JETBLUE AIRWAYS CORP
Form 10-Q
October 24, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

or

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

For the transition period from to

Commission file number: 000-49728

JETBLUE AIRWAYS CORPORATION

(Exact name of registrant as specified in its charter)

| Delaware | 87-0617894 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 118-29 Queens Boulevard, Forest Hills, New York | 11375 |
| (Address of principal executive offices) | (Zip Code) |

(718) 286-7900

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of September 30, 2006, there were 175,712,310 shares of the registrant's common stock, par value $0.01, outstanding.

JetBlue Airways Corporation

FORM 10-Q

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

JETBLUE AIRWAYS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

| | September 30, 2006 (unaudited) | December 31, 2005 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 8 | $ 6 |
| Investment securities | 448 | 478 |
| Receivables, less allowance | 81 | 94 |
| Prepaid expenses and other | 83 | 57 |
| Total current assets | 620 | 635 |
| PROPERTY AND EQUIPMENT | | |
| Flight equipment | 3,000 | 2,567 |
| Predelivery deposits for flight equipment | 284 | 298 |
| | 3,284 | 2,865 |
| Less accumulated depreciation | 234 | 180 |
| | 3,050 | 2,685 |
| Other property and equipment | 421 | 352 |
| Less accumulated depreciation | 86 | 59 |
| | 335 | 293 |
| Total property and equipment | 3,385 | 2,978 |
| OTHER ASSETS | | |
| Purchased technology, net | 35 | 43 |
| Assets constructed for others | 153 | 30 |
| Other | 236 | 206 |
| Total other assets | 424 | 279 |
| TOTAL ASSETS | $ 4,429 | $ 3,892 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 127 | $ 99 |
| Air traffic liability | 362 | 243 |
| Accrued salaries, wages and benefits | 73 | 58 |
| Other accrued liabilities | 83 | 53 |
| Short-term borrowings | 52 | 65 |
| Current maturities of long-term debt and capital lease | 170 | 158 |
| Total current liabilities | 867 | 676 |
| LONG-TERM DEBT AND CAPITAL LEASE OBLIGATION | 2,338 | 2,103 |
| DEFERRED TAXES AND OTHER LIABILITIES | | |
| Deferred taxes and other | 184 | 172 |
| Construction obligation | 123 | 30 |
| Total deferred taxes and other liabilities | 307 | 202 |

| | | |
|---|---|---|
| STOCKHOLDERS' EQUITY | | |
| Common stock, 175,712,310 and 172,621,972 shares issued and outstanding in 2006 and 2005, respectively | 2 | 2 |
| Additional paid-in capital | 793 | 764 |
| Retained earnings | 127 | 145 |
| Accumulated other comprehensive loss | (5) | — |
| Total stockholders' equity | 917 | 911 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 4,429 | $ 3,892 |

See accompanying notes to condensed consolidated financial statements.



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JETBLUE AIRWAYS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in millions, except per share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| OPERATING REVENUES | | | | |
| Passenger | $ 589 | $ 432 | $ 1,631 | $ 1,200 |
| Other | 39 | 21 | 99 | 55 |
| Total operating revenues | 628 | 453 | 1,730 | 1,255 |
| OPERATING EXPENSES | | | | |
| Salaries, wages and benefits | 140 | 108 | 406 | 312 |
| Aircraft fuel | 212 | 138 | 564 | 336 |
| Landing fees and other rents | 42 | 27 | 117 | 80 |
| Depreciation and amortization | 32 | 30 | 103 | 81 |
| Aircraft rent | 27 | 18 | 74 | 54 |
| Sales and marketing | 27 | 22 | 77 | 61 |
| Maintenance materials and repairs | 22 | 19 | 66 | 47 |
| Other operating expenses | 85 | 77 | 260 | 205 |
| Total operating expenses | 587 | 439 | 1,667 | 1,176 |
| OPERATING INCOME | 41 | 14 | 63 | 79 |
| OTHER INCOME (EXPENSE) | | | | |
| Interest expense | (45) | (28) | (124) | (74) |
| Capitalized interest | 7 | 3 | 19 | 11 |
| Interest income and other | (2) | 7 | 21 | 15 |
| Total other income (expense) | (40) | (18) | (84) | (48) |
| INCOME (LOSS) BEFORE INCOME TAXES | 1 | (4) | (21) | 31 |
| Income tax expense (benefit) | 1 | (7) | (3) | 9 |
| NET INCOME (LOSS) | $ — | $ 3 | $ (18) | $ 22 |
| EARNINGS (LOSS) PER COMMON SHARE: | | | | |

| | | | | |
|---|---|---|---|---|
| Basic | $ — | $ 0.02 | $ (0.11) | $ 0.14 |
| Diluted | $ — | $ 0.02 | $ (0.11) | $ 0.13 |

See accompanying notes to condensed consolidated financial statements.



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JETBLUE AIRWAYS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in millions)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2006 | 2005 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | $ (18) | $ 22 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Deferred income taxes (benefit) | (3) | 9 |
| Depreciation | 92 | 71 |
| Amortization | 14 | 11 |
| Stock-based compensation | 16 | 1 |
| Changes in certain operating assets and liabilities | 112 | 39 |
| Other, net | (4) | (7) |
| Net cash provided by operating activities | 209 | 146 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (793) | (654) |
| Predelivery deposits for flight equipment | (85) | (136) |
| Proceeds from sale of flight equipment | 62 | — |
| Assets constructed for others | (90) | — |
| Purchase of held-to-maturity investments | (10) | (5) |
| Proceeds from maturities of held-to-maturity investments | 10 | 13 |
| Purchase of available-for-sale securities | (532) | (585) |
| Sale of available-for-sale securities | 560 | 535 |
| Other, net | (9) | (6) |
| Net cash used in investing activities | (887) | (838) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from: | | |
| Issuance of common stock | 13 | 11 |
| Issuance of long-term debt | 486 | 718 |
| Aircraft sale and leaseback transactions | 354 | 50 |
| Short-term borrowings | 41 | 40 |
| Construction obligation | 117 | — |
| Repayment of long-term debt | (273) | (75) |

| | | |
|---|---|---|
| Repayment of short-term borrowings | (54) | (38) |
| Other, net | (4) | (8) |
| Net cash provided by financing activities | 680 | 698 |
| INCREASE IN CASH AND CASH EQUIVALENTS | 2 | 6 |
| Cash and cash equivalents at beginning of period | 6 | 19 |
| Cash and cash equivalents at end of period | $ 8 | $ 25 |

See accompanying notes to condensed consolidated financial statements.



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JETBLUE AIRWAYS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

Note 1 — Summary of Significant Accounting Policies

Basis of Presentation: Our condensed consolidated financial statements include the accounts of JetBlue Airways Corporation and our subsidiaries, collectively ‘‘we’’ or the ‘‘Company’’, with all intercompany transactions and balances having been eliminated. Certain prior year amounts have been reclassified to conform to the current year financial statement presentation. These condensed consolidated financial statements and related notes should be read in conjunction with our 2005 audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2005.

These condensed consolidated financial statements are unaudited and have been prepared by us following the rules and regulations of the Securities and Exchange Commission, or the SEC, and, in our opinion, reflect all adjustments including normal recurring items which are necessary to present fairly the results for interim periods. 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 as permitted by such rules and regulations; however, we believe that the disclosures are adequate to make the information presented not misleading. Operating results for the periods presented herein are not necessarily indicative of the results that may be expected for the entire year.

Stock-Based Compensation: Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, and related interpretations, or SFAS 123(R), to account for stock-based compensation using the modified prospective transition method and therefore will not restate our prior period results. SFAS 123(R) supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, or APB No. 25, and revises guidance in SFAS 123, Accounting for Stock-Based Compensation. Among other things, SFAS 123(R) requires that compensation expense be recognized in the financial statements for share-based awards based on the grant date fair value of those awards. The modified prospective transition method applies to (a) unvested stock options under our 2002 Stock Incentive Plan, or 2002 Plan, and issuances under our Crewmember Stock Purchase Plan, or CSPP, outstanding as of December 31, 2005 based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123, and (b) any new share-based awards granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of

SFAS 123(R). Additionally, stock-based compensation expense includes an estimate for pre-vesting forfeitures and is recognized over the requisite service periods of the awards on a straight-line basis, which is generally commensurate with the vesting term. We have recorded $5 million and $16 million of stock-based compensation expense, net of estimated forfeitures, during the three and nine months ended September 30, 2006, respectively, as a result of our adoption of SFAS 123(R). See Note 2 for information on the assumptions we used to calculate the fair value of stock-based compensation.

Prior to January 1, 2006, we accounted for these stock-based compensation plans in accordance with APB No. 25 and related interpretations. Accordingly, compensation expense for a stock option grant was recognized only if the exercise price was less than the market value of our common stock on the grant date. Compensation expense was not recognized under our CSPP as the purchase price of the stock issued thereunder was not less than 85% of the lower of the fair market value of our common stock at the beginning of each offering period or at the end of each purchase period under the plan. Prior to our adoption of SFAS 123(R), as required under the disclosure provisions of SFAS 123, as amended, we provided pro forma net income (loss) and earnings (loss) per common share for each period as if we had applied the fair value method to measure stock-based compensation expense.



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SFAS 123(R) requires the benefits associated with tax deductions in excess of recognized compensation cost to be reported as a financing cash flow rather than as an operating cash flow as previously required. For the three and nine months ended September 30, 2006, we did not record any excess tax benefit generated from option exercises.

The table below summarizes the impact on our results of operations for the three and nine months ended September 30, 2006 of outstanding stock options under our 2002 Plan and issuances under our CSPP recognized under the provisions of SFAS 123(R) (in millions, except per share data):

| | Three Months Ended September 30, 2006 | Nine Months Ended September 30, 2006 |
|---|---|---|
| Stock-based compensation expense: | | |
| Issuances under crewmember stock purchase plan | $ 3 | $ 11 |
| Employee stock options | 2 | 5 |
| Income tax benefit | — | (2) |
| Decrease in net income | $ 5 | $ 14 |
| Decrease in earnings or increase in loss per common share: | | |
| Basic | $ 0.03 | $ 0.08 |
| Diluted | $ 0.03 | $ 0.08 |

Prior to our adoption of SFAS 123(R), we presented unearned compensation as a separate component of stockholders' equity. In accordance with the provisions of SFAS 123(R), on January 1, 2006, we reclassified unearned compensation as additional paid-in capital on our balance sheet.

The following table illustrates the effect on net income and earnings per common share for the three and nine months ended September 30, 2005 as if we had applied the fair value method to measure stock-based compensation, as required under the disclosure provisions of SFAS No. 123 (in millions, except per share amounts):

| | Three Months Ended September 30, 2005 | Nine Months Ended September 30, 2005 |
|---|---|---|
| Net income, as reported | $ 3 | $ 22 |
| Add: Stock-based compensation expense included in reported net income, net of tax | 1 | 1 |
| Deduct: Stock-based compensation expense determined under the SFAS 123 fair value method, net of tax | | |
| Crewmember stock purchase plan | (3) | (7) |
| Employee stock options | (7) | (13) |
| Pro forma net income (loss) | $ (6) | $ 3 |
| Earnings per common share: | | |
| Basic – as reported | $ 0.02 | $ 0.14 |
| Basic – pro forma | $ (0.04) | $ 0.02 |
| Diluted – as reported | $ 0.02 | $ 0.13 |
| Diluted – pro forma | $ (0.04) | $ 0.02 |

Note 2 — Stock-Based Compensation

We use a Black-Scholes-Merton option pricing model to estimate the fair value of share-based awards under SFAS 123(R), which is the same valuation technique we previously used for pro forma disclosures under SFAS 123. The Black-Scholes-Merton option pricing model incorporates various and highly subjective assumptions, including expected term and expected volatility. We have reviewed our



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historical pattern of option exercises and have determined that meaningful differences in option exercise activity existed among employee job categories. Therefore, for all stock options granted after January 1, 2006, we have categorized these awards into three groups of employees for valuation purposes. We have determined there were no meaningful differences in employee activity under our CSPP due to the nature of the plan.

We estimate the expected term of options granted using an implied life derived from the results of a lattice model, which incorporates our historical exercise and post-vesting employment termination patterns, which we believe are representative of future behavior. The expected term for our CSPP valuation is based on the length of each purchase period as measured at the beginning of the offering period.

We estimate the expected volatility of our common stock at the grant date using a blend of 75% historical volatility of our common stock and 25% implied volatility of two-year publicly traded options on our common stock as of the option grant date. Our decision to use a blend of historical and implied volatility was based upon the volume of

actively traded options on our common stock and our belief that historical volatility alone may not be completely representative of future stock price trends.

Our risk-free interest rate assumption is determined using the Federal Reserve nominal rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued. We have never paid any cash dividends on our common stock and we do not anticipate paying any cash dividends in the foreseeable future. Therefore, we assumed an expected dividend yield of zero.

Additionally, SFAS 123(R) requires us to estimate pre-vesting option forfeitures at the time of grant and periodically revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We record stock-based compensation expense only for those awards expected to vest using an estimated forfeiture rate based on our historical pre-vesting forfeiture data. Previously, we accounted for forfeitures as they occurred under the pro forma disclosure provisions of SFAS 123 for periods prior to 2006.

The following table shows our assumptions used to compute the stock-based compensation expense and pro forma information for stock option grants and purchase rights under our CSPP issued during the three and nine months ended September 30, 2006 and 2005.

| | Stock Options | | | |
|---|---|---|---|---|
| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| Expected term (years) | 4.1-6.8 | 2.5-5.9 | 4.1-6.8 | 2.5-5.9 |
| Volatility | 44.9% | 38.0% | 44.4% | 38.0% |
| Risk-free interest rate | 4.8% | 4.2% | 4.8% | 3.9% |

| | CSPP | |
|---|---|---|
| | Nine Months Ended September 30, | |
| | 2006 | 2005 |
| Expected term (years) | 0.5-2.0 | 0.5-2.0 |
| Volatility | 44.6% | 38.0% |
| Risk-free interest rate | 5.0% | 3.4% |

The weighted average grant date fair value of options granted during the three and nine months ended September 30, 2006 was $4.88 and $5.02 per option, respectively. The weighted average grant date fair value of options granted during the three and nine months ended September 30, 2005 was $5.30 and $5.09 per option, respectively. Unrecognized stock-based compensation expense was approximately $36 million as of September 30, 2006, relating to a total of ten million unvested stock options under our 2002 Plan and purchase rights under our CSPP. We expect to recognize this



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stock-based compensation expense over a weighted average period of approximately three years. The total fair value of options vested during the nine months ended September 30, 2006 was approximately $2 million.

Stock Incentive Plan: Prior to December 31, 2005, options issued under our 2002 Plan had vesting terms ranging from three to seven years. For issuances under the 2002 Plan beginning in 2006, vesting terms were revised so that options granted will now vest in equal installments over a period of three or five years. All options issued under the 2002 Plan expire 10 years from the date of grant.

The following is a summary of stock option activity for the three and nine months ended September 30, 2006:

| | Three Months Ended September 30, 2006 | | Nine Months Ended September 30, 2006 | |
|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding at beginning of period | 32,208,768 | $ 11.96 | 31,086,422 | $ 11.52 |
| Granted | 470,050 | 10.44 | 3,699,499 | 10.76 |
| Exercised | (238,765) | 2.33 | (2,079,913) | 1.91 |
| Forfeited | (664,625) | 13.98 | (930,580) | 14.45 |
| Outstanding at September 30, 2006 | 31,775,428 | $ 11.97 | 31,775,428 | $ 11.97 |

As of September 30, 2006, we had 6,268,546 shares available for future grants. The following is a summary of outstanding stock options at September 30, 2006:

| | Options Outstanding | | | | Options Vested | | | |
|---|---|---|---|---|---|---|---|---|
| Range of exercise prices | Shares | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Aggregate Intrinsic Value (millions) | Shares | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Aggregate Intrinsic Value (millions) |
| $0.33 to $8.00 | 6,417,840 | 4.4 | $ 1.95 | $ 47.5 | 6,379,970 | 4.4 | $ 1.93 | $ 47.3 |
| $9.69 to $29.71 | 25,357,588 | 7.6 | 14.50 | — | 19,674,953 | 7.3 | 14.95 | — |
| | 31,775,428 | 7.0 | $ 11.97 | $ 47.5 | 26,054,923 | 6.6 | $ 11.76 | $ 47.3 |

The total intrinsic value, determined as of the date of exercise, of options exercised during the three months and nine months ended September 30, 2006 was $2 million and $20 million, respectively. The total intrinsic value of options exercised during the three months and nine months ended September 30, 2005 was $4 million and $13 million, respectively. We received $1 million and $4 million in cash from option exercises for the three and nine months ended September 30, 2006, respectively.

Stock Purchase Plan: The following is a summary of CSPP share reserve activity for the nine months ended September 30, 2006:

| | Shares |
|---|---|
| Available for future purchases, January 1, 2006 | 13,706,245 |
| Shares reserved for issuance | 5,178,659 |
| Common stock purchased | (1,010,456) |
| Available for future purchases, September 30, 2006 | 17,874,448 |

We received $9 million for shares issued under our CSPP during the nine months ended September 30, 2006.

Note 3 — Long-term Debt and Capital Lease Obligation

During the nine months ended September 30, 2006, we issued $294 million in fixed rate equipment notes due through 2018, which are secured by eight Airbus A320 aircraft and one



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EMBRAER 190 aircraft and $69 million in floating rate equipment notes, which are secured by two Airbus A320 aircraft. We also entered into a capital lease agreement for one Airbus A320 aircraft and recorded $37 million in non-cash financing, which is payable through 2020. At September 30, 2006, the weighted average interest rate of all of our long-term debt and capital lease obligation was 6.3%, and scheduled maturities are $43 million for the remainder of 2006, $178 million in 2007, $213 million in 2008, $128 million in each of 2009 and 2010 and $1.82 billion thereafter. The weighted average interest rate of our outstanding short-term borrowings at September 30, 2006 and December 31, 2005 was 7.1% and 6.1%, respectively.

Through September 2006, we refinanced $123 million of debt associated with five owned Airbus A320 aircraft, which eliminated all financial covenants associated with our debt instruments. In September 2006, we sold two Airbus A320 aircraft for $62 million and repaid $32 million in associated debt, which resulted in a gain of $7 million that is reflected as a reduction to depreciation and amortization expense. We have an agreement to sell three additional Airbus A320 aircraft during the fourth quarter of 2006.

In June 2006, we filed an automatic shelf registration statement on Form S-3 with the SEC relating to our sale in one or more public offerings of debt securities, pass through certificates, common stock, preferred stock and/or other securities. Through September 30, 2006, we had not issued any securities under this registration statement.

Note 4 — Income Taxes

Our effective tax rate differs from the federal statutory rate primarily due to non-deductible expenses, and is offset somewhat by state tax credits.

Note 5 — Assets Constructed for Others

In November 2005, we executed a lease agreement with the Port Authority of New York and New Jersey, or the PANYNJ, for the construction and operation of a new terminal at New York's John F. Kennedy International Airport, or JFK, which the PANYNJ will own. We have evaluated this lease and have concluded that we bear substantially all of the construction period risk, as defined in Emerging Issues Task Force Issue 97-10, The Effect of Lessee Involvement in Asset Construction. As a result, we are considered the owner of the project for financial reporting purposes only and are required to reflect an asset and liability for in-process construction related to this project on our

balance sheet. In 2006, we have expended $124 million in project costs, which are reflected as Assets Constructed for Others in the accompanying condensed consolidated balance sheets. The PANYNJ is reimbursing us for the costs of constructing the project in accordance with the lease. These reimbursements totaled $117 million through September 30, 2006 and are reflected as Construction Obligation in other long-term liabilities in our condensed consolidated balance sheets.

Following the construction period, we currently do not anticipate that we will have satisfied the sale and leaseback accounting criteria outlined in SFAS No. 98, Accounting for Leases, due to our continuing involvement in the property; therefore the completed project and related liability will remain on our balance sheet and be accounted for as a financing.

Note 6 — Comprehensive Income (Loss)

Comprehensive income (loss) includes changes in the fair value and reclassifications into earnings of amounts previously deferred related to our crude oil and heating oil financial derivative instruments, which qualify for hedge accounting in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. Comprehensive loss was $7 million and $23 million for the three months and nine months ended September 30, 2006, respectively. Comprehensive loss was $1 million for the three months ended September 30, 2005 and comprehensive income was $18 million for the nine months ended September 30, 2005.



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Note 7 — Earnings (Loss) Per Share

The following table shows how we computed basic and diluted earnings (loss) per common share (dollars in millions; share data in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Numerator: | | | | |
| Net income (loss) | $ — | $ 3 | $ (18) | $ 22 |
| Denominator: | | | | |
| Weighted average shares outstanding for basic earnings (loss) per share | 175,569 | 158,041 | 174,538 | 157,313 |
| Effect of dilutive securities: | | | | |
| Employee stock options | — | 8,153 | — | 8,497 |
| Unvested common stock | — | 45 | — | 46 |
| Adjusted weighted average shares outstanding and assumed conversions for diluted earnings (loss) per share | 175,569 | 166,239 | 174,538 | 165,856 |

For the three and nine months ended September 30, 2006, a total of 20.8 million shares issuable upon conversion of our convertible debt were excluded from the diluted earnings (loss) per share computation since the assumed

conversion would be anti-dilutive. For the three and nine months ended September 30, 2005, 20.8 million and 16.8 million shares, respectively, were excluded.

We also excluded 31.8 million and 31.7 million shares issuable upon exercise of outstanding stock options for the three and nine months ended September 30, 2006, respectively, from the diluted earnings (loss) per share computation since either their exercise price was greater than the average market price of our common stock or they were otherwise anti-dilutive. For the three and nine months ended September 30, 2005, 13.0 million and 12.3 million shares, respectively, were excluded.

Note 8 — Employee Retirement Plan

We sponsor a retirement savings 401(k) defined contribution plan and a profit sharing retirement plan, or the Plan, covering all of our employees. Our contributions expensed for the Plan for the three months ended September 30, 2006 and 2005 were $2 million and $1 million, respectively, and contributions expensed for the Plan for the nine months ended September 30, 2006 and 2005 were $7 million and $11 million, respectively.

Note 9 — Commitments

As of September 30, 2006, our firm aircraft orders consisted of 87 Airbus A320 aircraft, 80 EMBRAER 190 aircraft and 32 spare engines scheduled for delivery through 2012. Committed expenditures for these aircraft and related flight equipment, including estimated amounts for contractual price escalations and predelivery deposits, will be approximately $315 million for the remainder of 2006, $1.00 billion in 2007, $1.05 billion in 2008, $1.19 billion in 2009, $1.24 billion in 2010 and $1.04 billion thereafter.

During the nine months ended September 30, 2006, we entered into sale and leaseback transactions for 14 EMBRAER 190 aircraft as well as leases for certain other facilities and equipment. We deferred $9 million in gains related to these sale and leaseback transactions, which are being recognized on a straight-line basis over their 18-year lease terms as a reduction to aircraft rent expense. Future minimum lease payments associated with these operating leases totaled $531 million at September 30, 2006. These amounts are in addition to the minimum lease payments described in Note 3 to our audited financial statements included in our 2005 Form 10-K.



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Note 10 — Financial Instruments and Risk Management

The fair value of our $425 million aggregate principal amount of fixed rate convertible debt, based on quoted market prices, was $377 million and $438 million at September 30, 2006 and December 31, 2005, respectively. The fair value of our other long-term debt, which approximated its carrying value, was estimated using other fixed rate debt discounted cash flow analysis based on our current incremental borrowing rates for instruments with similar terms. The carrying values of all other financial instruments approximated their fair values.

The Company is exposed to the effect of changes in the price and availability of aircraft fuel. To manage this risk, we periodically purchase crude or heating oil option and swap contracts. The following is a summary of our derivative contracts (in millions, except as otherwise indicated):

| | 2006 | 2005 |
|---|---|---|
| At September 30: | | |
| Fair value of derivative instruments | $ (10) | $ 15 |
| Longest remaining term (months) | 12 | 3 |
| Hedged volume (barrels, in thousands) | 3,125 | 895 |

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Hedge effectiveness net gains recognized in aircraft fuel expense | $ 1 | $ 14 | $ 5 | $ 31 |
| Hedge ineffectiveness net gains recognized in other income (expense) | — | 2 | 1 | 2 |
| Other fuel derivative net losses recognized in other income (expense) | (11) | — | (3) | — |
| Percentage of actual consumption hedged | 57% | 44% | 63% | 35% |

Note 11 — LiveTV

During the three and nine months ended September 30, 2006, LiveTV installed in-flight entertainment systems for other airlines on seven and 33 aircraft, respectively, bringing total installations of these systems for other airlines to 226 aircraft. Deferred profit on hardware sales and advance deposits for future hardware sales included in non-current liabilities in the accompanying condensed balance sheets was $25 million and $21 million at September 30, 2006 and December 31, 2005, respectively. Deferred profit to be recognized as income on installations completed through September 30, 2006 will be approximately $1 million for the remainder of 2006, $4 million for each of the next three years and $6 million thereafter.



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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Outlook

We will continue to focus on a combination of right-sizing capacity, optimizing revenue sources, introducing new revenue initiatives and reducing our costs. Thus far in 2006, we have added 13 new cities and have introduced connecting service between many of the cities we already served. Through the remainder of 2006 and into 2007 we expect to continue to diversify our route structure, with the focus remaining on short- and medium-haul markets. Right-sizing our capacity also includes the sale of five of our Airbus A320 aircraft in 2006, two of which were sold in September and the remaining three scheduled for sale in the fourth quarter. We plan to further reduce our rate of growth over the next three years through a combination of additional aircraft sales, leases, assignments and/or delivery deferrals.

Through our recent efforts to optimize our fare structure and utilize global distribution systems that attract more business travelers, we expect the year-over-year upward trend in our average fares to continue through the remainder of the year, despite the anticipated decrease in our average stage length. In addition, we are continuously looking to

expand our ancillary revenue opportunities, including cargo and charter services. We are also continuing to focus on several cost-reduction initiatives. The cornerstone of these initiatives is institutionalizing a commitment to low-cost spending practices in all areas of our operations; including improving fuel efficiency, increasing the use of supply chain management and reducing the number of full-time equivalent employees per aircraft.

We expect our full-year operating capacity to increase approximately 19% to 21% over 2005 with the net addition of two new Airbus A320 aircraft and two new EMBRAER 190 aircraft to our operating fleet during the remainder of 2006. The impact of the shorter range EMBRAER 190 aircraft, which is expected to represent 5% of our total estimated 2006 operating capacity, combined with the shifting of some of our Airbus A320 aircraft away from East-West flying, will result in an expected 13% decrease in 2006 average stage length. While the shorter average stage length will result in higher unit costs, we expect the increase in unit revenues to be higher than the increase in unit costs.

Fuel costs continue to remain at high levels, even though we experienced a decrease in prices beginning in late August. We expect to incur higher fuel costs compared to the fourth quarter of 2005 as a result of higher underlying fuel prices and less price protection from hedging instruments. Assuming fuel prices of $2.00 per gallon, net of effective hedges, our cost per available seat mile for 2006 is expected to increase by 13% to 15% over 2005 and our pre-tax margin is expected to be between (1)% and 1%.

Results of Operations

The U.S. domestic airline environment continues to be extremely challenging primarily due to a weak revenue environment caused by sustained price competition and high aircraft fuel prices. Our third quarter results were further impacted by the effects of overall lower demand for domestic air travel, security concerns related to the August terrorist threat in London and Tropical Storm Ernesto. Average fares for the quarter increased 8% over 2005 to $123.41 and load factor declined 6.2 points to 80.4% from the same period of 2005.

Our on-time performance, defined by the U.S. Department of Transportation as arrivals within 14 minutes of schedule, was 74.6% in the third quarter of 2006 compared to 72.2% for the same period in 2005. Our on-time performance was affected by our commitment to operate our scheduled flights whenever possible, as reflected by our 99.6% and 99.4% completion factors in the third quarters of 2006 and 2005, respectively. The reliability of the EMBRAER 190 has improved as we gain additional experience with this new aircraft type. As a result, we plan to increase average daily utilization by maintaining fewer spare aircraft in the fourth quarter.

Three Months Ended September 30, 2006 and 2005

We reported a slight net loss, which rounded to zero, for the three months ended September 30, 2006 as compared to net income of $3 million for the three months ended



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September 30, 2005. Diluted earnings per share was zero for the third quarter of 2006 and $0.02 for 2005. Our operating income for the three months ended September 30, 2006 was $41 million compared to operating income of $14 million for the same period in 2005 and our pre-tax margin was 0.2%, an increase of 1.0 point from the same period in 2005.

Our third quarter 2006 and 2005 effective tax rates differ from the statutory rate due to the non-deductibility of certain items for tax purposes and the relationship of these items to our operating results for the quarter. The impact of these non-deductible items on our full-year operating results could result in our full year 2006 effective tax rate differing significantly from that of our third quarter rate.

Operating Revenues. Operating revenues increased 39%, or $175 million, primarily due to an increase in passenger revenues. Increased passengers resulting from a 51% increase in departures, or $45 million, and a 24% increase in yield, or $112 million, drove the increase in passenger revenues of $157 million for the three months ended September 30, 2006. Although our load factor was 6.2 points lower than that of last year, the increase in our yields has compensated for this decrease and we expect that yields for the full year will also be higher than 2005.

In August 2006, we entered into agreements with two global distribution systems, which allow our flights to be available on their online travel reservation systems. In October 2006, we entered into an agreement with an additional provider. We expect bookings through these global distribution systems to result in higher average fares, which will more than offset the increased distribution costs.

Other revenue increased 83%, or $18 million, primarily due to increased change fees of $7 million resulting from more passengers and increased adherence to related company policies, increases in the marketing component of TrueBlue point sales of $4 million, which includes $2 million of revenue recognized from an expanded co-branding agreement with American Express, LiveTV third party revenues of $2 million and charter revenues of $1 million.

Operating Expenses. Operating expenses increased 34%, or $148 million, due primarily to an average of 33 additional aircraft in service in 2006 and a 24% increase in fuel cost per gallon. Operating capacity increased 19% to 7.54 billion available seat miles due to having 41% more average aircraft in service offset partly by the EMBRAER 190 in 2006, which has lower utilization than the Airbus A320. Average stage length decreased 18% due to shifting our capacity growth away from our East-West markets and operation of the shorter-range EMBRAER 190. Operating expenses per available seat mile increased 12% to 7.79 cents for the three months ended September 30, 2006. Had fuel prices remained at the 2005 levels, our cost per available seat mile, or CASM, would have increased by 6% to 7.32 cents. In detail, operating costs per available seat mile were (percent changes are based on unrounded numbers):

| | Three Months Ended September 30, | | Percent Change |
|---|---|---|---|
| | 2006 | 2005 | |
| | (in cents) | | |
| Operating expenses: | | | |
| Salaries, wages and benefits | 1.85 | 1.69 | 8.6% |
| Aircraft fuel | 2.81 | 2.18 | 29.0% |
| Landing fees and other rents | .55 | .43 | 29.2% |
| Depreciation and amortization | .43 | .47 | (8.6)% |
| Aircraft rent | .36 | .29 | 25.6% |
| Sales and marketing | .36 | .35 | 3.4% |
| Maintenance materials and repairs | .30 | .31 | (6.3)% |
| Other operating expenses | 1.13 | 1.21 | (6.4)% |
| Total operating expenses | 7.79 | 6.93 | 12.3% |

Salaries, wages and benefits increased 29%, or $32 million, due primarily to a 25% increase in average full-time equivalent employees and $4 million in non-cash stock-based compensation expense. Cost per available seat mile increased 9% as a result of increased stock-based compensation expense and lower average stage length.

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Aircraft fuel expense increased 54%, or $74 million, due to 19 million more gallons of aircraft fuel consumed resulting in $33 million of additional fuel expense and, after the impact of fuel hedging, a 24% increase in average fuel cost per gallon, or $41 million. Aircraft fuel prices remain near historically high levels, with our average fuel cost per gallon at $2.12 for the third quarter of 2006 compared to $1.70 for the third quarter of 2005. Our fuel consumption per block hour decreased 6% due to utilization of the smaller EMBRAER 190 aircraft and various fuel conservation initiatives. Had fuel consumption per block hour remained constant, our fuel expense would have been higher by $14 million. Cost per available seat mile increased 29% due to the increase in fuel prices.

Landing fees and other rents increased 54%, or $15 million, due to a 51% increase in departures. Cost per available seat mile increased 29% due primarily to departures growing at a much higher rate than available seat mile and ground rents associated with our new terminal under construction at New York's John F. Kennedy International Airport, or JFK.

Depreciation and amortization increased 9%, or $2 million, due primarily to having 15 more average owned aircraft, in addition to our new seven gate temporary facility at JFK during the three months ended September 30, 2006 compared to the same period in 2005, offset by $7 million in gains on the sale of two Airbus A320 aircraft. Cost per available seat mile decreased 9% primarily due to the gain on aircraft sales.

Aircraft rent increased 50%, or $9 million, due to leasing 20 new EMBRAER 190 aircraft. Cost per available seat mile increased 26% due to a higher percentage of our aircraft fleet being leased.

Sales and marketing expense increased 23%, or $5 million, due to $4 million in higher credit card fees resulting from increased passenger revenues and $1 million in increased advertising expenses. On a cost per available seat mile basis, sales and marketing expense increased 3% primarily due to more advertising related to opening seven new cities. We currently book the majority of our reservations through a combination of our website and our own agents (79% and 20% in 2006, respectively).

Maintenance materials and repairs increased 12%, or $3 million, due to an average of 33 additional operating aircraft in 2006 compared to the same period in 2005 and a gradual aging of our fleet. Cost per available seat mile decreased 6% due primarily to fewer heavy maintenance airframe checks. Maintenance expense is expected to increase significantly as our fleet ages.

Other operating expenses increased 12%, or $8 million, primarily due to higher variable costs associated with increased capacity and number of passengers served. Cost per available seat mile decreased 6%, due primarily to our cost saving initiatives.

Other Income (Expense). Interest expense increased 58%, or $17 million, due primarily to the debt financing of 16 additional aircraft, six flight simulators and our Orlando hangar and training facility, which resulted in $9 million in additional interest expense, and higher interest rates. Interest expense also includes the accretion in interest of $2 million related to our construction obligation for the new terminal at JFK, which was also capitalized and contributed to the $4 million increase in capitalized interest. Interest income and other decreased 131%, or $9 million through the combined effects of having a $11 million fuel hedging net loss in 2006 compared to a net gain of $2 million in 2005, which was offset by $3 million in higher interest income.

Nine Months Ended September 30, 2006 and 2005

We had a net loss of $18 million for the nine months ended September 30, 2006 compared to net income of $22 million for the nine months ended September 30, 2005. Diluted loss per share was $0.11 for the nine months ended September 30, 2006 compared to diluted earnings per share of $0.13 for the same period in 2005. Our operating income for the nine months ended September 30, 2006 was $63 million compared to $79 million for the same period in 2005 and our pre-tax margin was (1.2)%, a decrease of 3.7 points from the same period in 2005.

Operating Revenues. Operating revenues increased 38%, or $475 million, primarily due to an increase in passenger revenues. Increased passengers resulting from a 41% increase in departures, or $198 million, and a 17% increase in yield, or $233 million, drove the increase in passenger revenues of



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$431 million for the nine months ended September 30, 2006. Other revenues increased 78%, or $44 million, primarily due to increased change fees of $15 million resulting from more passengers and increased adherence to related company policies, increases in the marketing component of TrueBlue point sales of $9 million and LiveTV third party revenues of $8 million.

Operating Expenses. Operating expenses increased 42%, or $491 million, due to an average of 29 additional aircraft in service in 2006 and a 33% increase in fuel cost per gallon. Operating capacity increased 23% to 21.32 billion available seat miles. Average stage length decreased 11% due to capacity reductions in our East-West markets and operation of the shorter-range EMBRAER 190 in 2006. Operating expenses per available seat mile increased 15% to 7.82 cents for the nine months ended September 30, 2006. Had fuel prices remained at the 2005 levels, our cost per available seat mile would have increased 7% to 7.24 cents. In detail, operating costs per available seat mile were (percent changes are based on unrounded numbers):

| | Nine Months Ended September 30, | | Percent Change |
|---|---|---|---|
| | 2006 | 2005 | |
| | (in cents) | | |
| Operating expenses: | | | |
| Salaries, wages and benefits | 1.90 | 1.80 | 5.9% |
| Aircraft fuel | 2.65 | 1.94 | 36.7% |
| Landing fees and other rents | .54 | .46 | 18.6% |
| Depreciation and amortization | .49 | .46 | 4.6% |
| Aircraft rent | .35 | .31 | 11.3% |
| Sales and marketing | .36 | .36 | 1.6% |
| Maintenance materials and repairs | .31 | .27 | 14.0% |
| Other operating expenses | 1.22 | 1.18 | 3.1% |
| Total operating expenses | 7.82 | 6.78 | 15.3% |

Salaries, wages and benefits increased 30%, or $94 million, due to an increase in average full-time equivalent employees of 30% and $15 million in non-cash stock-based compensation expense offset in part by recording $6 million less profit sharing in 2006 compared to 2005. Cost per available seat mile increased 6% principally as a result of stock-based compensation expense.

Effective January 1, 2006, we adopted SFAS No. 123(R), Share-Based Payment, which requires us to record the fair value of stock options granted under our 2002 Stock Incentive Plan and purchase rights issued under our stock purchase plan. Because we elected to use the modified prospective transition method, results for prior periods have not been restated. At September 30, 2006, there was $36 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all of our equity compensation plans. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. We expect to recognize that cost over the remaining vesting period of five years. See Notes 1 and 2 to our condensed consolidated financial statements for more information regarding the adoption of this standard.

Aircraft fuel expense increased 68%, or $228 million, due to 57 million more gallons of aircraft fuel consumed resulting in $87 million of additional fuel expense and, after the impact of fuel hedging, a 33% increase in average fuel cost per gallon, or $141 million. Aircraft fuel prices remain at historically high levels, with our average fuel price per gallon at $2.02 compared to $1.52 for the nine months ended September 30, 2005. Our fuel consumption per block hour decreased 4% due to utilization of the more fuel efficient EMBRAER 190 aircraft and various fuel conservation initiatives. Had fuel consumption per block hour remained constant, our fuel expense would have been higher by $23 million. Cost per available seat mile increased 37% primarily due to the increase in average fuel cost per gallon.

Landing fees and other rents increased 46%, or $37 million, due to a 41% increase in departures over 2005 and higher average landing fee rates. Cost per available seat mile increased 19% primarily due to ground rents associated with our new terminal under construction at JFK.



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Depreciation and amortization increased 29%, or $22 million, due primarily to having 16 more average owned aircraft during the nine months ended September 30, 2006 compared to the same period in 2005, offset by $7 million in gains on the sale of two Airbus A320 aircraft. Cost per available seat mile increased 5% as a result of our new seven gate temporary facility at JFK, hangars, training center and flight simulators.

Aircraft rent increased 37%, or $20 million, due to 20 new EMBRAER 190 aircraft leases. Cost per available seat mile increased 11% due to a higher percentage of our aircraft fleet being leased.

Sales and marketing expense increased 25%, or $16 million, due to $11 million in higher credit card fees resulting from increased passenger revenues and $4 million in increased advertising expenses. On a cost per available seat mile basis, sales and marketing expense increased by 2% due to higher credit card fees. We currently book the majority of our reservations through a combination of our website and our own agents (80% and 19% in 2006, respectively).

Maintenance materials and repairs increased 40%, or $19 million, due to 29 more average operating aircraft in 2006 compared to the same period in 2005 and a gradual aging of our fleet. Cost per available seat mile increased 14% due primarily to operating under engine and airframe parts maintenance third-party contracts in 2006, compared to expensing these repairs on a time and materials basis in the first six months of 2005 when we also benefited from one-time warranty coverage on our engines.

Other operating expenses increased 27%, or $55 million, due to higher variable costs associated with increased capacity and number of passengers served. Cost per available seat mile increased 3% due to an 11% decrease in average stage length, higher personnel costs, fuel related taxes and maintenance related to our new facilities; and as a result of more LiveTV third-party installations.

Other Income (Expense). Interest expense increased 67%, or $50 million, due to the debt financing of 16 additional aircraft, six flight simulators and our Orlando hangar and training facility, and interest on our 3¾ % convertible debentures resulting in $26 million of additional interest expense, and higher rates, which resulted in $20 million in additional interest expense. Interest expense also includes the accretion of interest of $4 million related to our construction obligation for the new terminal at JFK, which was also capitalized and contributed to the $8 million increase in capitalized interest, along with higher interest rates.

Interest income and other increased 40%, or $6 million, primarily due higher interest rates in 2006, offset by fuel hedge losses of $2 million.



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The following table sets forth our operating statistics for the three and nine months ended September 30, 2006 and 2005:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2006 | 2005 | Percent Change | 2006 | 2005 | Percent Change |
| Operating Statistics: | | | | | | |
| Revenue passengers (thousands) | 4,773 | 3,783 | 26.2 | 13,633 | 10,879 | 25.3 |
| Revenue passenger miles (millions) | 6,062 | 5,484 | 10.5 | 17,522 | 15,043 | 16.5 |
| Available seat miles (ASMs) (millions) | 7,537 | 6,332 | 19.0 | 21,316 | 17,347 | 22.9 |
| Load factor | 80.4% | 86.6% | (6.2) pts. | 82.2% | 86.7% | (4.5) pt |
| Breakeven load factor[1] | 79.7% | 87.4% | (7.7) pts. | 83.3% | 84.2% | (0.9) pt |
| Aircraft utilization (hours per day) | 12.7 | 13.7 | (6.9) | 12.9 | 13.6 | (5.2) |
| Average fare | $ 123.41 | $ 114.08 | 8.2 | $ 119.63 | $ 110.28 | 8.5 |
| Yield per passenger mile (cents) | 9.72 | 7.87 | 23.5 | 9.31 | 7.97 | 16.7 |
| Passenger revenue per ASM (cents) | 7.82 | 6.82 | 14.7 | 7.65 | 6.92 | 10.6 |
| Operating revenue per ASM (cents) | 8.33 | 7.15 | 16.5 | 8.11 | 7.24 | 12.1 |
| Operating expense per ASM (cents) | 7.79 | 6.93 | 12.3 | 7.82 | 6.78 | 15.3 |
| Operating expense per ASM, excluding fuel (cents) | 4.98 | 4.75 | 4.7 | 5.17 | 4.84 | 6.8 |
| Airline operating expense per ASM (cents)[1] | 7.74 | 6.87 | 12.6 | 7.76 | 6.72 | 15.5 |
| Departures | 42,311 | 28,104 | 50.6 | 114,416 | 81,123 | 41.0 |
| Average stage length (miles) | 1,181 | 1,444 | (18.2) | 1,224 | 1,371 | (10.7) |
| Average number of operating aircraft during period | 112.0 | 79.2 | 41.5 | 103.4 | 74.8 | 38.2 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Average fuel cost per gallon | $ 2.12 | $ 1.70 | 24.3 | $ 2.02 | $ 1.52 | 33.3 |
| Fuel gallons consumed (millions) | 100 | 81 | 23.5 | 279 | 222 | 26.0 |
| Percent of sales through jetblue.com during period | 78.7% | 77.7% | 1.0 pts. | 80.1% | 77.2% | 2.9 pts |
| Full-time equivalent employees at period end[(1)] | | | | 9,223 | 7,452 | 23.8 |

(1)Excludes operating expenses and employees of LiveTV, LLC which are unrelated to our airline operations.

The following table reconciles our operating expenses reported in accordance with U.S. generally accepted accounting principles, or GAAP, with those that we would have realized had aircraft fuel prices remained at the 2005 levels. In management's view, comparative analysis of period-to-period operating results can be enhanced by excluding the significant volatility in the price of aircraft fuel, which is subject to many economic and political factors that are beyond our control, in addition to the impact of hedging activities. We believe that the presentation of this non-GAAP financial measure is useful to management and investors because it is more indicative of our ability to manage our costs and also assists in understanding the significant impact that fuel prices have had, and continue to have, on our operations. Investors should consider these non-GAAP financial measures in addition to, and not as a substitute for, our financial performance measures prepared in accordance with GAAP.



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| | Three Months Ended September 30, 2006 | | Nine Months Ended September 30, 2006 | |
|---|---|---|---|---|
| | $ | CASM | $ | CASM |
| | (dollars in millions; CASM in cents) | | | |
| Operating expenses as reported | $ 587 | 7.79 | 1,667 | 7.82 |
| Less: Reported aircraft fuel | (212) | (2.81) | (564) | (2.65) |
| Add: Aircraft fuel at 2005 cost per gallon | 170 | 2.26 | 423 | 1.99 |
| Profit sharing impact | 6 | 0.08 | 18 | 0.08 |
| Fuel neutral operating expenses | $ 551 | 7.32 | $ 1,544 | 7.24 |

Liquidity and Capital Resources

At September 30, 2006, we had cash and cash equivalents of $8 million and investment securities of $448 million compared to cash and cash equivalents of $6 million and investment securities of $478 million at December 31, 2005. Cash flows from operating activities were $209 million for the nine months ended September 30, 2006 compared to $146 million for the nine months ended September 30, 2005. The increase in operating cash flows was primarily a result of the growth of our business offset by the increase in fuel price. We rely primarily on operating cash flows to provide working capital. We presently have no lines of credit other than two short-term borrowing facilities for certain aircraft predelivery deposits. At September 30, 2006, we had $52 million in borrowings outstanding under these facilities.

Investing Activities. During the nine months ended September 30, 2006, capital expenditures related to our purchase of flight equipment included expenditures of $696 million for 24 aircraft and two spare engines, $85 million for flight equipment deposits and $30 million for spare part purchases. Capital expenditures for other property and equipment,

including ground equipment purchases and facilities improvements, were $67 million. Net cash provided by the purchase and sale of available-for-sale securities was $28 million. We also received $62 million in proceeds from the sale of two Airbus A320 aircraft.

During the nine months ended September 30, 2005, capital expenditures related to our purchase of flight equipment included expenditures of $482 million for 15 Airbus A320 aircraft and one spare engine, $136 million for flight equipment deposits and $55 million for spare part purchases. Capital expenditures for other property and equipment, including ground equipment purchases and facilities improvements, were $117 million. Net cash used in the purchase and sale of available-for-sale securities was $50 million.

Financing Activities. Financing activities for the nine months ended September 30, 2006 consisted of (1) the sale and leaseback over 18 years of 14 EMBRAER 190 aircraft for $354 million by a U.S. leasing institution, (2) our issuance of $294 million in 12-year fixed rate equipment notes to various European banks secured by eight Airbus A320 aircraft and one EMBRAER 190 aircraft, (3) our issuance of $69 million in floating rate equipment notes secured by two Airbus A320 aircraft to various European banks, (4) scheduled maturities of $118 million of debt, (5) the refinancing of $123 million in debt that was secured by five Airbus A320 aircraft, (6) reimbursement of construction costs incurred for the new terminal at JFK of $117 million, and (7) the repayment of $32 million of debt related to the sale of two Airbus A320 aircraft.

In June 2006, we filed an automatic shelf registration statement with the SEC relating to our sale, from time to time, in one or more public offerings of debt securities, pass through certificates, common stock, preferred stock and/or other securities. The net proceeds of any securities we sell under this registration statement may be used to fund working capital and capital expenditures, including the purchase of aircraft and construction of facilities on or near airports. Through September 30, 2006, we had not issued any securities under this registration statement.

Financing activities for the nine months ended September 30, 2005 consisted of (1) the financing of 13 Airbus A320 aircraft with $431 million in floating rate equipment notes purchased with proceeds from our November 2004 public offering of Series 2004-2 pass-through certificates, (2) the sale and



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leaseback over 18 years of two EMBRAER 190 aircraft for $50 million by a U.S. leasing institution, (3) the issuance of $250 million of 3¾% convertible debentures, raising net proceeds of approximately $243 million, (4) the financing of flight training devices with $36 million in secured loan proceeds from a Canadian financial institution, and (5) scheduled maturities of $75 million of debt.

Working Capital. We had a working capital deficit of $247 million at September 30, 2006, which is customary for airlines, primarily because air traffic liability is classified as a current liability. We expect to meet our obligations as they become due through available cash, investment securities and internally generated funds, supplemented as necessary by debt and/or equity financings and proceeds from sale and leaseback transactions. We expect to generate positive working capital through our operations. However, we cannot predict whether current trends and conditions will continue or what the effect on our business might be from the extremely competitive environment we are operating in or from events that are beyond our control, such as unprecedented high fuel prices, the impact of airline bankruptcies or consolidations, U.S. military actions or acts of terrorism. We still need to obtain financing for one of our 2006 aircraft deliveries and all but five of our scheduled 2007 deliveries, as our anticipated cash flow from operations will not be adequate to cover the acquisition cost of these aircraft. Assuming that we utilize the predelivery

short-term borrowing facilities available to us, we believe the working capital available to us will be sufficient to meet our cash requirements for at least the next 12 months.

Contractual Obligations

Our noncancelable contractual obligations at September 30, 2006 include the following (in millions):

| | | Payments due in | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | 2006 | 2007 | 2008 | 2009 | 2010 | Thereafter |
| Long-term debt and capital lease obligation[1] | $ 3,858 | $ 84 | $ 334 | $ 353 | $ 254 | $ 245 | $ 2,588 |
| Lease commitments | 2,153 | 56 | 213 | 205 | 182 | 164 | 1,333 |
| Flight equipment obligations | 5,825 | 315 | 1,000 | 1,050 | 1,185 | 1,235 | 1,040 |
| Short-term borrowings | 52 | 52 | — | — | — | — | — |
| Financing obligations and other[2] | 2,331 | 77 | 106 | 114 | 137 | 145 | 1,752 |
| Total | $ 14,219 | $ 584 | $ 1,653 | $ 1,722 | $ 1,758 | $ 1,789 | $ 6,713 |

(1)Includes actual interest and estimated interest for floating-rate debt based on September 30, 2006 rates.

(2)Amounts include noncancelable commitments for the purchase of goods and services.

In March 2006, we fully repaid notes on two of our Airbus A320 aircraft, which resulted in the elimination of all financial covenants associated with our debt instruments. Other than the elimination of these financial covenants, there have been no material changes in the terms of our debt instruments from the information provided in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources included in our 2005 Form 10-K. We are not subject to any financial covenants in any of our new debt obligations issued in 2006. We have $121 million of restricted cash pledged under standby letters of credit related to certain of our leases, $80 million of which will expire in 2007 and the remainder at the end of the related lease terms.

In November 2005, we executed a 30-year lease agreement with the Port Authority of New York and New Jersey, or the PANYNJ, for the construction and operation of a new terminal at JFK with occupancy projected in early 2009, which for financial reporting purposes only, is being accounted for as a financing obligation because we do not believe we will qualify for sale and leaseback accounting due to our continuing involvement in the property following the construction period. JetBlue has committed to rental payments under the lease, including ground rents for the new terminal site, which



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began on lease execution and are included as part of lease commitments in the table above. Facility rents are anticipated to commence upon the date of our beneficial occupancy of the new terminal and are included as part of financing obligations and other in the table above.

As of September 30, 2006, we operated a fleet of 94 Airbus A320 aircraft and 21 EMBRAER 190 aircraft, of which 69 were owned, 45 were leased under operating leases and one was leased under a capital lease. The average age of our fleet was 2.6 years at September 30, 2006.

As of September 30, 2006, we had on order 87 Airbus A320 aircraft and 80 EMBRAER 190 aircraft with options to acquire 50 additional Airbus A320 aircraft and 100 additional EMBRAER 190 aircraft, which are scheduled for delivery through 2016 (on a relatively even basis during each year) as follows:

| | Firm[1] | | | Option | | |
|---|---|---|---|---|---|---|
| Year | Airbus A320 | EMBRAER 190 | End of Year Cumulative Total Fleet[2] | Airbus A320 | EMBRAER 190 | End of Year Cumulative Total Fleet[3] |
| Remainder of 2006 | 5 | 5 | 122 | — | — | 122 |
| 2007 | 12 | 18 | 152 | — | — | 152 |
| 2008 | 12 | 18 | 182 | 2 | — | 184 |
| 2009 | 16 | 18 | 216 | 4 | — | 222 |
| 2010 | 18 | 18 | 252 | 4 | — | 262 |
| 2011 | 18 | 3 | 273 | 6 | 15 | 304 |
| 2012 | 6 | — | 279 | 16 | 18 | 344 |
| 2013 | — | — | | 18 | 18 | 380 |
| 2014 | — | — | | — | 18 | 398 |
| 2015 | — | — | | — | 18 | 416 |
| 2016 | — | — | | — | 13 | 429 |
| | 87 | 80 | | 50 | 100 | |

(1)The number of firm Airbus A320 and EMBRAER 190 aircraft included in the table above is likely to decrease as we plan to further reduce our growth through a combination of aircraft sales, assignments, leases, and/or delivery deferrals.

(2)Assumes the sale of three of our existing A320 aircraft currently in revenue service expected to occur in fourth quarter of 2006.

(3)Assumes all options are exercised.

Committed expenditures for our 167 firm aircraft and 32 spare engines include estimated amounts for contractual price escalations and predelivery deposits. We still need to obtain financing for one of our 2006 aircraft deliveries and all but five of our scheduled 2007 deliveries. Although we believe that debt and/or lease financing should be available for our remaining aircraft deliveries, we cannot assure you that we will be able to secure financing on terms attractive to us, if at all, which may require us to modify our aircraft acquisition plans. Capital expenditures for facility improvements, spare parts and ground purchases, excluding those related to the construction of the new terminal at JFK, are expected to be up to $50 million for the remainder of 2006.

Off-Balance Sheet Arrangements

None of our operating lease obligations are reflected on our balance sheet. Although some of our aircraft lease arrangements are variable interest entities, as defined by FASB Interpretation No. 46, Consolidation of Variable Interest Entities, or FIN 46, none of them require consolidation in our financial statements. The decision to finance these aircraft through operating leases rather than through debt was based on an analysis of the cash flows and tax consequences of each option and a

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consideration of our liquidity requirements. We are responsible for all maintenance, insurance and other costs associated with operating these aircraft; however, we have not made any residual value or other guarantees to our lessors.

We have determined that we hold a variable interest in, but are not the primary beneficiary of, certain pass-through trusts which are the purchasers of equipment notes issued by us to finance the acquisition of new aircraft and held by such pass-through trusts. These pass-through trusts maintain liquidity facilities whereby a third party agrees to make payments sufficient to pay up to 18 months of interest on the applicable certificates if a payment default occurs. The liquidity providers for the Series 2004-1 certificates are Landesbank Hessen-Thüringen Girozentrale and Morgan Stanley Capital Services Inc. The liquidity providers for the Series 2004-2 certificates are Landesbank Baden-Württemberg and Citibank, N.A.

We utilize a policy provider to provide credit support on the Class G-1 and Class G-2 certificates. The policy provider has unconditionally guaranteed the payment of interest on the certificates when due and the payment of principal on the certificates no later than 18 months after the final expected regular distribution date. The policy provider is MBIA Insurance Corporation (a subsidiary of MBIA, Inc.). Financial information for the parent company of the policy provider is available at the SEC's website at http://www.sec.gov or at the SEC's public reference room in Washington, D.C.

We have also made certain guarantees and indemnities to other unrelated parties that are not reflected on our balance sheet, which we believe will not have a significant impact on our results of operations, financial condition or cash flows. We have no other off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Other than the updated discussion of stock-based compensation below, there have been no other material changes to our critical accounting policies and estimates from the information provided in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates included in our 2005 Form 10-K.

Stock-Based Compensation. All of our employees can purchase shares of our common stock at 85% of the lower of the fair market value per share at the beginning of the offering period or on the purchase date under our stock purchase plan. Purchase dates occur on the last business day of April and October each year. We also grant options to purchase our common stock to certain of our employees. The benefits provided under these plans are stock-based payments subject to SFAS No. 123(R), which we adopted on January 1, 2006.

We estimate the fair value of options granted using the Black-Scholes-Merton option pricing model and the assumptions shown in Note 2 to our condensed consolidated financial statements. We estimate the expected term of options granted using our historical exercise and post-vesting employment termination patterns, which we believe are representative of future behavior. We estimate the expected volatility of our common stock at the grant date using a blend of 75% historical volatility of our common stock and 25% implied volatility of two-year publicly traded options on our common stock as of the option grant date. Our decision to use a blend of historical and implied volatilities was based upon the volume of actively traded options on our common stock and our belief that historical volatility alone may not be completely representative of future stock price trends. Our risk-free interest rate assumption is determined using the Federal Reserve nominal rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued. We have never paid any cash dividends on our common stock and we do not

anticipate paying any cash dividends in the foreseeable future. Therefore, we assumed an expected dividend yield of zero. We record stock-based compensation expense only for those awards expected to vest using an estimated forfeiture rate based on our historical pre-vesting forfeiture data and periodically will revise those estimates in subsequent periods if actual forfeitures differ from those estimates.

We may elect to use different assumptions under the Black-Scholes-Merton option pricing model in the future if there is a difference between the assumptions used in determining stock-based compensation cost and the actual factors which become known over time.



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The guidance in FAS 123(R) is relatively new and best practices are not well established. The application of these principles may be subject to further interpretation and refinement over time. There are significant differences among valuation models and there is a possibility that we will adopt different valuation models and assumptions in the future. This may result in a lack of comparability with other companies that use different models, methods and assumptions and in a lack of consistency in future periods.

New Accounting Standards

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes – An interpretation of FASB Statement No. 109, or FIN 48, which clarifies the accounting and disclosure requirements for uncertainty in tax positions, as defined. We are currently evaluating the provisions of FIN 48, which is effective for fiscal years beginning after December 15, 2006.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, or SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS 157 requires companies to disclose the fair value of its financial instruments according to a fair value hierarchy, as defined and may be required to provide additional disclosures based on that hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently evaluating the impact adoption may have on the consolidated financial statements of the Company.

Other Information

Co-Branded Business Card. In September 2006, we expanded our co-branding relationship with American Express to include the JetBlue Business Card, which provides small business owners with automatic enrollment in the American Express OPEN Savings® program and a 5% discount on JetBlue travel, while also earning points in TrueBlue, our flight gratitude program.

Recent Awards. In October 2006, JetBlue won the ‘‘Best Domestic Airline’’ award by Condé Nast Traveler’s 2006 Readers’ Choice Awards for the fifth consecutive year.

Forward-Looking Information. This report contains forward-looking statements relating to future events and our future performance, including, without limitation, statements regarding financial forecasts or projections, our expectations, beliefs, intentions or future strategies, that are signified by the words ‘‘expects’’, ‘‘anticipates’’, ‘‘intends’’, ‘‘believes’’, ‘‘plans’’, or similar language. Our actual results and the timing of certain events could differ materially from

those expressed in the forward-looking statements. All forward-looking statements included in this report are based on information available to us on the date of this report. It is routine for our internal projections and expectations to change as the year or each quarter in the year progresses, and therefore it should be clearly understood that the internal projections and beliefs upon which we base our expectations may change prior to the end of each quarter or the year. Although these expectations may change, we may not inform you if they do. Our policy is generally to provide our expectations only twice per quarter.

Forward-looking statements involve risks, uncertainties and assumptions and are based on information currently available to us. Actual results may differ materially from those expressed in the forward-looking statements due to many factors, including without limitation, our extremely competitive industry; increases in fuel prices, maintenance costs and interest rates; our ability to profitably implement our growth strategy, including the integration of the EMBRAER 190 aircraft into our operations; our significant fixed obligations; our ability to attract and retain qualified personnel and maintain our culture as we grow; our reliance on high daily aircraft utilization; our dependence on the New York metropolitan market; our reliance on automated systems and technology; our being subject to potential unionization; our reliance on a limited number of suppliers; changes in or additional government regulation; and changes in our industry due to other airlines' financial condition; and external geopolitical events and conditions.



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Additional information concerning these and other factors is contained in our SEC filings, including but not limited to, our 2005 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in market risks from the information provided in Item 7A. Quantitative and Qualitative Disclosures About Market Risk included in our 2005 Form 10-K, except as follows:

Aircraft Fuel. As of September 30, 2006, we had hedged approximately 63% of our expected remaining 2006 fuel requirements using crude and heating oil options and swaps. Our results of operations are affected by changes in the price and availability of aircraft fuel. Market risk is estimated as a hypothetical 10% increase in the September 30, 2006 cost per gallon of fuel. Based on our projected twelve month fuel consumption, such an increase would result in an increase to aircraft fuel expense of approximately $90 million, compared to an estimated $76 million for 2005 measured as of September 30, 2005. See Note 10 to our unaudited condensed consolidated financial statements for additional information.

Fixed Rate Debt. On September 30, 2006, our $425 million aggregate principal amount of convertible debt had an estimated fair value of $377 million, based on quoted market prices.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2006. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures are

effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the three months ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

In the ordinary course of our business, we are party to various legal proceedings and claims which we believe are incidental to the operation of our business. We believe that the ultimate outcome of these proceedings to which we are currently a party will not have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors.

The following is an update to Item 1A – Risk Factors contained in our 2005 Form 10-K. For additional risk factors that could cause actual results to differ materially from those anticipated, refer to the 2005 Form 10-K.

If we fail to successfully implement our growth strategy, our business could be harmed.

Our growth strategy involves increasing the frequency of flights to markets we currently serve, expanding the number of markets served and increasing flight connection opportunities. Increasing the number of markets we serve depends on our ability to access suitable airports located in our targeted geographic markets in a manner that is consistent with our cost strategy. We will also need to obtain additional gates at some of our existing destinations. Any condition that would deny, limit or delay our access to airports we seek to serve in the future will constrain our ability to grow. Opening new markets requires us to commit a substantial amount of resources, even before the new services commence. Expansion is also dependent upon our ability to maintain a safe and secure operation and will require additional personnel, equipment and facilities. An inability to hire and retain personnel, timely secure the required equipment and facilities in a cost-effective manner, efficiently operate our expanded facilities, or obtain the necessary regulatory approvals may adversely affect our ability to achieve our growth strategy.

Due to recent record high fuel prices, increased capacity in our markets and other industry conditions, it has become increasingly difficult to fund our growth profitability. As a result, earlier this year we modified our growth plans to sell five Airbus A320 aircraft in 2006 and deferred the delivery of 12 Airbus A320 aircraft from 2007 through 2009 to 2011 and 2012. We plan to further reduce our future growth plans from previously announced levels. We cannot assure you that we will be able to profitably expand our existing markets or establish new markets in this increased competitive environment, and if we fail to do so our business could be harmed.

Item 6. Exhibits.

Exhibits: See accompanying Exhibit Index included after the signature page of this report for a list of the exhibits filed or furnished with this report.

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SIGNATURE

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

JETBLUE AIRWAYS CORPORATION
(Registrant)

Date: October 24, 2006

By: /s/ HOLLY NELSON
Senior Vice President and Controller
(principal accounting officer)

EXHIBIT INDEX

| Exhibit Number | Exhibit |
|---|---|
| 10.1+ | Amendment No. 28 to Airbus A320 Purchase Agreement between AVSA, S.A.R.L. and JetBlue Airways Corporation, dated as of July 6, 2006. |
| 12.1 | Computation of Ratio of Earnings to Fixed Charges. |
| 31.1 | Certifications Pursuant to Rule 13a-14(a)/15d-14(a), furnished herewith. |
| 31.2 | Certifications Pursuant to Rule 13a-14(a)/15d-14(a), furnished herewith. |
| 32.1 | Certification Pursuant to Section 1350, furnished herewith. |

+Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and has been filed separately with the SEC pursuant to a Confidential Treatment Request filed with the SEC.