a pro forma basis as of and for the periods indicated. Historical financial and operating data of Air Group and Virgin America for the year ended December 31, 2015 are derived from their respective audited consolidated financial statements for the year then ended. Historical financial and operating data of Air Group and Virgin America for the nine months ended September 30, 2016 are derived from their unaudited consolidated financial statements for the nine-month period then ended. In the remainder of this document, Air Group and Virgin America, subsequent to the Merger, are collectively referred to as "the Combined Company."

The unaudited pro forma condensed combined balance sheet as of September 30, 2016 shows the combined financial position of Air Group and Virgin America as if the Merger had been consummated on September 30, 2016. The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2015 and the nine months ended September 30, 2016 reflect the Merger as if it had occurred on January 1, 2015, the beginning of the earliest period presented. This unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting with Air Group considered the acquirer of Virgin America for accounting purposes.

The unaudited pro forma condensed combined financial information was prepared in accordance with Article 11 of Regulation S-X. The unaudited pro forma adjustments reflecting the Merger were prepared in accordance with business combination accounting guidance in Accounting Standards Codification ("ASC") 805, *Business Combinations*. These adjustments give effect to the debt issuance necessary to finance the acquisition and reflect the provisional allocation of the purchase price to the acquired assets and liabilities based upon provisional estimates of fair values. The assumptions used are set forth in the notes to the unaudited pro forma condensed combined financial information. These adjustments are provisional and subject to further adjustment as additional information becomes available, additional analyses are performed and as warranted by changes in current conditions and future expectations.

The unaudited pro forma condensed combined financial information is based upon, and should be read in conjunction with:

- the accompanying notes to the unaudited condensed combined pro forma financial statements;

- the separate historical audited consolidated financial statements of Air Group as of and for the fiscal year ended December 31, 2015, the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in its Annual Report on Form 10-K as filed with the Securities and Exchange Commission ("SEC") on February 11, 2016;

- the separate historical audited consolidated financial statements of Virgin America as of and for the fiscal year ended December 31, 2015, the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in its Annual Report on Form 10-K as filed with the SEC on February 29, 2016, portions of which are attached as Exhibit 99.1 and incorporated herein by reference;

- the separate historical unaudited consolidated interim financial statements of Air Group as of and for the nine months ended September 30, 2016 included in its Quarterly Report on Form 10-Q as filed with the SEC on November 2, 2016;

- the separate historical unaudited consolidated interim financial statements of Virgin America as of and for the nine months ended September 30, 2016 included in its Quarterly Report on Form 10-Q as filed with the SEC on November 2, 2016, portions of which are attached as Exhibit 99.3 and incorporated herein by reference.

The unaudited pro forma condensed combined financial information has been prepared to reflect adjustments to the combined historical consolidated financial information that are (i) directly attributable to the Merger, (ii) factually supportable and (iii) with respect to the unaudited pro forma condensed combined statements of operations, expected to have a continuing impact on the combined results.

The unaudited pro forma condensed combined financial information is presented for informational purposes only. Such information is not necessarily indicative of the operating results or financial position that actually would have been achieved if the Merger had been consummated on the dates indicated or that the Combined Company may achieve in future periods. The unaudited pro forma combined statements of operations do not reflect any cost savings, operating synergies or revenue enhancements that the Combined Company may achieve, costs to integrate the business, the impact of any non-recurring activity, or any one-time, transaction-related costs. Synergies and integration costs have been excluded from consideration pursuant to the SEC's rules for pro forma presentations under Article 11.

ALASKA AIR GROUP
Unaudited Pro Forma Condensed Combined Balance Sheet

As of September 30, 2016

(in millions)	Historical Alaska Air Group	Historical Virgin America	Reclassification and Policy Adjustments	Financing Adjustments	Pro Forma Adjustments	Condensed Combined Proforma
			Note 3	Note 4	Note 4	
ASSETS						
Current Assets						
Cash and cash equivalents	$ 1,818	$ 614	$ —	$ 997 (a)	$ (2,596) (a)	$ 833
Marketable securities	1,408	—	—	(300) (b)	—	1,108
Total cash and marketable securities	3,226	614	—	697	(2,596)	1,941
Receivables, net	232	37	—	—	—	269
Inventories and supplies, net	44	—	—	—	—	44
Prepaid expenses and other current assets	98	18	—	—	—	116
Total Current Assets	3,600	669	—	697	(2,596)	2,370
Property and Equipment						
Aircraft and other flight equipment	6,398	645	—	—	(129) (c)	6,914
Other property and equipment	1,021	99	(9)	—	(60) (c)	1,051
Deposits for future flight equipment	489	26	—	—	(11) (c)	504
	7,908	770	(9)	—	(200)	8,469
Less accumulated depreciation and amortization	(2,877)	(118)	—	—	118 (c)	(2,877)
Total Property and Equipment - Net	5,031	652	(9)	—	(82)	5,592
Other Assets						
Goodwill	—	—	—	—	1,972 (d)	1,972
Intangibles, net	—	—	49	—	94 (e)	143
Aircraft maintenance deposits	—	235	—	—	(235) (f)	—
Aircraft lease deposits	—	57	(57)	—	—	—
Deferred income taxes	—	92	(92)	—	—	—
Restricted cash	—	22	(22)	—	—	—
Other assets	68	167	30	—	(114) (g)	151
Total Other Assets	68	573	(92)	—	1,717	2,266
Total Assets	$ 8,699	$ 1,894	$ (101)	$ 697	$ (961)	$ 10,228

ALASKA AIR GROUP
Unaudited Pro Forma Condensed Combined Balance Sheet

As of September 30, 2016

(in millions)	Historical Alaska Air Group	Historical Virgin America	Reclassification and Policy Adjustments	Financing Adjustments		Pro Forma Adjustments		Condensed Combined Proforma
			Note 3	Note 4		Note 4		
LIABILITIES AND SHAREHOLDERS' EQUITY								
Current Liabilities								
Accounts payable	$ 71	$ 53	$ —	$ —		$ —		$ 124
Accrued wages, vacation and payroll taxes	257	—	43	—		—		300
Air traffic liability	785	231	(27)	—		(38)	(h)	951
Other accrued liabilities	735	118	(5)	99	(i)	48	(i)	995
Current portion of long-term debt	275	30	—	214	(j)	95	(j)	614
Total Current Liabilities	2,123	432	11	313		105		2,984
Long-Term Debt, Net of Current Portion	1,861	396	—	483	(j)	(37)	(j)	2,703
Long-Term Debt, Related Parties	—	45	—	—		(45)	(j)	—
Other Liabilities and Credits								
Deferred income taxes	733	—	(92)	—		(217)	(k)	424
Deferred revenue	491	—	27	—		111	(l)	629
Obligations for pension and postretirement medical benefits	272	—	—	—		—		272
Other liabilities	355	82	—	—		14	(m)	451
Total Other Liabilities and Credits	1,851	82	(65)	—		(92)		1,776
Total Liabilities	5,835	955	(54)	796		(69)		7,463
Commitments and Contingencies								
Shareholders' Equity								
Preferred stock	—	—	—	—		—		—
Common stock	1	—	—	—		—		1
Capital in excess of par value	103	1,260	—	—		(1,260)	(n)	103
Treasury stock	(444)	(7)	—	—		7	(n)	(444)
Accumulated other comprehensive loss	(284)	(9)	—	—		9	(n)	(284)
Retained earnings	3,488	(305)	(47)	(99)	(n)	352	(n)	3,389
	2,864	939	(47)	(99)		(892)		2,765
Total Liabilities and Shareholders' Equity	$ 8,699	$ 1,894	$ (101)	$ 697		$ (961)		$ 10,228

ALASKA AIR GROUP
Unaudited Pro Forma Condensed Combined Statement of Operations

Nine Months Ended September 30, 2016

(in millions, except per-share amounts)	Historical Alaska Air Group	Historical Virgin America	Reclassification and Policy Adjustments	Financing Adjustments		Proforma Adjustments		Condensed Combined Proforma
			Note 3	Note 4		Note 4		
Operating Revenues								
Passenger								
Passenger	$ —	$ 1,096	$ (1,096)	$ —		$ —		$ —
Mainline	3,036	—	1,111	—		12	(o)	4,159
Regional	682	—	—	—		—		682
Total passenger revenue	3,718	1,096	15	—		12		4,841
Freight and mail	82	—	—	—		—		82
Other—net	607	139	(19)	—		—		727
Total Operating Revenues	4,407	1,235	(4)	—		12		5,650
Operating Expenses								
Wages and benefits	1,008	245	(7)	—		—		1,246
Variable incentive pay	95	—	7	—		—		102
Aircraft fuel, including hedging gains and losses	593	218	11	—		—		822
Aircraft maintenance	197	51	6	—		—		254
Aircraft rent	80	143	—	—		(8)	(p)	215
Landing fees and other rentals	232	121	(11)	—		—		342
Contracted services	183	—	—	—		—		183
Selling expenses	162	104	(1)	—		—	(o)	265
Depreciation and amortization	281	28	—	—		4	(q)	313
Food and beverage service	93	—	39	—		—		132
Third-party regional carrier expense	72	—	—	—		—		72
Other	267	133	(47)	—		—		353
Special items—merger-related costs and other	36	—	8	(44)	(r)	—		—
Total Operating Expenses	3,299	1,043	5	(44)		(4)		4,299
Operating Income	1,108	192	(9)	44		16		1,351
Nonoperating Income (Expense)								
Interest income	20	—	—	—		—		20
Interest expense	(33)	(13)	—	(35)	(s)	—		(81)
Interest expense—related-party	—	(3)	—	3	(s)	—		—
Interest capitalized	21	1	—	—		—		22
Other—net	(2)	—	—	—		—		(2)
	6	(15)	—	(32)		—		(41)
Income before income tax	1,114	177	(9)	12		16		1,310
Income tax expense	414	70	—	4	(t)	7	(t)	495
Net Income	$ 700	$ 107	$ (9)	$ 8		$ 9		$ 815
Basic Earnings Per Share:	$ 5.66							$ 6.59
Diluted Earnings Per Share:	$ 5.63							$ 6.55
Shares used for computation:								
Basic	123.648							123.648
Diluted	124.393							124.393

ALASKA AIR GROUP
Unaudited Pro Forma Condensed Combined Statement of Operations

Year Ended December 31, 2015

(in millions, except per-share amounts)	Historical Alaska Air Group	Historical Virgin America	Reclassification and Policy Adjustments	Financing Adjustments		Pro Forma Adjustments		Condensed Combined Proforma
			Note 3	Note 4		Note 4		
Operating Revenues								
Passenger								
Passenger	$ —	$ 1,363	$ (1,363)	$ —		$ —		$ —
Mainline	3,939	—	1,386	—		(14)	(o)	5,311
Regional	854	—	—	—		—		854
Total passenger revenue	4,793	1,363	23	—		(14)		6,165
Freight and mail	108	—	—	—		—		108
Other—net	697	166	(25)	—		—		838
Total Operating Revenues	5,598	1,529	(2)	—		(14)		7,111
Operating Expenses								
Wages and benefits	1,254	289	(11)	—		—		1,532
Variable incentive pay	120	—	11	—		—		131
Aircraft fuel, including hedging gains and losses	954	348	12	—		—		1,314
Aircraft maintenance	253	57	3	—		—		313
Aircraft rent	105	220	—	—		(11)	(p)	314
Landing fees and other rentals	296	144	(12)	—		—		428
Contracted services	214	—	—	—		—		214
Selling expenses	211	125	(2)	—		(1)	(o)	333
Depreciation and amortization	320	18	—	—		12	(q)	350
Food and beverage service	113	—	45	—		—		158
Third-party regional carrier expense	72	—	—	—		—		72
Other	356	151	(45)	—		—		462
Special items—merger-related costs and other	32	—	—	—		—		32
Total Operating Expenses	4,300	1,352	1	—		—		5,653
Operating Income	1,298	177	(3)	—		(14)		1,458
Nonoperating Income (Expense)								
Interest income	21	—	—	—		—		21
Interest expense	(42)	(7)	—	(47)	(s)	—		(96)
Interest expense—related-party	—	(4)	—	4	(s)	—		—
Interest capitalized	34	4	—	—		—		38
Other—net	1	(2)	—	—		—		(1)
	14	(9)	—	(43)		—		(38)
Income before income tax	1,312	168	(3)	(43)		(14)		1,420
Income tax expense (benefit)	464	(173)	—	(18)	(t)	233	(t)	506
Net Income	$ 848	$ 341	$ (3)	$ (25)		$ (247)		$ 914
Basic Earnings Per Share:	$ 6.61							$ 7.12
Diluted Earnings Per Share:	$ 6.56							$ 7.06
Shares used for computation:								
Basic	128.373							128.373
Diluted	129.372							129.372

Note 1. Basis of Pro Forma Presentation

The unaudited pro forma condensed combined financial information is based on Air Group's and Virgin America's historical consolidated financial statements as adjusted to give effect to the acquisition of Virgin America and the debt issuance necessary to finance the acquisition. The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2016 and for the year ended December 31, 2015 give effect to the Merger as if it had occurred on January 1, 2015. The unaudited condensed combined pro forma balance sheet as of September 30, 2016 gives effect to the Merger as if it had occurred on September 30, 2016.

The unaudited pro forma condensed combined financial information should be read in conjunction with the audited and unaudited consolidated financial statements of Virgin America filed with the SEC, portions of which are included herein and incorporated by reference in this Form 8-K/A, as well as the audited and unaudited consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Air Group's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and in its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016.

The unaudited pro forma condensed combined financial information included herein has been prepared pursuant to the rules and regulations of the SEC. Pursuant to such rules and regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted; however, management believes that the disclosures provided are adequate to make the information presented not misleading.

Note 2. Calculation of Purchase Price Consideration and Provisional Purchase Price Allocation

The fair value of consideration transferred on the closing date includes the value of the cash consideration and accelerated and vested equity awards attributable to pre-acquisition service. The purchase price is as follows:

(in millions, except per-share price)		September 30, 2016
Number of shares of Virgin America common stock issued and outstanding as of December 14, 2016		44.645
Multiplied by cash consideration for each share of common stock per the merger agreement	$	57.00
Cash consideration paid for common stock issued and outstanding as of December 14, 2016	$	2,545
Accelerated and vested equity awards attributable to pre-acquisition service		51
Total purchase price	**$**	**2,596**

Under the acquisition method of accounting, the identifiable assets acquired and liabilities assumed of Virgin America are recorded at the acquisition date fair values and added to those of Air Group. The pro forma adjustments are provisional and based on estimates of the fair value and useful lives of the assets acquired and liabilities assumed as of September 30, 2016, and have been prepared to illustrate the estimated effect of the Merger. The allocation is dependent upon certain valuation and other analyses that have not yet been finalized. Accordingly, the pro forma purchase price allocation is subject to further adjustment as additional information becomes available and as additional analyses and final valuations are completed. There can be no assurances that these additional analyses and final valuations will not result in significant changes to the estimates of fair value set forth below.

The following table sets forth a provisional allocation of the purchase consideration to the identifiable tangible and intangible assets acquired and liabilities assumed of Virgin America based on Virgin America's September 30, 2016 balance sheet after the impacts of reclassifications to align with Air Group's financial statement presentation, with the excess recorded as goodwill:

(in millions)		**September 30, 2016**
Cash and cash equivalents	$	614
Receivables		37
Prepaid expenses and other current assets		18
Property and equipment		561
Intangibles		143
Other assets		83
Total assets		**1,456**
Accounts payable		53
Accrued wages, vacation and payroll taxes		43
Air traffic liability		166
Other accrued liabilities		161
Current portion of long-term debt		125
Long-term debt, net of current portion		359
Deferred income taxes		(309)
Deferred revenue		138
Other liabilities		96
Total liabilities		**832**
Net assets acquired (a)		624
Estimated purchase consideration (b)		2,596
Estimated goodwill (b) - (a)	**$**	**1,972**

Provisional identifiable intangible assets consist of anticipated intangibles derived from customer relationships, airport slots and gates. The amortization related to those intangible assets that have finite useful lives is reflected as a pro forma adjustment to the pro forma statements of operations, as further described in Note 4(e).

The deferred income taxes represent deferred tax assets, primarily related to Virgin America's net operating loss carryforwards as well as the tax effect of amortizable identified intangibles, as amortization of such intangibles will not be deductible for tax purposes. These deferred tax balances have been classified as a reduction of liabilities to align with Air Group's financial statement classification.

Goodwill represents the excess of the purchase price over the fair value of the underlying net assets acquired and largely results from expected future synergies from combining operations as well as an assembled workforce, which does not qualify for separate recognition. Goodwill is not amortized but is reviewed for impairment at least annually. Goodwill recognized in the merger is not expected to be deductible for tax purposes.

The amounts above are considered provisional and are subject to change up to one year following the acquisition date and additional adjustments to record fair value of all assets acquired and liabilities assumed may be required.

As of the date of this report, Air Group and Virgin America have incurred approximately $143 million of transaction costs directly attributable to the acquisition. The unaudited pro forma condensed combined statement of operations for the nine months ended September 30, 2016 reflects an adjustment of $44 million to eliminate such costs reflected in the historical results, as these charges constitute nonrecurring costs directly attributable to the acquisition and are to be excluded in accordance with Article 11.

Note 3. Reclassification and Accounting Policy Adjustments

The column "Reclassification and Policy Adjustments" reflects all accounting policy and financial statement presentation reclassification adjustments made to align Virgin America's accounting policies and historical financial statement presentation to those of Air Group.

Upon consummation of the Merger, Virgin America adopted Air Group’s accounting policies. Certain procedures were performed to identify material differences in significant accounting policies between Air Group and Virgin America and any accounting adjustments that would be required to align such policies and related disclosures. These procedures involved a review of Virgin

America’s summary of significant accounting policies, including those disclosed in Virgin America’s historical audited financial statements for the year ended December 31, 2015, and historical unaudited financial statements for the nine months ended September 30, 2016. Procedures performed also involved preliminary discussions with Virgin America management regarding Virgin America’s significant accounting policies.

The reclassification adjustments on the unaudited pro forma balance sheet to conform Virgin America’s presentation of financial information to that of Air Group pertain to the following:

- Reclassification of amounts related to aircraft lease deposits from Aircraft lease deposits to Other assets;
- Reclassification of amounts related to intangible assets from Other assets to Intangibles, net;
- Reclassification of amounts related to accrued wages, vacation and payroll taxes from Other accrued liabilities to Accrued wages, vacation and payroll taxes;
- Reclassification of amounts related to deferred revenue from Air traffic liability to Deferred revenue and Other accrued liabilities;
- Reclassification of amounts related to restricted cash from Restricted cash to Other assets; and
- Reclassification of the deferred tax asset to offset Deferred income taxes liability.

The reclassification adjustments on the unaudited pro forma statements of operations to conform Virgin America’s presentation of financial information to that of Air Group pertain to the following:

- Reclassification of amounts related to mainline revenue from Passenger to Mainline;
- Reclassification of amounts related to seat assignment fees revenue from Other—net to Mainline;
- Reclassification of amounts related to other airline mileage award redemptions from Passenger revenue and Sales and marketing expense to Other—net revenue;
- Reclassification of amounts related to variable incentive pay from Wages and benefits to Variable incentive pay; and
- Reclassification of amounts related to into plane fuel fees from Landing fees and other rentals to Aircraft fuel;
- Reclassification of amounts related to food and beverage service from Other to Food and beverage service; and
- Reclassification of amounts related to special items from Other to Special items.

The accounting policy adjustments on the unaudited pro forma financial statements to conform Virgin America’s policies to those of Air Group pertain to the following:

- Elimination of Virgin America's capitalized major engine maintenance costs from Other property and equipment and the related depreciation expense from Aircraft maintenance expense. Air Group expenses major engine maintenance costs as incurred, while Virgin America capitalized engine maintenance costs and recorded depreciation expense; and
- Elimination of Virgin America's advanced breakage for tickets and travel credits that are expected to expire unused from Air Traffic Liability and the related Passenger revenue. Air Group records unused tickets and travel credits into revenue on the date of expiration, which is twelve months from issuance, while Virgin America used to estimate and recorded advanced breakage on such tickets.

Note 4. Financing and Pro Forma Adjustments

Balance Sheet Adjustments

The unaudited pro forma adjustments related to Virgin America included in the unaudited pro forma condensed combined balance sheets are as follows:

(a) Cash and cash equivalents

Reflects total cash purchase price, adjusted for cash provided for payment of consideration:

(in millions)		September 30, 2016
Cash provided from borrowing		700
Cash paid for financing costs		(3)
Cash provided from sale of marketable securities		300
Total financing adjustments to Cash and cash equivalents	**$**	**997**
Cash consideration paid for shares and vested equity awards		(2,596)
Total pro-forma adjustments to Cash and cash equivalents	**$**	**(2,596)**

(b) Marketable securities

Represents the sale of $300 million of marketable securities to obtain a portion of the cash used for the payment of the purchase price consideration.

(c) Property and equipment

Reflects the estimated adjustment to record Virgin America's property and equipment at its provisional fair value of $561 million, a decrease of $82 million from the carrying value after the effects of policy adjustments discussed in Note 3. This adjustment included elimination of all of Virgin America's accumulated depreciation.

(d) Goodwill

Reflects provisional goodwill for the purchase consideration in excess of the fair value of net assets acquired in connection with the Virgin America acquisition. Refer to Note 2 for the calculation.

(e) Intangibles

Reflects the provisional estimates of fair values of the following intangible assets identified in the acquisition:

(in millions)		September 30, 2016	Useful Life (in years)
To eliminate the historical net book value of Virgin America's intangible assets	$	(49)	
Customer relationships		40	8
Airport slots		89	indefinite
Airport gates		14	12
Total adjustments to Intangibles	**$**	**94**	

The fair value of intangible assets is based on management's provisional valuation as of the acquisition date of December 14, 2016. Airport slots will be accounted for as an indefinite-lived intangible asset. The useful life of customer relationships is based on the related estimated economic lives. The useful life of the airport gates is based on the lease term of the gates.

(f) Aircraft maintenance deposits

Reflects the elimination of Virgin America's aircraft maintenance deposits. The guidance in ASC 805-20 requires identifiable assets acquired and liabilities assumed to be measured at their acquisition-date fair values. The determination of fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A market participant "purchasing" a deposit would take into account the amount expected to be received back from the lessor and the fact that, in order to recover this amount, they must first incur an equal amount in maintenance costs. A market participant cannot purchase a deposit and expect to be reimbursed from the lessor without incurring costs of at least as much as the deposit. As such, the fair value of these deposits to a market participant at the acquisition date is zero.

Future maintenance expense will be offset when such events occur as maintenance deposits are recovered from the lessors.

(g) Other assets

Reflects the elimination of historical balances for deferred rent of $106 million. Deferred rent balance represents the difference between cash payments to a lessor and rent expense previously recognized by Virgin America. This results in an asset recognized on the balance sheet of Virgin America that does not meet the definition of an asset in an acquisition. The guidance in ASC 805-20 states that the acquirer shall recognize no assets or liabilities related to an operating lease in which the acquiree is the lessee except for leases with off-market terms and lease agreements containing an identifiable intangible asset. Neither of these exceptions relate to Virgin America’s historical deferred rent balances.

Also reflects the elimination of historical liabilities of $8 million in connection with an unfavorable leases adjustment further discussed in Note (m).

(h) Air traffic liability

Reflects the provisional adjustment to record Virgin America's air traffic liability at its estimated fair value of approximately $166 million, a decrease of approximately $38 million from the carrying value after the effects of policy adjustments discussed in Note 3 to reflect tickets and travel credits that are included in the liability but are expected to expire unused. As Air Group's policy for ticket expiration is one year, the step down will be accreted over 12 months from the date of the acquisition.

(i) Other accrued liabilities

Reflects financing adjustments and adjustments to record Virgin America's other accrued liabilities at provisional fair values as follows:

(in millions)		**September 30, 2016**
To record estimated transaction costs that have not been incurred	$	99
Total financing adjustments to Other accrued liabilities	**$**	**99**
To eliminate historical short-term deferred revenue	$	(38)
To eliminate historical deferred credits associated with aircraft leases		(8)
To record the provisional estimate of fair value of the short-term portion of unfavorable lease agreements		11
To record the provisional estimate of fair value of the short-term deferred revenue		74
To record other miscellaneous liabilities		9
Total pro forma adjustments to Other accrued liabilities	**$**	**48**

(j) Debt

Represents the new third-party debt issued by Air Group in connection with the acquisition as follows:

(in millions)		**September 30, 2016**
New debt financing	$	700
Debt issuance costs		(3)
Total adjustments to debt	**$**	**697**

At September 30, 2016, $214 million of the new third-party debt was recorded as current and $483 million as long-term.

Also represents the adjustments to record Virgin America's debt at provisional estimates of fair value as follows:

(in millions)	September 30, 2016	
	Short-Term	Long-Term
To eliminate the historical value of third-party debt of Virgin America	$ (30)	$ (396)
To eliminate the historical value of related-party debt of Virgin America	—	(45)
To record provisional estimate of fair value of Virgin America's third-party debt[1]	70	359
To record provisional fair value of Virgin America's related-party debt[2]	55	—
Total adjustments to Debt	$ 95	$ (82)

(1) The provisional estimate for fair value of Virgin America's third-party debt includes a reclassification of $40 million of debt from long-term to short-term, related to airport slot financing that was paid down immediately following consummation of the Merger.

(2) $45 million of related-party debt held by Virgin America was reclassified to short-term, as the acquisition triggered its repayment directly following the consummation of the Merger.

(k) Deferred income taxes

Reflects the adjustment to record deferred income tax assets at provisional estimates of fair value as follows:

(in millions)	September 30, 2016
To eliminate the historical deferred tax asset of Virgin America	$ 92
To record provisional estimate of fair value of Virgin America's deferred tax asset	(309)
Total adjustments to Deferred income taxes	$ (217)

This estimate of deferred taxes was determined based on Air Group's expected ability to use Virgin America's net operating loss carryforwards in future periods, as well as the excess of the fair values of the acquired assets and liabilities over the tax basis of the assets and liabilities to be acquired. The statutory tax rate was applied, as appropriate, to each adjustment based on the jurisdiction in which the adjustment is expected to occur.

(l) Deferred revenue

Reflects the provisional fair value adjustment of the non-current portion of Virgin America's loyalty deferred revenue as follows:

(in millions)	September 30, 2016
To eliminate the historical long-term deferred revenue	$ (27)
To record the provisional estimate of fair value of the long-term deferred revenue	138
Total adjustments to Deferred revenue	**$ 111**

Current portion of the provisional fair value of Virgin America's loyalty deferred revenue is reflected in Other current liabilities as disclosed in Note (i).

(m) Other liabilities

Reflects adjustments to record Virgin America's other liabilities at provisional fair values as follows:

(in millions)	September 30, 2016
To eliminate certain historical liabilities related to aircraft leases	$ (31)
To record the provisional estimate of fair value of the long-term portion of the unfavorable lease agreements	78
To eliminate Virgin America's trade license agreement liability	(33)
Total adjustments to Other liabilities	**$ 14**

The elimination of certain historical liabilities related to aircraft leases primarily represents lease incentives and certain deferred gains which have a fair value of zero after taking into consideration the adjustments made in the provisional fair value of the unfavorable lease agreements.

(n) Shareholders' equity

Eliminates Virgin America's historical shareholders' equity including capital in excess of par value, treasury stock, accumulated other comprehensive loss, and retained earnings, and records the effect of estimated transaction costs.

Retained earnings were adjusted as follows:

(in millions)	September 30, 2016
To record Air Group's estimated transaction costs	$ (81)
To record Virgin America's estimated transaction costs	(18)
Total financing adjustments to Retained earnings	$ (99)
To eliminate the historical retained earnings of Virgin America	$ 305
To eliminate the effect of differences in accounting policies on retained earnings	47
Total pro forma adjustments to Retained earnings	**$ 352**

Statement of Operations Adjustments

The unaudited pro forma adjustments included in the unaudited pro forma condensed combined statements of operations are as follows:

(o) Passenger revenue and selling expenses

Reflects additional loyalty revenue arising from the fair value adjustment of Virgin America's loyalty deferred revenue and elimination of related selling expense. Also reflects the accretion of the provisional step down of Virgin America's air traffic liability to its fair value for tickets and credit files that are expected to expire unused.

	Pro Forma	
	Nine Months Ended September 30, 2016	**Year Ended December 31, 2015**
Accretion of fair value adjustment of air traffic liability over one year from date of acquisition	$ —	$ (36)
Incremental Passenger Revenue related to loyalty fair value adjustment	12	22
	$ 12	$ (14)
Selling expense	$ —	$ (1)

(p) Aircraft rent

Reflects the amortization of the unfavorable lease agreements liability of $8 million for the nine months ended September 30, 2016 and $11 million for the year ended December 31, 2015.

(q) Depreciation and amortization

Reflects depreciation and amortization expense related to property and equipment and identifiable intangible assets calculated on a straight-line basis. The amortization of intangible assets is based on the periods over which the economic benefits of the intangible assets are expected to be realized and are discussed in Note (e) above.

The net adjustment for depreciation and amortization is as follows:

	Pro Forma	
(in millions)	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
To record the net impact of eliminating the historical depreciation expense related to PP&E and adjusting for depreciation expense related to the fair value and remaining useful life adjustments of PP&E as part of purchase accounting	$ (1)	$ 6
To record the impact for amortization expense related to the fair value adjustments of intangibles as part of purchase accounting	5	6
Total adjustments to Depreciation and amortization	**$ 4**	**$ 12**

(r) Special items—merger-related costs and other

Represents the elimination of Air Group's and Virgin America's nonrecurring transaction costs incurred during the nine-month period ended September 30, 2016 of $44 million that are directly related to the acquisition of Virgin America.

(s) Interest expense

Reflects the interest expense on new financing, partially offset by elimination of interest on financing repaid in connection with the acquisition:

	Pro Forma	
(in millions)	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
Debt financing interest expense	$ (35)	$ (47)
Elimination of interest on related-party debt	3	4
Total adjustments to interest expense	**$ (32)**	**$ (43)**

(t) Income tax expense

Reflects the removal of a $238 million gain recognized by Virgin America related to the reversal of a valuation allowance in 2015.

Additionally, reflects the application of the statutory tax rate to each pro forma adjustment based on the jurisdiction in which the adjustment was expected to occur. Although not reflected in the pro forma financial statements, the effective tax rate of the combined company could be significantly different depending on post-acquisition activities, such as the geographical mix of taxable income affecting state and foreign taxes, among other factors.