

JETBLUE AIRWAYS CORP  
Form 10-K  
February 14, 2007  
Table of Contents

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2006

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  
(State or other jurisdiction of  
incorporation or organization)

87-0617894  
(I.R.S. Employer Identification No.)

118-29 Queens Boulevard  
Forest Hills, New York 11375  
(Address, including zip code, of registrant's principal executive offices)

(718) 286-7900  
Registrant's telephone number, including area code:

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

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value	The NASDAQ Stock Market LLC
Participating Preferred Stock Purchase Rights	

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 30, 2006 was approximately \$1,724,900,000 (based on the last reported sale price on the NASDAQ Global Select Market on that date). The number of shares outstanding of the registrant's common stock as of January 31, 2007 was 178,176,769 shares.

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### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its 2007 Annual Meeting of Stockholders, which is to be filed subsequent to the date hereof, are incorporated by reference into Part III of this Form 10-K.

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### Table of Contents

#### PART I.

<u>Item 1.</u>	<u>Business</u>	<u>1</u>
	<u>Overview</u>	<u>1</u>
	<u>Our Strategy</u>	<u>2</u>
	<u>Our Competitive Strengths</u>	<u>3</u>
	<u>Our Industry</u>	<u>4</u>
	<u>Competition</u>	<u>5</u>
	<u>Route Network</u>	<u>6</u>
	<u>High Quality Customer Service</u>	<u>7</u>
	<u>Safety and Security</u>	<u>7</u>
	<u>Marketing and Distribution</u>	<u>8</u>

	<u>Customer Loyalty Program</u>	<u>9</u>
	<u>Pricing</u>	<u>9</u>
	<u>Revenue Management</u>	<u>9</u>
	<u>People</u>	<u>10</u>
	<u>Maintenance</u>	<u>11</u>
	<u>Aircraft Fuel</u>	<u>11</u>
	<u>LiveTV, LLC</u>	<u>11</u>
	<u>Government Regulation</u>	<u>12</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>14</u>
	<u>Risks Related to JetBlue</u>	<u>14</u>
	<u>Risks Associated with the Airline Industry</u>	<u>18</u>
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	<u>18</u>
<u>Item 2.</u>	<u>Properties</u>	<u>19</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>	<u>20</u>
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	<u>21</u>
	<u>Executive Officers of the Registrant</u>	<u>21</u>
PART II.		
<u>Item 5.</u>	<u>Market for Registrant’s Common Equity; Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>23</u>
<u>Item 6.</u>	<u>Selected Financial Data</u>	<u>25</u>
<u>Item 7.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
	<u>Overview</u>	<u>28</u>
	<u>Outlook for 2007</u>	<u>30</u>
	<u>Results of Operations</u>	<u>30</u>
	<u>Liquidity and Capital Resources</u>	<u>36</u>
	<u>Contractual Obligations</u>	<u>38</u>
	<u>Off-Balance Sheet Arrangements</u>	<u>39</u>
	<u>Critical Accounting Policies and Estimates</u>	<u>39</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>42</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>43</u>
	<u>Consolidated Balance Sheets</u>	<u>43</u>
	<u>Consolidated Statements of Operations</u>	<u>45</u>
	<u>Consolidated Statements of Cash Flows</u>	<u>46</u>
	<u>Consolidated Statements of Stockholders’ Equity</u>	<u>47</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>48</u>
	<u>Reports of Independent Registered Public Accounting Firm</u>	<u>65</u>

i

---

<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>67</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>	<u>67</u>
<u>Item 9B.</u>	<u>Other Information</u>	<u>67</u>
PART III.		
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	<u>68</u>

<u>Item 11.</u>	<u>Executive Compensation</u>	<u>68</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>68</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>69</u>
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	<u>69</u>
PART IV.		
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	<u>69</u>

## FORWARD-LOOKING INFORMATION

Statements in this Form 10-K (or otherwise made by JetBlue or on JetBlue's behalf) contain various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which represent our management's beliefs and assumptions concerning future events. When used in this document and in documents incorporated by reference, forward-looking statements include, without limitation, statements regarding financial forecasts or projections, and our expectations, beliefs, intentions or future strategies that are signified by the words "expects", "anticipates", "intends", "believes", "plans" or similar language. These forward-looking statements are subject to risks, uncertainties and assumptions that could cause our actual results and the timing of certain events to differ materially from those expressed in the forward-looking statements. 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, beliefs and assumptions upon which we base our expectations may change prior to the end of each quarter or year. Although these expectations may change, we may not inform you if they do.

You should understand that many important factors, in addition to those discussed or incorporated by reference in this report, could cause our results to differ materially from those expressed in the forward-looking statements. Potential factors that could affect our results include, in addition to others not described in this report, those described in Item 1A of this report under "Risks Related to JetBlue" and "Risks Associated with the Airline Industry." In light of these risks and uncertainties, the forward-looking events discussed in this report might not occur.

ii

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## Table of Contents

### ITEM 1. BUSINESS

#### Overview

JetBlue Airways Corporation, or JetBlue, is a low-cost passenger airline that provides high quality customer service at low fares primarily on point-to-point routes. As of February 14, 2007, we operated a total of 502 daily flights. We focus on serving markets that have had high average fares. We currently serve 50 destinations in 21 states, Puerto Rico, Mexico and the Caribbean, with 98% of our flights having as an origin or destination one of our four focus cities: New York, Los Angeles (Long Beach/Burbank), Boston or Washington, D.C. For the year ended December 31, 2006, JetBlue was the 8th largest passenger carrier in the United States based on revenue passenger miles.

We had a net loss of \$1 million and \$20 million for the years ended December 31, 2006 and 2005, respectively. We generated operating margins of 5.4% in 2006 and 2.8% in 2005, which were the third and second highest operating margins, respectfully, among all traditional network and low-cost major U.S. airlines. Although this was our second

consecutive year of losses, which resulted primarily from continued record high fuel prices, during 2006 we introduced initiatives to reduce fuel consumption through more fuel efficient operating practices, renewed our focus on low-cost carrier spending habits and implemented more efficient staffing in all aspects of our business. We also modified our revenue management practices to price our inventory to achieve a higher yield while relinquishing some of our load factor (the percentage of aircraft seating capacity actually utilized). As a result, our load factor decreased 3.6 points to 81.6% during 2006, which was still higher than all but two of the major U.S. airlines, whose weighted average load factor was 79.2%. In 2006, we attained the highest completion factor and fewest incidents of delayed, mishandled or lost bags among all major U.S. airlines. We are committed to operating our scheduled flights whenever possible; however, this commitment to customer service, along with operating at three of the most congested and delay-prone domestic airports, contributed to a 72.9% on-time performance in 2006, which was lower than all but one major U.S. airline.

As a result of our low costs, we are able to offer low fares designed to stimulate demand in our markets, which we have demonstrated through our ability to increase passenger traffic in the markets we serve. The efficient scheduling and operation of our aircraft and low distribution costs contribute to our low operating costs. We have a flexible workforce that strives to offer high quality customer service, while at the same time operating efficiently. We offer our customers a high quality product, including new aircraft, roomy leather seats, reliable operating performance, 36 channels of free LiveTV (a satellite TV service with programming provided by DIRECTV®), movie selections from FOX InFlight at every seat and 100 channels of free XM Satellite Radio. We are scheduled to add 80 new Airbus A320 aircraft and 78 EMBRAER 190 aircraft to our current operating fleet of 98 Airbus A320 and 23 EMBRAER 190 aircraft by the end of 2014.

JetBlue was incorporated in Delaware in August 1998 and commenced service in February 2000. Our principal executive offices are located at 118-29 Queens Boulevard, Forest Hills, New York 11375 and our telephone number is (718) 286-7900. Our filings with the Securities and Exchange Commission, or the SEC, are accessible free of charge at our website <http://investor.jetblue.com>. Information contained on our website is not incorporated by reference in this report. As used in this Form 10-K, the terms “JetBlue”, “we”, “us”, “our” and similar terms refer to JetBlue Airways Corporation and its subsidiaries, unless the context indicates otherwise.

1

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## Table of Contents

### Our Strategy

Our goal is to establish JetBlue as a high quality, low-fare, low-cost passenger airline. We intend to maintain a growth plan that takes advantage of our competitive strengths. The key elements of our strategy are:

**Stimulate Demand with Low Fares.** Our low fares are designed to stimulate demand, particularly from fare-conscious leisure and business travelers who might otherwise have used alternative forms of transportation or would not have traveled at all. We are using our new 100-seat EMBRAER 190 aircraft, for which we were the launch customer in 2005, to stimulate demand in many mid-sized markets and to further increase the frequency of flights on our existing routes.

In considering new markets, we focus on those that have high average fares. In this process, we analyze publicly available data from the U.S. Department of Transportation, or DOT, showing the historical number of passengers, capacity and average fares over time. Using this data, combined with our knowledge and experience about how comparable markets have reacted in the past when prices were increased or decreased, we forecast the level of demand

in a particular market expected to result from the introduction of our service and lower prices, as well as the anticipated response of existing airlines in that market.

**Commitment to Low Costs.** Our low costs have allowed us to offer fares low enough to stimulate new demand and to attract customers away from higher-priced competitors. We expect to continue to aggressively control costs and maintain our focus on low-cost carrier spending habits.

**Offer High Quality Service and Product.** We believe that a key element of our current and long-term success is that, in addition to offering low fares, we offer customers a better alternative for air travel. Onboard JetBlue, customers enjoy a distinctive flying experience, which we refer to as the “JetBlue Experience”, that includes friendly, customer service-oriented employees, new aircraft, roomy leather seats with 36 channels of free LiveTV, 100 channels of free XM satellite radio and movie channel offerings from FOX InFlight. Our onboard offerings include generous brand name snacks, premium beverages and specially designed products for our overnight flights. Based on customer feedback, we believe that the JetBlue Experience is an important reason why our customers choose us over other airlines.

We strive to communicate openly and honestly with customers about delays, especially when weather or mechanical problems disrupt service. We do not cancel flights, unless absolutely necessary, in order to fulfill our commitment of getting customers to their destination even if it means getting them there late. In 2006, we completed 99.6% of our scheduled flights, the highest percentage of any major airline. Unlike most other airlines, we have a policy of not overbooking our flights.

All of our aircraft are equipped with leather seats in a comfortable single class layout. The Airbus A320 aircraft has a wider cabin than both the Boeing 737 and 757, two comparable types of aircraft operated by many of our competitors. The EMBRAER 190 aircraft has 100 seats that are wider than those currently in use in our Airbus A320 aircraft, arranged in a two-by-two seating configuration with either 32 or 33 inches between rows of seats. We continually search for ways to improve our product. In an effort to increase customer comfort, in January 2007, we began to remove one row of seats from our Airbus A320 aircraft, which will reduce the total number of seats to 150 from 156. The reconfigured cabin will have at least 36 inches between rows 1-11 and at least 34 inches between rows 12-25, providing the most legroom in coach of all U.S. airlines. We are also upgrading the LiveTV entertainment on our Airbus A320 aircraft to include larger 6.8-inch television screens and adding 100 channels of XM Satellite Radio.

**Grow Our Presence in New York City and Expand Our Network.** Since our inception, we have focused our primary operations in New York City, the nation’s largest travel market. We are the largest airline at New York’s John F. Kennedy International Airport, or JFK, as measured by passengers and, by the end of 2006, our domestic operations at JFK were almost equal to those of all the other airlines combined. We believe that by building our operations in the nation’s largest travel market, more market opportunities will become available to us than if we focused our operations elsewhere. Although an increase in connecting traffic is a byproduct of our growing flight

2

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## Table of Contents

concentration at JFK and at our other focus cities, 87% of our passengers and 91% of our passenger revenue in 2006 resulted from point-to-point travel. We also intend to grow our network by increasing the number of flights in select markets we currently serve by adding new routes between cities already in our system and extending service to new markets.

Operate new and efficient aircraft. We maintain a fleet consisting of only two types of aircraft, the Airbus A320 and the EMBRAER 190, which, with an average age of only 2.6 years, is the newest fleet of any major U.S. airline. We believe that operating a newer fleet, which employs the latest technologies, results in our aircraft being more efficient and dependable than older aircraft. We have the best dispatch reliability of all U.S. major Airbus A320 aircraft operators.

#### Our Competitive Strengths

Low Operating Costs. For the year ended December 31, 2006, our cost per available seat mile, excluding fuel, of 5.19 cents was lower than all of the other major U.S. airlines. Some of the factors that contribute to our low unit costs are:

- High aircraft utilization. By scheduling and operating our aircraft efficiently, we are able to spread our fixed costs over a greater number of flights and available seat miles. For the year ended December 31, 2006, our aircraft operated an average 12.7 hours per day, which we believe was higher than that of any other major U.S. airline. We operate a number of “red eye” flights, which enable a portion of our fleet to remain productive through the night. Our efficient airport operations allow us to schedule our aircraft with minimum ground time.
- Low distribution costs. Our distribution costs are low for several reasons. We utilize only electronic tickets, which saves paper, postage, employee time and back-office processing expense. For the year ended December 31, 2006, 79% of our sales were booked on [www.jetblue.com](http://www.jetblue.com), our least expensive form of distribution, while 19% were booked through our agents.
- Productive workforce. Our employee efficiency results from fewer unproductive labor work rules, effective use of part-time employees and the use of labor-saving technology. For example, most of our reservation sales agents work from their homes, providing better scheduling flexibility and allowing employees to customize their desired schedules. By the end of February 2007, with the removal of one row of seats from our Airbus A320 aircraft, we will be able to reduce the number of onboard flight attendants from four to three. We are continually looking for ways to make our workforce more efficient through the use of technology without compromising our commitment to customer service.
- Only two aircraft types. Operating a limited number of aircraft types leads to increased cost savings as maintenance issues are simplified, spare parts inventory requirements are reduced, scheduling is more simplified and training costs are lower. We also believe our newer aircraft are more fuel efficient than older aircraft operated by many other airlines.

Strong Brand. We believe that we have created a widely recognized brand that distinguishes us from our competitors and identifies us as a safe, reliable, low-fare airline focused on customer service and providing a high quality travel experience. Similarly, we believe that customer awareness of our brand has contributed to our ability to leverage our brand preference in marketing efforts and positions us to be a preferred marketing partner with companies across many different industries. In 2006, we were voted the best domestic airline in the Conde Nast Traveler’s Readers’ Choice Awards for the fifth consecutive year and were rated the “World’s Best Domestic Airline” by readers of Travel + Leisure Magazine. In 2006, we also earned the “Passenger Service Award” from Air Transport World.

Strength of Our People. We believe that we have developed a strong and vibrant service-oriented company culture built around our five key values: safety, caring, integrity, fun and passion. Our success depends on our ability to continue hiring and retaining people who are friendly, helpful, team-oriented and committed to delivering the JetBlue Experience to our customers. Our culture is reinforced through an extensive orientation program for our new employees that emphasizes the importance of

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## Table of Contents

customer service, productivity and cost control. We also provide extensive training for our employees, including a leadership program and other training that emphasizes the importance of safety.

Our leadership team has extensive and diverse airline industry experience. During 2006, we made changes to our leadership team that we believe have positioned us to increase revenues while reducing costs and enhancing the JetBlue Experience for our customers. Our leadership team strives to communicate on a regular basis with all JetBlue employees, keeping them informed about JetBlue events and soliciting feedback for ways to improve our service, teamwork and employees' work environment.

Well-Positioned in New York Metropolitan Area, the Nation's Largest Travel Market. Our primary base of operations is JFK, which provides us access to a market of over 21 million potential customers in the New York metropolitan area and approximately seven million potential customers within 15 miles of the airport. JFK is the largest airport in the New York metropolitan area, based on passengers served, and is the only airport in the New York metropolitan area with the real estate to provide for significant expansion potential. JFK's infrastructure includes four runways, large facilities and a direct light-rail connection to the New York City subway system and Long Island Rail Road. Because of JFK's capacity to support future growth, in November 2005, we entered into a 30-year lease for the construction and operation of a new terminal at JFK, which, when completed in late 2008, will enable us to significantly increase the number of flights we offer.

In addition, our location at JFK has allowed us to provide reliable service to our customers. Historically, JFK generally only experienced congestion from the late afternoon to the early evening when international traffic and the domestic traffic that feeds it were at their peak. Accordingly, we schedule approximately two-thirds of our JFK flights outside of this traditionally congested period. However, as a result of an increase in total departures and various construction activities, JFK has become increasingly busy throughout the entire day. We are working actively with the Port Authority of New York and New Jersey, or PANYNJ, and the Federal Aviation Administration, or FAA, on solutions to ease this congestion.

We also serve Newark's Liberty International Airport and New York's LaGuardia Airport and, in December 2006, we expanded our New York operations with the addition of service from Newburgh's Stewart International Airport. In March 2007, we plan to commence service from Westchester County Airport in White Plains, New York.

## Our Industry

The passenger airline industry in the United States has traditionally been dominated by the major U.S. airlines, the largest of which are American Airlines, Continental Airlines, Delta Air Lines, Northwest Airlines, Southwest Airlines, United Air Lines and US Airways. The DOT defines the major U.S. airlines as those airlines with annual revenues of over \$1 billion. Currently, there are 16 major passenger airlines. These airlines offer scheduled flights to most large cities within the United States and abroad and also serve numerous smaller cities. The seven largest major U.S. airlines, other than Southwest, have adopted the traditional "hub and spoke" network route system, or traditional network. This type of system concentrates most of an airline's operations at a limited number of hub cities, serving the majority of other destinations in the system by providing one-stop or connecting service through the hub.

Regional airlines, such as SkyWest Airlines and Mesa Airlines, typically operate smaller aircraft on lower-volume routes than do traditional network airlines. In contrast to low-cost airlines, regional airlines generally do not try to establish an independent route system. Rather, regional airlines typically enter into relationships with one or more traditional network airlines under which the regional airline agrees to use its smaller aircraft to carry passengers



booked and ticketed by the traditional network airline between their hubs and a smaller outlying city. There are currently five regional major U.S. airlines.

4

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## Table of Contents

Low-cost airlines largely developed in the wake of deregulation of the U.S. airline industry in 1978, which permitted competition on many routes for the first time. Southwest Airlines pioneered the low-cost model, which enabled them to offer fares that were significantly lower than those charged by traditional network airlines. Including JetBlue, there are currently four low-cost major U.S. airlines.

Following the September 11, 2001 terrorist attacks, low-cost airlines were able to fill a significant capacity void left by traditional network airline capacity reductions. Lower fares and increased low-cost airline capacity created an unprofitable operating environment for the traditional network airlines. Since 2001, the majority of traditional network airlines have undergone significant financial restructuring, including bankruptcies, mergers and consolidations. These restructurings have allowed them to reduce labor costs, restructure debt, terminate pension plans and generally reduce their cost structure, increase workforce flexibility and provide innovative offerings similar to those of the low-cost airlines, while still maintaining their expansive route networks, alliances and frequent flier programs. Although our costs remain lower than those of our largest competitors, the gap between low-cost airlines and traditional network airlines has diminished.

## Competition

The airline industry is highly competitive. Airline profits are sensitive to even slight changes in fuel costs, average fare levels and passenger demand. Passenger demand and fare levels historically have been influenced by, among other things, the general state of the economy, international events, industry capacity and pricing actions taken by other airlines. The principal competitive factors in the airline industry are fare pricing, customer service, routes served, flight schedules, types of aircraft, safety record and reputation, code-sharing relationships, capacity, in-flight entertainment systems and frequent flyer programs. In addition, the migration of fare-conscious travelers away from traditional network airlines and their deteriorating market share has forced some of these airlines to undertake broad cost-cutting measures and to reevaluate their basic business models.

Our competitors and potential competitors include traditional network airlines, low-cost airlines, regional airlines and new entrant airlines. Seven of the other major U.S. airlines are generally larger, have greater financial resources and serve more routes than we do. Our competitors also use some of the same advanced technologies that we do, such as ticketless travel, laptop computers in the cockpit and website bookings. Since deregulation of the airline industry in 1978, there has been consolidation in the domestic airline industry. In 2005 and 2006, the U.S. airline industry experienced further consolidation and there were reports of other potential consolidation in the fourth quarter of 2006. Further industry consolidations or restructurings could result in our competitors having a more rationalized route structure and lower operating costs, which could enable them to compete more aggressively.

Price competition occurs through price discounting, fare matching, increased capacity, targeted sale promotions and frequent flyer travel initiatives, all of which are usually matched by other airlines in order to maintain their share of passenger traffic. A relatively small change in pricing or in passenger traffic could have a disproportionate effect on an airline's operating and financial results. Our ability to meet this price competition depends on, among other things, our ability to operate at costs equal to or lower than our competitors. All other factors being equal, we believe customers often prefer JetBlue and the JetBlue Experience.

During 2006, most traditional network airlines increased capacity on their international routes and decreased domestic capacity. During the same period, some of our competitors, notably Delta Air Lines and its discontinued low-fare operation, Song, shifted some of their domestic capacity out of markets where they had competed directly with us. These developments, in conjunction with our shift of capacity from transcontinental flights to short- and medium-haul routes, resulted in our achieving higher yields on our flights. Although we experienced improved yields in 2006, we anticipate the extremely competitive nature of the industry to continue.

Airlines also frequently participate in marketing alliances, which generally provide for code-sharing, frequent flyer program reciprocity, coordinated flight schedules that provide for convenient connections and other joint marketing activities. These alliances also permit an airline to

5

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## Table of Contents

market flights operated by other alliance airlines as its own. The benefits of broad networks offered to customers could attract more customers to these networks. We do not currently participate in any marketing alliances, interline or offer joint fares with other airlines, nor do we have any commuter feeder relationships, other than our recent announcement to partner with Cape Air, an airline that serves destinations out of Boston and San Juan, Puerto Rico. We plan to pursue other alliances with international airlines to leverage our presence at JFK.

### Route Network

Our operations primarily consist of transporting passengers on our aircraft, with domestic U.S. operations, including Puerto Rico, accounting for 97.1% of our capacity in 2006. The distribution of our available seat miles, or capacity, by region is:

Capacity Distribution	Year Ended December 31,		
	2006	2005	2004
East Coast—Western U.S.	51.7%	55.1%	55.1%
Northeast—Florida	31.8	33.5	32.7
Medium—haul	1.3	1.1	1.2
Short—haul	6.6	3.9	4.5
Caribbean, including Puerto Rico	8.6	6.4	6.5
Total	100.0%	100.0%	100.0%

We currently provide service to 50 destinations in 21 states, Puerto Rico, Mexico and the Caribbean. We began service to 17 new destinations since December 31, 2005, as set forth in the following table:

Destination	Service Commenced
Austin, Texas	January 2006
Richmond, Virginia	March 2006
Hamilton, Bermuda	May 2006
Portland, Maine	May 2006

Jacksonville, Florida	June 2006
Pittsburgh, Pennsylvania	June 2006
Charlotte, North Carolina	July 2006
Raleigh-Durham, North Carolina	July 2006
Nashville, Tennessee	August 2006
Houston, Texas	September 2006
Oranjestad, Aruba	September 2006
Sarasota Bradenton, Florida	September 2006
Tucson, Arizona	September 2006
Columbus, Ohio	October 2006
Cancun, Mexico	November 2006
Newburgh, New York	December 2006
Chicago, Illinois	January 2007

In March 2007, we plan to commence service from Westchester County Airport in White Plains, New York to Florida and, in May 2007, we plan to commence service from JFK to San Francisco International Airport. We are JFK's largest airline based on total passengers carried and we are the leading carrier in number of flights flown per day between the New York metropolitan area and Florida.

6

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## Table of Contents

### High Quality Customer Service

We devote a great deal of time and attention to hiring employees who will treat customers in a friendly and respectful manner. The importance of providing caring customer service is emphasized in training. In addition, our policies and procedures are designed to be customer-friendly and include:

- all seats are pre-assigned;
- all travel is ticketless, using electronic tickets;
- our policy is not to overbook flights;
- fares are based on one-way travel;
- no Saturday night stay is required; and
- change fees are only \$30 per passenger (\$25 if done through our website) compared with the \$50 to \$100 usually charged by other major U.S. airlines.

Our customer commitment is also demonstrated by our reliable operational performance. For the year ended December 31, 2006, based on our data compared to the other major U.S. airlines:

- because we have a policy of not overbooking our flights, we had virtually no incidences of passenger denied boarding and, therefore, led the industry in this DOT metric;
- our completion factor of 99.6% was the highest as compared to other major U.S. airlines, which had an average completion factor of 98.3%, according to the DOT. We are committed to operating flights whenever possible and not canceling; however, our commitment to customer service, along with operating at three of the most congested and delay-prone airports in the U.S. (Newark, LaGuardia and JFK), has affected our on-time performance, which at 72.9% was lower than all but one major U.S. airline;

- our incidence of delayed, mishandled or lost bags of 4.09 per 1,000 customers was the lowest as compared to other major U.S. airlines, which had an average of 6.86 delayed, mishandled or lost bags per 1,000 customers, according to the DOT; and
- our rate of customer complaints to the DOT per 100,000 passengers of 0.40 was the third lowest as compared to the other major U.S. airlines, which had an average of 0.88 complaints, according to the DOT.

#### Safety and Security

We are dedicated to ensuring the safety and security of our customers and employees. We have taken numerous measures, voluntarily and as required by regulatory authorities, to increase both the safety and security of our operations.

Our ongoing focus on safety relies on hiring the best people, training them to applicable standards, and providing them with the most advanced tools and equipment. Safety in the workplace targets five areas of our operation: flight operations, maintenance, inflight, dispatch and customer service. We continue to expand our participation in voluntary programs in partnership with the FAA, including Aviation Safety Action Programs and Flight Operational Quality Assurance data gathering. These voluntary programs are the result of FAA-sponsored initiatives to raise safety performance through awareness of safety trends in the workplace. We also equip our entire Airbus A320 fleet with the Emergency Vision Assurance system, or EVAS, which provides our flight crews with the ability to see critical flight instruments should the cockpit fill with smoke. Further, we emphasize both occupational and environmental safety across our network. Since introducing enhanced physical abilities testing for those work groups at greatest risk of ergonomic injuries, we have seen significant year-over-year decreases in lost-work injuries. Additionally, JetBlue has joined with other airlines and the Occupational Safety and Health Administration in voluntary partnerships that are focused on reducing ergonomics injuries and improving airport ramp safety.

7

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#### Table of Contents

The Aviation and Transportation Security Act, or the Aviation Security Act, was enacted in November 2001 and federalized substantially all aspects of civil aviation security and required, among other things, the creation of the Transportation Security Administration, or the TSA, to oversee all aviation security, and the implementation of certain security measures by airlines and airports, such as the requirement that all passenger bags be screened for explosives. Funding for airline and airport security under the law is primarily provided by a \$2.50 per enplanement ticket tax, with authority granted to the TSA to impose additional fees on the air carriers if necessary to cover additional federal aviation security costs. Since 2002, the TSA has imposed an Aviation Security Infrastructure Fee on all airlines to assist in the cost of providing aviation security. The fees assessed are based on airlines' actual 2000 security costs. The TSA has announced that this fee structure will remain in place until further notice.

We have voluntarily implemented additional security measures, including the installation of four cabin security cameras on each aircraft with a live video feed to the cockpit crew and a 24-hour security operations desk, which assesses and manages threats, records and monitors suspicious activity within the JetBlue operating system, and serves as a prime communication channel between us and our law enforcement and aviation security business partners. In addition to these voluntary measures, we have complied with all new TSA security requirements.

#### Marketing and Distribution

Our marketing objectives are to attract new customers to our brand and give our customers reasons to come back to us again and again. Our key value proposition and marketing message is that low fares and quality air travel need not be mutually exclusive. Our low fares, high quality product and outstanding customer service create the overall JetBlue Experience that we believe is unique in the domestic airline industry.

We market our services through advertising and promotions in newspapers, magazines, television, radio, through the internet, outdoor billboards, and through targeted public relations and promotions. We engage in large multi-market programs, as well as many local events and sponsorships and mobile marketing programs. Our targeted public and community relations efforts promote brand awareness and complement our strong word-of-mouth channel.

Our primary distribution strategy is to have our customers purchase their flights direct to ensure they get as pleasant an experience booking their travel as they do in the air. The percentage of our total sales booked on our website averaged 79% for the year ended December 31, 2006. Our second largest distribution channel is our agents who accounted for 19% of our sales. The remaining 2% of our sales in 2006 were booked through global distribution systems, or GDSs. Our re-entry into GDSs in 2006 has supported our growth in the corporate market and bookings through these channels have resulted in higher average fares, offsetting the increased distribution costs. As a result, we now participate in all four major GDSs. In addition, we began participating on a test basis in Travelocity, a major online travel agency. We continue to evaluate opportunities to broaden our distribution channels based on cost and yield. Our distribution mix creates significant cost savings and enables us to continue to build loyalty through increased customer interaction.

We sell vacation packages through JetBlue Getaways, a one-stop, value-priced vacation website designed to meet customers' demand for self-directed packaged travel planning. Getaways packages offer competitive fares for air travel on JetBlue, a selection of JetBlue-recommended hotels and resorts, car rentals and attractions. In January 2007, we introduced JetBlue Cruises, which offers customers the ability to purchase cruises through our website, with or without the purchase of a JetBlue flight.

In November 2006, we began offering the JetBlue Gift Card, which has no expiration date and may be used toward the purchase of air-only travel to any of the destinations JetBlue serves. JetBlue Gift Cards are available for purchase in denominations from \$10 to \$1,000 online at [www.jetblue.com](http://www.jetblue.com) and in select retail locations nationwide in \$50 or \$100 denominations.

8

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## Table of Contents

### Customer Loyalty Program

JetBlue's customer loyalty program, TrueBlue, is an online program designed to reward and recognize our most loyal customers. The program offers incentives to increase travel on JetBlue and provides our customers with additional services. TrueBlue members earn points for each one-way trip flown based on the length of the trip. Points are accumulated in an account for each member and expire after twelve months. A free round trip award to any JetBlue destination is earned after attaining 100 points within a consecutive twelve-month period. Awards are automatically generated and are valid for one year. We now have over four million TrueBlue members, which we expect will continue to grow.

The number of estimated travel awards outstanding at December 31, 2006 was approximately 188,000 awards and includes an estimate for partially earned awards. The number of travel awards used on JetBlue during 2006 was

approximately 153,000, which represented 2% of our total revenue passenger miles. Due to the structure of the program and low level of redemptions as a percentage of total travel, the displacement of revenue passengers by passengers using TrueBlue awards has been minimal to date.

We have an agreement with American Express, under which it issues co-branded credit cards allowing cardmembers to earn points in TrueBlue. In September 2006, we expanded our offerings with American Express to include the JetBlue Business Card, which provides small business owners with a 5% discount on JetBlue travel and automatic enrollment in the American Express OPEN Savings<sup>®</sup> program. In addition, small business owners with any American Express OPEN small business card will receive a 3% discount on JetBlue travel. Every time cardmembers holding either a JetBlue Card or a JetBlue Business Card from American Express earn the equivalent of one TrueBlue point or purchase travel on JetBlue before their points expire, all the points in their TrueBlue account are extended for another 12 months. We also have an agreement with American Express allowing its cardholders to convert their Membership Reward points into JetBlue TrueBlue points. We intend to pursue other marketing partnerships in the future.

### Pricing

Our low cost structure allows us to offer simplified, everyday low fares to our customers. We offer a range of fares, including 14-day, 7-day and 3-day advance purchase fares and day-of-flight, or walk-up, fares in each of our markets. Our fares increase as the number of days prior to travel decreases, with our highest walk-up fare generally at approximately three times the amount of our lowest 14-day advance purchase fare. In addition to our regular fare structure, we frequently offer sale fares with shorter advance purchase requirements in most of the markets we serve and match the sale fares offered by other airlines. We are committed to offering our customers lower fares, especially with respect to our walk-up fares, than those of our competitors. We believe the difference between our lowest and highest fare for a given flight is significantly smaller than our competitors.

All of our fares are one-way and never require an overnight stay. Our fares must be purchased at the time of reservation and are non-refundable, but any booking can be changed or cancelled prior to departure for a nominal fee. Based on published fares at our time of entry, our advance purchase fares have been 50% to 60% below those existing in markets prior to our entry, while our walk-up fares have generally been up to 60% to 70% below other major U.S. airlines' unrestricted "full coach" fares.

### Revenue Management

Revenue management is a process that helps enable us to maximize passenger revenues by flight, by market and across our entire network. Our revenue management team strives to increase our overall average fare through optimizing our fare mix while continuing to provide our customers with low fares and, in certain markets, by using our network to maximize connecting opportunities.

We determine the number of seats offered at each fare through a continual process of forecasting, optimization and competitive analysis. Generally, in established markets we use past booking history

9

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### Table of Contents

and seasonal trends to forecast anticipated demand. We combine these historical forecasts with current bookings, upcoming events, competitive pressures and other pertinent factors to establish a mix of fares that is designed to maximize revenue. This ability to adjust seat allocations based on fluctuating demand patterns allows us to balance

loads and capture more revenue from existing capacity. During 2006, we modified our revenue management practices to price our inventory to achieve a higher yield while relinquishing some of our load factor. While we continue to provide our customers with competitive fares, particularly in light of recent reductions in domestic capacity across the industry, our yield for the year ended December 31, 2006 increased 19% compared to 2005, primarily as a result of our efforts at fare optimization.

## People

We believe that one of the factors differentiating us from our competitors is the high quality service provided to our customers by our employees, whom we refer to as crewmembers. Experience indicates that our customers return not only because we offer low fares, but also because we provide them with a more enjoyable air travel experience. Hiring the best people and treating them as we expect our customers to be treated are essential to achieving this goal.

We believe that we carefully select, train and maintain a flexible and diverse workforce of caring, passionate, fun and friendly people who want to provide our customers with the best flying experience possible. Our hiring process is rigorous and includes behavioral interviews and peer assessments. We assist our employees by offering them flexible work hours, initial paid training, a uniform allowance and benefits. We also provide extensive training for our pilots, flight attendants, technicians, airport agents, dispatchers and reservation agents which emphasizes the importance of safety. We provide leadership training for all supervisors and managers, with the active participation of our senior management, to help ensure that we have the right leaders in place across our organization to maintain our unique company culture and commitment to our customers. Effective and frequent communication throughout the organization is fostered through periodic employee satisfaction surveys, a quarterly magazine, active leadership participation in new hire orientations and monthly open meetings, called “pocket sessions”, which are videotaped and posted on our intranet.

An important part of our business plan is to reward our employees by providing them with the ability to align their personal successes with those of JetBlue. Our compensation packages include competitive salaries, wages and benefits, profit sharing and an employee stock purchase plan. In addition, a significant number of our employees, including FAA-licensed employees, participate in our stock option plan. We review our compensation packages on a regular basis in an effort to ensure that we remain competitive and are able to hire and retain the best people possible.

We enter into individual employment agreements with each of our FAA-licensed employees, which consist of pilots, dispatchers and technicians. Each employment agreement is for a term of five years and automatically renews for an additional five-year term unless either the employee or we elect not to renew it by giving notice before the end of the relevant term. Pursuant to these agreements, these employees can only be terminated for cause. In the event of a downturn in our business that would require a reduction in work hours, we are obligated to pay these employees a guaranteed level of income and to continue their benefits. In addition, in the event we are sold to or consolidate with another company, we must request that the successor company place these employees on a preferential hiring list. If such employees are not hired by the successor company, in some cases they will be entitled to a severance payment of up to one year's salary.

None of our employees are currently unionized. In May 2006, the International Association of Machinists and Aerospace Workers, filed a petition with the National Mediation Board, or NMB, seeking to represent our ground operations, provisioning and related-position employees. In July 2006, the NMB dismissed the petition because the minimum number of employees in the targeted group did not support holding an election. We believe that a direct relationship with JetBlue leadership, and not third-party representation, is in the best interests of our employees.

Our full-time equivalent employees at December 31, 2006 consisted of 1,545 pilots, 2,082 flight attendants, 2,546 airport operations personnel, 426 technicians, whom others refer to as mechanics,

Table of Contents

736 reservation agents, and 2,180 management and other personnel. At December 31, 2006, we employed 8,393 full-time and 2,231 part-time employees.

**Maintenance**

We have an FAA-approved maintenance program, which is administered by our technical operations department. Consistent with our core value of safety, we hire qualified maintenance personnel, provide them with comprehensive training and maintain our aircraft and associated maintenance records in accordance with FAA regulations.

The maintenance performed on our aircraft can be divided into three general categories: line maintenance, maintenance checks, and component overhaul and repair. Line maintenance consists of routine daily and weekly scheduled maintenance checks on our aircraft, including pre-flight, daily, weekly and overnight checks, and any diagnostics and routine repairs. Although the majority of our line maintenance is performed by our own technicians, we also subcontract our line maintenance to third-party organizations.

Maintenance checks consist of more complex inspections and servicing of the aircraft that cannot be accomplished during an overnight visit. These checks occur at least every 15 months and can range in duration from a few days to approximately a month, depending on the magnitude of the work prescribed in the particular check. We use Air Canada and TACA, in El Salvador, to perform our maintenance checks under the oversight of our personnel. In addition, in December 2006, we entered into an agreement with Empire Aero Center in Rome, New York to provide heavy maintenance support for up to 12 Airbus A320 aircraft in 2007.

Component overhaul and repair involves sending engines and certain parts, such as landing gear and avionics, to third party FAA-approved maintenance repair stations for repair or overhaul. We have a ten-year service agreement with MTU Maintenance Hannover GmbH for the scheduled and unscheduled repair of our Airbus A320 aircraft engines. We also have separate long-term arrangements with other service providers for various airframe component repairs.

**Aircraft Fuel**

In 2006, fuel costs continued to be our largest operating expense due to high average fuel prices. Fuel prices and availability are subject to wide price fluctuations based on geopolitical factors and supply and demand that we can neither control nor accurately predict. We use a third party fuel management service to procure our fuel. Our fuel consumption and costs were:

	Year Ended December 31,		
	2006	2005	2004
Gallons consumed (millions)	377	303	241
Total cost (millions)	\$ 752	\$ 488	\$ 255
Average price per gallon	\$ 1.99	\$ 1.61	\$ 1.06
Percent of operating expenses	33.6%	29.5%	22.1%

Total cost and average price per gallon each include fuel hedging gains (losses) and exclude taxes and fueling services.



We have a fuel hedging program under which we enter into crude and heating oil option contracts and swap agreements to ensure we achieve a minimum targeted hedge position of approximately 30% of our expected consumption for the next twelve months at any given time to partially protect against significant increases in fuel prices. At December 31, 2006, we had hedged approximately 38% of our projected 2007 fuel requirements.

#### LiveTV, LLC

LiveTV, LLC, a wholly owned subsidiary of JetBlue, provides in-flight entertainment systems for commercial aircraft. LiveTV's assets include certain tangible equipment installed on its customers' aircraft, spare parts in inventory, an air-to-ground spectrum license granted by the Federal

11

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#### Table of Contents

Communications Commission, or FCC, and rights to all the patents and intellectual property used for live in-seat satellite television, XM Satellite Radio service, wireless aircraft data link service, cabin surveillance systems and Internet services. LiveTV's major competitors include Rockwell Collins, Thales Avionics Aircell and Panasonic Avionics. Except for Panasonic, none of these competitors is currently providing in-seat live television.

LiveTV has contracts with six other domestic and international airlines for the sale of certain hardware and installation, programming and maintenance of its live in-seat satellite television as well as XM Satellite Radio Service and certain other products and services. LiveTV continues to pursue additional customers.

#### Government Regulation

**General.** We are subject to regulation by the DOT, the FAA, the TSA and other governmental agencies. The DOT primarily regulates economic issues affecting air service, such as certification and fitness, insurance, consumer protection and competitive practices. The DOT has the authority to investigate and institute proceedings to enforce its economic regulations and may assess civil penalties, revoke operating authority and seek criminal sanctions. In February 2000, the DOT granted us a certificate of public convenience and necessity authorizing us to engage in air transportation within the United States, its territories and possessions.

The FAA primarily regulates flight operations and, in particular, matters affecting air safety, such as airworthiness requirements for aircraft, the licensing of pilots, mechanics and dispatchers, and the certification of flight attendants. The civil aviation security functions of the FAA were transferred to the TSA under the Aviation Security Act. The FAA requires each airline to obtain an operating certificate authorizing the airline to operate at specific airports using specified equipment. We have and maintain FAA certificates of airworthiness for all of our aircraft and have the necessary FAA authority to fly to all of the cities that we currently serve.

Like all U.S. certified carriers, we cannot fly to new destinations without the prior authorization of the FAA. The FAA has the authority to modify, suspend temporarily or revoke permanently our authority to provide air transportation or that of our licensed personnel, after providing notice and a hearing, for failure to comply with FAA regulations. The FAA can assess civil penalties for such failures or institute proceedings for the imposition and collection of monetary fines for the violation of certain FAA regulations. The FAA can revoke our authority to provide air transportation on an emergency basis, without providing notice and a hearing, where significant safety issues are involved. The FAA monitors our compliance with maintenance, flight operations and safety regulations, maintains onsite representatives and performs frequent spot inspections of our aircraft, employees and records.

The FAA also has the authority to issue maintenance directives and other mandatory orders relating to, among other things, inspection of aircraft and engines, fire retardant and smoke detection devices, increased security precautions, collision and windshear avoidance systems, noise abatement and the mandatory removal and replacement of aircraft parts that have failed or may fail in the future.

We believe that we are operating in material compliance with DOT, FAA and TSA regulations and hold all necessary operating and airworthiness authorizations and certificates. Should any of these authorizations or certificates be modified, suspended or revoked, our business could be materially adversely affected.

The TSA operates under the Department of Homeland Security and is responsible for all civil aviation security, including passenger and baggage screening, cargo security measures, airport security, assessment and distribution of intelligence, and security research and development. The TSA also has law enforcement powers and the authority to issue regulations, including in cases of national emergency, without a notice or comment period.

**Environmental.** We are subject to various federal, state and local laws relating to the protection of the environment, including the discharge or disposal of materials and chemicals and the regulation of aircraft noise, which are administered by numerous state and federal agencies.

12

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## Table of Contents

The Airport Noise and Capacity Act of 1990 recognizes the right of airport operators with special noise problems to implement local noise abatement procedures as long as those procedures do not interfere unreasonably with the interstate and foreign commerce of the national air transportation system. Certain airports, including San Diego and Long Beach, have established restrictions to limit noise, which can include limits on the number of hourly or daily operations and the time of such operations. These limitations serve to protect the local noise-sensitive communities surrounding the airport. Our scheduled flights at Long Beach and San Diego are in compliance with the noise curfew limits, but when we experience irregular operations, on occasion we violate these curfews. We have agreed to a payment structure with the Long Beach City Prosecutor for any violations, which we pay quarterly to the Long Beach Public Library Foundation and are based on the number of infractions in the preceding quarter. This local ordinance has not had, and we believe that it will not have, a negative effect on our operations.

**Airport Access.** At the end of 2006, the High Density Rule, established by the FAA in 1968 to limit the number of scheduled flights at JFK from 3:00 p.m. to 7:59 p.m., expired. As a result, like nearly every other airport, the number of flights at JFK is no longer regulated and airlines are able to schedule flights without restrictions. While the High Density Rule was also lifted at LaGuardia, where we maintain a small presence, it was immediately replaced by the FAA with a temporary rule continuing the strict limitations on operations during the hours of 6:00 a.m. to 9:59 p.m. This rule is scheduled to expire in late 2007 upon the enactment of a permanent rule restructuring the rights of carriers to operate at LaGuardia. Under the current rule, our operations remain unaffected. Should new rules be implemented in whole or in part, our ability to maintain a full schedule at LaGuardia would likely be impacted.

Long Beach Municipal Airport is a slot-controlled airport as a result of a 1995 court settlement. A slot is an authorization to take off or land at a designated airport within a specified time period. Under the settlement, there are a total of 41 daily non-commuter departure slots and a single slot is required for every commercial departure. There are no plans to eliminate slot restrictions at the Long Beach Municipal Airport. In April 2003, the FAA approved a settlement agreement among the City of Long Beach, American Airlines, Alaska Airlines and JetBlue with respect to the allocation of the slots, which also provides for a priority allocation procedure should supplemental slots above the

41 current slots become available. We have 28 slots available for use and currently operate 25 weekday roundtrip flights from Long Beach Municipal Airport to nine domestic cities.

**Foreign Operations.** International air transportation is subject to extensive government regulation. The availability of international routes to U.S. carriers is regulated by treaties and related agreements between the United States and foreign governments. We currently operate international service to The Bahamas, the Dominican Republic, Bermuda, Aruba and Mexico. To the extent we seek to provide air transportation to additional international markets in the future, we will be required to obtain necessary authority from the DOT and the applicable foreign government.

**Foreign Ownership.** Under federal law and the DOT regulations, we must be controlled by United States citizens. In this regard, our president and at least two-thirds of our board of directors must be United States citizens and not more than 25% of our outstanding common stock may be voted by non-U.S. citizens. We are currently in compliance with these ownership provisions.

**Other Regulations.** All air carriers are also subject to certain provisions of the Communications Act of 1934 because of their extensive use of radio and other communication facilities, and are required to obtain an aeronautical radio license from the FCC. To the extent we are subject to FCC requirements, we will take all necessary steps to comply with those requirements. Our labor relations are covered under Title II of the Railway Labor Act of 1926 and are subject to the jurisdiction of the National Mediation Board. In addition, during periods of fuel scarcity, access to aircraft fuel may be subject to federal allocation regulations. We are also subject to state and local laws and regulations at locations where we operate and the regulations of various local authorities that operate the airports we serve.

**Civil Reserve Air Fleet.** We are a participant in the Civil Reserve Air Fleet Program which permits the United States Department of Defense to utilize our aircraft during national emergencies when the need for military airlift exceeds the capability of military aircraft. By participating in this program, we are eligible to bid on and be awarded peacetime airlift contracts with the military.

13

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## Table of Contents

### ITEM 1A. RISK FACTORS

#### Risks Related to JetBlue

We operate in an extremely competitive industry.

The domestic airline industry is characterized by low profit margins, high fixed costs and significant price competition. We currently compete with other airlines on all of our routes. Many of our competitors are larger and have greater financial resources and name recognition than we do. Following our entry into new markets or expansion of existing markets, some of our competitors have chosen to add service or engage in extensive price competition. Unanticipated shortfalls in expected revenues as a result of price competition or in the number of passengers carried would negatively impact our financial results and harm our business. As we continue to grow, the extremely competitive nature of the airline industry could prevent us from attaining the level of passenger traffic or maintaining the level of fares required to maintain profitable operations in new and existing markets and could impede our growth strategy, which would harm our business. Additionally, if a traditional network airline were to fully develop a low cost structure, our business could be materially adversely affected.

Our business is highly dependent on the price and availability of fuel.

Fuel costs, which have been at unprecedented high levels, comprise a substantial portion of our total operating expenses and is our single largest operating expense. Our average fuel price increased 24% in 2006, which has adversely affected our operating results. Historically, fuel costs have been subject to wide price fluctuations based on geopolitical factors and supply and demand. The availability of fuel is dependent on oil refining capacity. When even a small amount of the domestic or global oil refining capacity becomes unavailable, such as during the 2005 hurricane season, supply shortages can result for extended periods of time. Availability is also affected by demand for home heating oil, gasoline and other petroleum products. Because of the effect of these factors on the price and availability of fuel, the cost and future availability of fuel cannot be predicted with any degree of certainty.

Our aircraft fuel purchase agreements do not protect us against price increases or guarantee the availability of fuel. Additionally, some of our competitors may have more leverage than we do in obtaining fuel. To partially protect against significant increases in fuel prices, we utilize a fuel hedging program under which we enter into crude or heating oil option contracts or swap agreements; however, our fuel hedging program does not completely protect us against price increases and is limited in volume and duration.

Due to the competitive nature of the domestic airline industry, we have not been able to adequately increase our fares when fuel prices have risen and we may not be able to do so in the future. Continued high fuel costs, further price increases or fuel supply shortages may result in a curtailment of scheduled services and would have a material adverse effect on our financial condition and results of operations.

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

We have grown, and expect to continue to grow our business by increasing the frequency of flights to markets we currently serve, expanding the number of markets we serve 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 may 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 currently serve or may seek to serve in the future would 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, which could harm our business.

Due primarily to higher fuel prices, the competitive pricing environment and other cost increases, it had become increasingly difficult to fund our growth profitably. As a result, in 2006 we modified our

14

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## Table of Contents

growth plans by reducing the number of Airbus A320 aircraft and EMBRAER 190 aircraft to be delivered through 2010 and selling five Airbus A320 aircraft. We may further reduce our future growth plans from previously announced levels. In addition, our competitors often add service, reduce their fares and/or offer special promotions following our entry into a new market. We cannot assure you that we will be able to profitably expand our existing markets or establish new markets, and if we fail to do so, our business could be harmed.

We have a significant amount of fixed obligations and we will incur significantly more fixed obligations, which could harm our ability to meet our growth strategy and impair our ability to service our fixed obligations.

As of December 31, 2006, our debt of \$2.84 billion accounted for 75% of our total capitalization. In addition to long-term debt, we have a significant amount of other fixed obligations under leases related to our aircraft, airport terminal space, other airport facilities and office space. As of December 31, 2006, future minimum payments under noncancelable leases and other financing obligations were approximately \$1.07 billion for 2007 through 2011 and an aggregate of \$2.13 billion for the years thereafter. We have commenced construction of a new terminal at JFK under a 30-year lease with the PANYNJ. The minimum payments under this lease will be accounted for as a financing obligation and have been included above.

As of December 31, 2006, we had commitments of approximately \$5.71 billion to purchase 160 additional aircraft and other flight equipment over the next eight years, including estimated amounts for contractual price escalations. We will incur additional debt and other fixed obligations as we take delivery of new aircraft and other equipment and continue to expand into new markets. We typically finance our aircraft through either secured debt or lease financing. Although we believe that debt and/or lease financing should be available for our aircraft deliveries, we cannot assure you that we will be able to secure such financing on terms acceptable to us or at all.

Our high level of debt and other fixed obligations could:

- impact our ability to obtain additional financing to support capital expansion plans and for working capital and other purposes on acceptable terms or at all;
- divert substantial cash flow from our operations and expansion plans in order to service our fixed obligations;
- require us to incur significantly more interest or rent expense than we currently do, since most of our debt has floating interest rates and five of our aircraft leases have variable-rate rent; and
- place us at a possible competitive disadvantage compared to less leveraged competitors and competitors that have better access to capital resources.

Our ability to make scheduled payments on our debt and other fixed obligations will depend on our future operating performance and cash flow, which in turn will depend on prevailing economic and political conditions and financial, competitive, regulatory, business and other factors, many of which are beyond our control. We have no lines of credit, other than two short-term borrowing facilities for certain aircraft predelivery deposits. We are dependent upon our operating cash flows to fund our operations and to make scheduled payments on debt and other fixed obligations. We cannot assure you that we will be able to generate sufficient cash flow from our operations to pay our debt and other fixed obligations as they become due, and if we fail to do so our business could be harmed. If we are unable to make payments on our debt and other fixed obligations, we could be forced to renegotiate those obligations or obtain additional equity or other forms of financing. To the extent we finance our activities with additional debt, we may become subject to financial and other covenants that may restrict our ability to pursue our growth strategy. We cannot assure you that our renegotiation efforts would be successful or timely or that we could refinance our obligations on acceptable terms, if at all.

We may be subject to unionization, work stoppages, slowdowns or increased labor costs.

Our business is labor intensive, with labor costs representing approximately one-fourth of our operating expenses. Unlike most airlines, we have a non-union workforce, although in 2006 we were subject to an unsuccessful unionization attempt by a group of our airport-based employees. The

## Table of Contents

unionization of any our employees could result in demands that may increase our operating expenses and adversely affect our financial condition and results of operations. Any of our different employee groups could unionize at any time and require separate collective bargaining agreements. If any group of our employees were to unionize and we were unable to reach agreement on the terms of their collective bargaining agreement or we were to experience widespread employee dissatisfaction, we could be subject to work slowdowns or stoppages. In addition, we may be subject to disruptions by organized labor groups protesting our non-union status. Any of these events would be disruptive to our operations and could harm our business.

We rely on maintaining a high daily aircraft utilization rate to keep our costs low, which makes us especially vulnerable to delays.

We maintain a high daily aircraft utilization rate, which is the amount of time that our aircraft spend in the air carrying passengers. High daily aircraft utilization allows us to generate more revenue from our aircraft and is achieved in part by reducing turnaround times at airports so we can fly more hours on average in a day. Aircraft utilization is reduced by delays and cancellations from various factors, many of which are beyond our control, including adverse weather conditions, security requirements, air traffic congestion and unscheduled maintenance. Our operations are concentrated in the Northeast and Florida areas, which are particularly vulnerable to weather and congestion delays. Reduced aircraft utilization may limit our ability to achieve and maintain profitability as well as lead to customer dissatisfaction.

Our business is highly dependent on the New York metropolitan market and increases in competition or a reduction in demand for air travel in this market would harm our business.

We maintain a large presence in the New York metropolitan market, with approximately 71% of our daily flights having JFK, LaGuardia, Newark or Stewart as either their destination or origin. Our business could be harmed by an increase in the amount of direct competition we face at JFK, LaGuardia, Newark or Stewart or by an increase in congestion or delays. Our business would be harmed by any circumstances causing a reduction in demand for air transportation in the New York metropolitan area, such as adverse changes in local economic conditions, negative public perception of New York City, additional terrorist attacks or significant price increases linked to increases in airport access costs and fees imposed on passengers. As a result, we remain highly dependent on the New York metropolitan market.

We rely heavily on automated systems to operate our business and any failure of these systems could harm our business.

We are increasingly dependent on automated systems and technology to operate our business, enhance customer service and achieve low operating costs. These systems include our computerized airline reservation system, flight operations system, telecommunications systems, website, maintenance systems, check-in kiosks and in-flight entertainment systems. Since we only issue electronic tickets, our website and reservation system must be able to accommodate a high volume of traffic and deliver important flight information. During 2007, we plan to replace or upgrade several of these critical systems. Replacing or upgrading systems involves implementation and other risks and our business may be harmed if we fail to replace or upgrade systems successfully.

The performance and reliability of our automated systems is critical to our ability to operate our business and compete effectively. These systems cannot be completely protected against events that are beyond our control, including natural disasters, computer viruses or telecommunications failures. Substantial or sustained system failures could impact customer service and result in our customers purchasing tickets from another airline. We have implemented

security measures and change control procedures and have disaster recovery plans; however, we cannot assure you that these measures are adequate to prevent disruptions, which, if they were to occur, could result in the loss of important data, increase our expenses, decrease our revenues and generally harm our business.

Our maintenance costs will increase as our fleet ages.

Because the average age of our aircraft is 2.6 years, our aircraft require less maintenance now than they will in the future. We have incurred lower maintenance expenses because most of the parts on our aircraft are under multi-year warranties. Our maintenance costs will increase significantly, both on an absolute basis and as a percentage of our operating expenses, as our fleet ages and these warranties expire.

16

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### Table of Contents

If we fail to successfully take delivery of and operate reliably the new EMBRAER 190 aircraft we agreed to purchase, our business could be harmed.

Acquisition of a new type of aircraft, such as the EMBRAER 190, which we initially placed into revenue service in November 2005, involves a variety of risks relating to its ability to be successfully placed into service, including delays in meeting the agreed upon delivery schedule and the inability of the aircraft and all of its components to comply with agreed upon specifications and performance standards. We have experienced and may continue to experience lower reliability than we expect in our operation of this aircraft. If we fail to successfully take delivery of and operate reliably the new EMBRAER 190 aircraft, our business could be harmed.

If we are unable to attract and retain qualified personnel or fail to maintain our company culture, our business could be harmed.

We compete against the other major U.S. airlines for pilots, mechanics and other skilled labor and some of them offer wage and benefit packages that exceed ours. We may be required to increase wages and/or benefits in order to attract and retain qualified personnel or risk considerable employee turnover. If we are unable to hire, train and retain qualified employees, our business could be harmed and we may be unable to complete our growth plans.

In addition, as we hire more people and grow, we believe it may be increasingly challenging to continue to hire people who will maintain our company culture. One of our competitive strengths is our service-oriented company culture that emphasizes friendly, helpful, team-oriented and customer-focused employees. Our company culture is important to providing high quality customer service and having a productive workforce that helps keep our costs low. As we grow, we may be unable to identify, hire or retain enough people who meet the above criteria, including those in management or other key positions. Our company culture could otherwise be adversely affected by our growing operations and geographic diversity. If we fail to maintain the strength of our company culture, our competitive ability and our business may be harmed.

Our results of operations will fluctuate.

We expect our quarterly operating results to fluctuate due to price changes in aircraft fuel as well as the timing and amount of maintenance and advertising expenditures. Seasonality also impacts our operations, with high vacation and leisure demand occurring on the Florida routes between October and April and on our western routes during the summer. Actions of our competitors may also contribute to fluctuations in our results. We are more susceptible to

adverse weather conditions, including snow storms and hurricanes, as a result of our operations being concentrated on the East Coast, than are some of our competitors. As we enter new markets, we could be subject to additional seasonal variations along with any competitive responses to our entry by other airlines. As a result of these factors, quarter-to-quarter comparisons of our operating results may not be a good indicator of our future performance. In addition, it is possible that in any future period our operating results could be below the expectations of investors and any published reports or analyses regarding JetBlue. In that event, the price of our common stock could decline, perhaps substantially.

We are subject to the risks of having a limited number of suppliers for our aircraft, engines and a key component of our in-flight entertainment system.

Our current dependence on two types of aircraft and engines for all of our flights makes us vulnerable to any problems associated with the Airbus A320 aircraft or the IAE International Aero Engines V2527-A5 engine and the EMBRAER 190 aircraft or the General Electric Engines CF-34-10 engine, including design defects, mechanical problems, contractual performance by the manufacturers, or adverse perception by the public that would result in customer avoidance or in actions by the FAA suspending or otherwise restricting our ability to operate our aircraft, any of which could harm our business. Carriers that operate a more diversified fleet are better positioned than we are to manage such events.

One of the unique features of our fleet is that every seat in each of our aircraft is equipped with free LiveTV. An integral component of the system is the antenna, which is supplied to us by EMS Technologies, Inc. If EMS were to stop supplying us with its antennas for any reason, we would have to incur significant costs to procure an alternate supplier.

17

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## Table of Contents

Our reputation and financial results could be harmed in the event of an accident or incident involving our aircraft.

An accident or incident involving one of our aircraft, or an aircraft containing LiveTV equipment, could involve significant potential claims of injured passengers or others in addition to repair or replacement of a damaged aircraft and its consequential temporary or permanent loss from service. We are required by the DOT to carry liability insurance. Although we believe we currently maintain liability insurance in amounts and of the type generally consistent with industry practice, the amount of such coverage may not be adequate and we may be forced to bear substantial losses from an accident. Substantial claims resulting from an accident in excess of our related insurance coverage would harm our business and financial results. Moreover, any aircraft accident or incident, even if fully insured, could cause a public perception that we are less safe or reliable than other airlines, which would harm our business.

### Risks Associated with the Airline Industry

The airline industry has incurred significant losses resulting in airline restructurings, bankruptcies and consolidations, which could result in changes in our industry.

Through 2005, the domestic airline industry, as a whole, reported five consecutive years of losses, which caused fundamental and permanent changes in the industry. These losses have resulted in airlines renegotiating or attempting to renegotiate labor contracts, reconfiguring flight schedules, furloughing or terminating employees, as well as



consideration of other efficiency and cost-cutting measures. Despite these actions, several airlines have reorganized under Chapter 11 of the U.S. Bankruptcy Code to permit them to reduce labor rates, restructure debt, terminate pension plans and generally reduce their cost structure. Additionally, in 2005 and 2006, the U.S. airline industry has experienced consolidation and, in the fourth quarter of 2006, there were reports of potential further consolidation in the industry. It is foreseeable that further airline reorganizations, bankruptcies or consolidations may occur, the effects of which we are unable to predict. We cannot assure you that the occurrence of these events, or potential changes resulting from these events, will not harm our business or the industry.

A future act of terrorism, the threat of such acts or escalation of U.S. military involvement overseas could adversely affect our industry.

Even if not directed at the airline industry, a future act of terrorism, the threat of such acts or escalation of U.S. military involvement overseas could have an adverse effect on the airline industry. In the event of a terrorist attack, the industry would likely experience significantly reduced demand. We cannot assure you that these actions, or consequences resulting from these actions, will not harm our business or the industry.

Changes in government regulations imposing additional requirements and restrictions on our operations or the U.S. government ceasing to provide adequate war risk insurance could increase our operating costs and result in service delays and disruptions.

Airlines are subject to extensive regulatory and legal requirements, both domestically and internationally, that involve significant compliance costs. In the last several years, Congress has passed laws, and the DOT, FAA and the TSA have issued regulations relating to the operation of airlines that have required significant expenditures. We expect to continue to incur expenses in connection with complying with government regulations. Additional laws, regulations, taxes and airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce the demand for air travel. If adopted, these measures could have the effect of raising ticket prices, reducing revenue and increasing costs. We cannot assure you that these and other laws or regulations enacted in the future will not harm our business.

The U.S. government currently provides insurance coverage for certain claims resulting from acts of terrorism, war or similar events. Should this coverage no longer be offered, the coverage that would be available to us through commercial aviation insurers may have substantially less desirable terms, result in higher costs and not be adequate to protect our risk, any of which could harm our business.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

18

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#### Table of Contents

#### ITEM 2. PROPERTIES

##### Aircraft

As of December 31, 2006, we operated a fleet consisting of 96 Airbus A320 aircraft powered by two IAE International Aero Engines V2527-A5 engines and 23 EMBRAER 190 aircraft powered by two General Electric

Engines CF-34-10 engines, as follows:

Aircraft	Seating Capacity	Capital Operating			Total	Average Age in Years
		Owned	Leased	Leased		
Airbus A320	156 (1)	69	2	25	96	3.1
EMBRAER 190	100	1	—	22	23	0.7
Totals		70	2	47	119	2.6

(1) We have completed the modification to remove one row of seats from our Airbus A320 aircraft, reducing seating capacity to 150 seats.

Our aircraft leases have an average remaining initial lease term of approximately 14 years at December 31, 2006. The earliest of these terms ends in 2009 and the latest ends in 2024. We have the option to extend most of these leases for additional periods or to purchase the aircraft at the end of the lease term. All 70 of our owned aircraft and our 15 owned spare engines are subject to secured debt financing.

As of December 31, 2006, we had on order 160 aircraft, which are scheduled for delivery through 2014 on a relatively even basis during each year, with options to acquire 148 aircraft as follows:

Year	Firm		End of Year Cumulative Total Fleet(1)	Option		End of Year Cumulative Total Fleet(2)
	Airbus A320	EMBRAER 190		Airbus A320	EMBRAER 190	
2007	12	10	141	—	—	141
2008	12	10	163	—	5	168
2009	16	10	189	4	8	206
2010	18	10	217	4	9	247
2011	18	10	245	6	11	292
2012	6	11	262	16	12	337
2013	—	11	273	18	14	380
2014	—	6	279	—	21	407
2015	—	—	279	—	20	427
	82	78		48	100	

(1) The total fleet included in the table above may decrease as we consider additional aircraft sales, assignments and/or leases.

(2) Assumes all options are exercised.

#### Facilities

We occupy all of our facilities at each of the airports we serve under leases or other occupancy agreements. Our agreements for terminal passenger service facilities, which include ticket counter and gate space, operations support area and baggage service offices, generally have terms ranging from less than one year to five years, and contain provisions for periodic adjustments of rental rates. We also are responsible for maintenance, insurance, utilities and

certain other facility-related expenses and services. We have entered into use arrangements at each of the airports we serve that provide for the non-exclusive use of runways, taxiways and other airport facilities. Landing fees under these agreements are typically based on the number of landings and the weight of the aircraft.

19

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## Table of Contents

Our principal base of operations is Terminal 6 at JFK, which is operated under a lease with the PANYNJ that expired in November 2006 and we are in the process of negotiating an extension of this lease into late 2008. In November 2005, we executed a lease agreement with the PANYNJ for the construction and operation of a new Terminal 5 at JFK. Under the lease, JetBlue is responsible for the construction, on behalf of the PANYNJ, of a 635,000 square foot 26-gate terminal connected to the historic Saarinen Building, a parking garage, roadways and an AirTrain Connector, all of which are expected to be completed in late 2008. The lease term ends on the earlier of the thirtieth anniversary of the date of beneficial occupancy of the new terminal or November 21, 2039. We have a one-time early termination option five years prior to the end of the scheduled lease term. We will continue to operate out of our existing facilities at Terminal 6 and a temporary seven gate facility on the Terminal 5 site, which became operational in June 2006, until our new terminal is completed.

Our West Coast operations are based at Long Beach Municipal Airport, which serves the Los Angeles area. Our operations at Boston's Logan International Airport are based at Terminal C, where we currently operate seven gates and 20 ticket counter positions. In 2007, we anticipate that we will add one gate in May and an additional gate in November at Logan. We plan to operate up to 11 total gates and 28 ticket counter positions at this facility by the end of 2008. Our operations at Washington's Dulles International Airport are based at Terminal B, where we currently operate four gates and eight ticket counter positions.

We lease a 70,000 square foot aircraft maintenance hangar and an adjacent 32,000 square foot office and warehouse facility at JFK to accommodate our technical support operations and passenger provisioning personnel. The ground lease for this site expires in 2030. In addition, we occupy a portion of a building at JFK where we store aircraft spare parts and perform ground equipment maintenance.

We also lease a flight training center at Orlando International Airport, which encompasses 80,000 square feet and is equipped with six full flight simulators, two cabin trainers, a training pool, classrooms and support areas. This facility, which is capable of housing eight full flight simulators, is being used for the initial and recurrent training of our pilots and inflight crew, as well as support training for our technical operations and airport crew. In addition, we lease a 70,000 square foot hangar at Orlando International Airport, which is used by Live TV for the installation and maintenance of in-flight satellite television systems and aircraft maintenance. The ground leases for our Orlando facilities expire in 2035.

Our primary corporate offices are located in Forest Hills, New York, where we occupy space under a lease that expires in 2012, and our finance department is based in Darien, Connecticut, where we occupy space under a lease that expires in 2011. Our office in Salt Lake City, Utah, where we occupy space under a lease that expires in 2014, contains a core team of employees who are responsible for group sales, customer service and at-home reservation agent supervision, and credit card fraud investigation.

## ITEM 3. 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 business, financial position, results of operations or cash flows.

20

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Table of Contents

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders during the fourth quarter of 2006.

EXECUTIVE OFFICERS OF THE REGISTRANT

Certain information concerning JetBlue's executive officers as of the date of this report follows. There are no family relationships between any of our executive officers.

David Neeleman, age 47, is our Chief Executive Officer and is the Chairman of the Board. He has served as our Chief Executive Officer and as a board member since August 1998. He has been our Chairman of the Board since May 2003. Mr. Neeleman was a co-founder of WestJet and from 1996 to 1999 served as a member of WestJet's board of directors. From October 1995 to October 1998, Mr. Neeleman served as the Chief Executive Officer and a member of the board of directors of Open Skies, a company that develops and implements airline reservation systems and which was acquired by the Hewlett Packard Company. From 1988 to 1994, Mr. Neeleman served as President and was a member of the board of directors of Morris Air Corporation, a low-fare airline that was acquired by Southwest Airlines. For a brief period, in connection with the acquisition, he served on the Executive Planning Committee at Southwest Airlines. From 1984 to 1988, Mr. Neeleman was an Executive Vice President of Morris Air.

David Barger, age 49, is our President and Chief Operating Officer and has served in this capacity since August 1998. He is also a member of our board of directors. From 1992 to 1998, Mr. Barger served in various management positions with Continental Airlines, including Vice President, Newark hub. He held various director level positions at Continental Airlines from 1988 to 1995. From 1982 to 1988, Mr. Barger served in various positions with New York Air, including Director of Stations.

Thomas Kelly, age 54, is our Executive Vice President and Secretary and has served in this capacity since August 1998. From August 1998 until February 2003, he was also our General Counsel. From December 1995 to October 1998, Mr. Kelly served as the Executive Vice President, General Counsel and a member of the board of directors of Open Skies. From 1990 to 1994, Mr. Kelly served as the Executive Vice President and General Counsel of Morris Air Corporation and served as a member of the board of directors of Morris Air from 1991 to 1993.

John Harvey, age 41, is our Executive Vice President and Chief Financial Officer and has served in this capacity since May 2006 when he was promoted from Senior Vice President of Corporate Finance and Treasurer, a position he had held since March 2006. From January 2004 to March 2006, he served as our Vice President of Corporate Finance and Treasurer. Mr. Harvey joined JetBlue in 1999 as Vice President and Treasurer, but in 2003 left JetBlue to become Senior Vice President of SkyWorks Capital LLC, where he was responsible for aviation-related financing transactions, before re-joining JetBlue in 2004. In 1999, Mr. Harvey was Vice President, Senior Portfolio Manager with ABN AMRO Bank, where he managed a portfolio of airline clients. From 1990 to 1999, Mr. Harvey also held positions of increasing responsibility for Southwest Airlines and America West Airlines in both tax and treasury roles.

Mr. Harvey is a Certified Public Accountant.

John Owen, age 51, is our Executive Vice President Supply Chain and Information Technology and has served in this capacity since May 2006. Prior to serving in this capacity, Mr. Owen served as our Executive Vice President and Chief Financial Officer since our inception in 1998. From August 1998 to December 1998, Mr. Owen served as the Vice President for Operations Planning and Analysis for Southwest Airlines. From October 1984 to August 1998, Mr. Owen served as the Treasurer for Southwest Airlines.

Trey Urbahn, age 48, is our Executive Vice President and Chief Revenue Officer and has served in this capacity since November 2006. From January 2005 to October 2006, Mr. Urbahn served as Executive Chairman of OneSky Jets, a provider of on-demand private jet travel. From January 2003 to October 2004, Mr. Urbahn served as Chief Executive Officer of FareChase, Inc., a travel meta search company. Mr. Urbahn was also a founding officer of priceline.com Incorporated, where he served as Chairman, Travel Services from January 2002 to December 2003 and as President, Airlines from January 2000 to December 2001.

21

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#### Table of Contents

Holly Nelson, age 49, is our Senior Vice President and Controller and has served in this capacity since March 2006. She served as our Vice President and Controller from February 2001 to March 2006. From 1984 to 2001, Ms. Nelson held senior financial management positions with Northwest Airlines, including Director, Corporate Accounting and Reporting from August 1992 to February 2001. Ms. Nelson is an inactive Certified Public Accountant.

Jim Hnat, age 36, is our Senior Vice President, General Counsel and Assistant Secretary and has served in this capacity since March 2006. He served as our General Counsel and Assistant Secretary from February 2003 to March 2006 and as our Associate General Counsel from June 2001 to January 2003. Mr. Hnat is a member of the bar of New York and Massachusetts.

Rob Maruster, age 35, is our Senior Vice President Airports and Operational Planning and has served in this capacity since February 2006 when he was promoted from Vice President Operational Planning, a position he had held since July 2005. From October 2004 to July of 2005, Mr. Maruster served as Vice President Customer Service & Operations at Hartsfield-Jackson Atlanta International Airport. From early 2001 until his appointment as Vice President, he served in a variety of management roles relating to airport operations, procedures and technology. Prior to that, Mr. Maruster held numerous leadership positions at Delta Air Lines in sales and marketing and operations.

22

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#### Table of Contents

## PART II

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

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Our common stock is traded on the Nasdaq Global Select Market under the symbol JBLU. The table below shows the high and low sales prices for our common stock, as adjusted for our December 23, 2005 three-for-two stock split.

	High	Low
2005 Quarter Ended		
March 31	\$ 15.64	\$ 11.37
June 30	15.63	12.04
September 30	15.23	11.39
December 31	16.85	11.34
2006 Quarter Ended		
March 31	\$ 14.91	\$ 9.65
June 30	12.92	8.93
September 30	12.65	9.23
December 31	15.60	9.15

As of January 31, 2007, there were approximately 600 holders of record of our common stock.

We have not paid cash dividends on our common stock and have no current intention of doing so, in order to retain our earnings to finance the expansion of our business. Any future determination to pay cash dividends will be at the discretion of our Board of Directors, subject to applicable limitations under Delaware law, and will be dependent upon our results of operations, financial condition and other factors deemed relevant by our Board of Directors.

23

Table of Contents

Performance Graph

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

The following line graph compares the cumulative total stockholder return on our common stock with the cumulative total return of the Standard & Poor’s 500 Stock Index and the AMEX Airline Index for the period beginning on April 11, 2002, the date of our initial public offering, and ending on December 31, 2006. The comparison assumes the investment of \$100 in our common stock and each of the foregoing indices and reinvestment of all dividends.

	4/11/2002	12/31/2002	12/31/2003	12/31/2004	12/31/2005	12/31/2006
JetBlue Airways Corporation	\$ 100	\$ 150	\$ 221	\$ 194	\$ 192	\$ 178
S&P 500 Stock Index	100	80	101	110	113	129
AMEX Airline Index (1)	100	39	62	60	55	59

(1)As of December 31, 2006, the AMEX Airline Index consisted of AirTran Holdings Inc., Alaska Air Group Inc., AMR Corporation, Continental Airlines Inc., ExpressJet Holdings Inc., Frontier Airlines

Holdings Inc., JetBlue Airways Corporation, Mesa Air Group Inc., SkyWest Inc., Southwest Airlines Co. and UAL Corporation.

24

## Table of Contents

### ITEM 6. SELECTED FINANCIAL DATA

The following financial information for the five years ended December 31, 2006 has been derived from our consolidated financial statements. This information should be read in conjunction with the consolidated financial statements and related notes thereto included elsewhere in this report.

	Year Ended December 31,				
	2006	2005	2004	2003	2002
	(in millions, except per share data)				
<b>Statements of Operations Data:</b>					
Operating revenues	\$ 2,363	\$ 1,701	\$ 1,265	\$ 998	\$ 635
Operating expenses:					
Salaries, wages and benefits	553	428	337	267	162
Aircraft fuel	752	488	255	147	76
Landing fees and other rents	158	112	92	70	44
Depreciation and amortization	151	115	77	51	27
Aircraft rent	103	74	70	60	41
Sales and marketing	104	81	63	54	44
Maintenance materials and repairs	87	64	45	23	9
Other operating expenses (1)	328	291	215	159	127
Total operating expenses (2)	2,236	1,653	1,154	831	530
Operating income	127	48	111	167	105
Government compensation (3)	—	—	—	23	—
Other income (expense)	(118)	(72)	(36)	(16)	(10)
Income (loss) before income taxes	9	(24)	75	174	95
Income tax expense (benefit)	10	(4)	29	71	40
Net income (loss)	\$ (1)	\$ (20)	\$ 46	\$ 103	\$ 55
Earnings (loss) per common share:					
Basic	\$ —	\$ (0.13)	\$ 0.30	\$ 0.71	\$ 0.49
Diluted	\$ —	\$ (0.13)	\$ 0.28	\$ 0.64	\$ 0.37
<b>Other Financial Data:</b>					
Operating margin	5.4%	2.8%	8.8%	16.8%	16.5%
Pre-tax margin	0.4%	(1.4)%	5.9%	17.4%	15.0%
Ratio of earnings to fixed charges (4)	—	—	1.6x	3.1x	2.7x
Net cash provided by operating activities	\$ 274	\$ 170	\$ 199	\$ 287	\$ 217
Net cash used in investing activities	(1,307)	(1,276)	(720)	(987)	(880)
Net cash provided by financing activities	1,037	1,093	437	789	657

- (1) In 2006, we sold five Airbus A320 aircraft, which resulted in a gain of \$12 million.
- (2) In 2005, we recorded \$7 million in non-cash stock-based compensation expense related to the acceleration of certain employee stock options and wrote-off \$6 million in development costs relating to a maintenance and inventory tracking system that was not implemented.
- (3) In 2003, we received \$23 million in compensation under the Emergency War Time Supplemental Appropriations Act.
- (4) Earnings were inadequate to cover fixed charges by \$17 million and \$39 million for the years ended December 31, 2006 and 2005, respectively.

25

Table of Contents

	As of December 31,				
	2006	2005	2004	2003	2002
	(in millions)				
<b>Balance Sheet Data:</b>					
Cash, cash equivalents and investment securities	\$ 699	\$ 484	\$ 450	\$ 607	\$ 258
Total assets	4,843	3,892	2,797	2,185	1,379
Total debt	2,840	2,326	1,545	1,109	712
Common stockholders' equity	952	911	754	670	415
	Year Ended December 31,				
	2006	2005	2004	2003	2002
<b>Operating Statistics (unaudited):</b>					
Revenue passengers (thousands)	18,565	14,729	11,783	9,012	5,752
Revenue passenger miles (millions)	23,320	20,200	15,730	11,527	6,836
Available seat miles (ASMs)(millions)	28,594	23,703	18,911	13,639	8,240
Load factor	81.6%	85.2%	83.2%	84.5%	83.0%
Breakeven load factor (5)	81.4%	86.1%	77.9%	72.6%	71.5%
Aircraft utilization (hours per day)	12.7	13.4	13.4	13.0	12.9
Average fare	\$ 119.73	\$ 110.03	\$ 103.49	\$ 107.09	\$ 106.95
Yield per passenger mile (cents)	9.53	8.02	7.75	8.37	9.00
Passenger revenue per ASM (cents)	7.77	6.84	6.45	7.08	7.47
Operating revenue per ASM (cents)	8.26	7.18	6.69	7.32	7.71
Operating expense per ASM (cents)	7.82	6.98	6.10	6.09	6.43
Operating expense per ASM, excluding fuel (cents)	5.19	4.92	4.75	5.01	5.51
Airline operating expense per ASM (cents) (5)	7.76	6.91	6.04	6.08	6.43
Departures	159,152	112,009	90,532	66,920	44,144
Average stage length (miles)	1,186	1,358	1,339	1,272	1,152
Average number of operating aircraft during period	106.5	77.5	60.6	44.0	27.0
Average fuel cost per gallon	\$ 1.99	\$ 1.61	\$ 1.06	\$ 0.85	\$ 0.72



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Fuel gallons consumed (millions)	377	303	241	173	106
Percent of sales through jetblue.com during period	79.1%	77.5%	75.4%	73.0%	63.0%
Full-time equivalent employees at period end (5)	9,265	8,326	6,413	4,892	3,572

(5)Excludes results of operations and employees of LiveTV, LLC, which are unrelated to our airline operations and are immaterial to our consolidated operating results.

26

Table of Contents

The following terms used in this section and elsewhere in this report have the meanings indicated below:

“Revenue passengers” represents the total number of paying passengers flown on all flight segments.

“Revenue passenger miles” represents the number of miles flown by revenue passengers.

“Available seat miles” represents the number of seats available for passengers multiplied by the number of miles the seats are flown.

“Load factor” represents the percentage of aircraft seating capacity that is actually utilized (revenue passenger miles divided by available seat miles).

“Breakeven load factor” is the passenger load factor that will result in operating revenues being equal to operating expenses, assuming constant revenue per passenger mile and expenses.

“Aircraft utilization” represents the average number of block hours operated per day per aircraft for the total fleet of aircraft.

“Average fare” represents the average one-way fare paid per flight segment by a revenue passenger.

“Yield per passenger mile” represents the average amount one passenger pays to fly one mile.

“Passenger revenue per available seat mile” represents passenger revenue divided by available seat miles.

“Operating revenue per available seat mile” represents operating revenues divided by available seat miles.

“Operating expense per available seat mile” represents operating expenses divided by available seat miles.

“Operating expense per available seat mile, excluding fuel” represents operating expenses, less aircraft fuel, divided by available seat miles.

“Average stage length” represents the average number of miles flown per flight.

“Average fuel cost per gallon” represents total aircraft fuel costs, which excludes fuel taxes, divided by the total number of fuel gallons consumed.

Table of Contents

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

## Overview

We are a low-fare, low-cost passenger airline that provides high quality customer service primarily on point-to-point routes. We offer our customers a high quality product, with new aircraft, roomy leather seats, free in-flight entertainment, pre-assigned seating and reliable performance. We focus on serving markets that have had high average fares. We currently serve 50 destinations in 21 states, Puerto Rico, Mexico and the Caribbean and operate over 500 flights a day with a fleet of 98 Airbus A320 aircraft and 23 EMBRAER 190 aircraft.

The following chart demonstrates our growth:

At December 31,	Destinations	Number of Full and Part-Time Employees	Operating Aircraft		Total
			Owned	Leased	
2000	12	1,174	4	6	10
2001	18	2,361	9	12	21
2002	20	4,011	21	16	37
2003	21	5,433	29	24	53
2004	30	7,211	44	25	69
2005	33	9,021	61	31	92
2006	49	10,377	70	49	119

We slowed our aircraft delivery schedule during 2006 by deferring 12 Airbus A320 aircraft from 2007 through 2009 to 2011 through 2012 and adjusting our EMBRAER 190 deliveries from an average of 18 aircraft per year from 2007 to 2010 to an average of 10 aircraft per year through 2014. As of December 31, 2006, our firm aircraft orders consisted of 82 Airbus A320 aircraft and 78 EMBRAER 190 aircraft, plus options for an additional 48 Airbus A320 aircraft and 100 EMBRAER 190 aircraft. Our growth in 2006 was focused on expanding our network in medium- and short-haul markets from three of our focus cities: New York, Boston and Washington, D.C. During 2006, we commenced service to 16 new destinations and, in January 2007, we began service to O'Hare International Airport in Chicago, Illinois. In March 2007, we plan to begin service from Westchester County Airport in White Plains, New York to Florida and, in May 2007, we plan to begin service to San Francisco International Airport from John F. Kennedy International Airport, or JFK.

Our growth plan includes maintaining appropriate liquidity levels, a commitment to cost control and low-cost carrier spending practices, improved revenue management, and enhancing the JetBlue Experience for our customers. In 2006, our cost control efforts were focused on improving aircraft fuel consumption rates, reducing our discretionary spending and staffing more efficiently in all aspects of our operations. We had 78 full-time equivalent employees per aircraft at December 31, 2006, a 14% decrease from 2005. We also improved our liquidity position during 2006 through the proceeds from the financing of previously unsecured owned property and the sale of five older Airbus A320 aircraft. In 2007, we reduced the number of seats on our Airbus A320 aircraft from 156 to 150, which in

addition to the added benefit to our customers, should reduce fuel consumption due to less weight from passengers, baggage and equipment, and require one less onboard flight attendant.

We derive our revenue primarily from transporting passengers on our aircraft. Passenger revenue was 94.1% of our operating revenues for the year ended December 31, 2006. Revenues generated from international routes, excluding Puerto Rico, accounted for 2.6% of our total passenger revenues in 2006. Because all of our fares are nonrefundable, revenue is recognized either when the transportation is provided or after the ticket or customer credit expires. We measure capacity in terms of available seat miles, which represents the number of seats available for passengers multiplied by the number of miles the seats are flown. Yield, or the average amount one passenger pays to fly one mile, is calculated by dividing passenger revenue by revenue passenger miles.

28

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## Table of Contents

We strive to increase passenger revenue primarily by increasing our yield per flight, which produces higher revenue per available seat mile, or RASM. Our objective is to optimize our fare mix to increase our overall average fare and, in certain markets, utilize our network to maximize connecting opportunities while continuing to provide our customers with low fares. During 2006, we modified our fare mix to achieve higher yields while relinquishing some of our load factor. When we enter a new market, our low fares are designed to stimulate demand, particularly from fare-conscious leisure and business travelers who might otherwise have used alternate forms of transportation or would not have traveled at all. In addition to our regular fare structure, we frequently offer sale fares with shorter advance purchase requirements in most of the markets we serve and match the sale fares offered by other airlines.

Other revenue consists primarily of the fees charged to customers in accordance with our published policies relating to reservation changes and baggage limitations, the marketing component of TrueBlue point sales and revenues earned by our subsidiary, LiveTV, LLC, for the sale of, and on-going services provided for, in-flight entertainment systems sold to other airlines.

We have low operating expenses because we have high aircraft utilization, low distribution costs, a productive workforce and operate a new fleet with only two types of aircraft. The largest components of our operating expenses are aircraft fuel and salaries, wages and benefits provided to our employees, including provisions for our profit sharing plan. Unlike most airlines, we have a non-union workforce, which we believe provides us with more flexibility and allows us to be more productive, although we are subject to ongoing attempts at unionization. The price and availability of aircraft fuel, which is our single largest operating expense, are extremely volatile due to global economic and geopolitical factors that we can neither control nor accurately predict. Sales and marketing expenses include advertising and fees paid to credit card companies. Our distribution costs tend to be lower than those of most other airlines on a per unit basis because the majority of our customers book directly through our website or our agents. Maintenance materials and repairs are expensed when incurred unless covered by a third party services contract. Because the average age of our aircraft is 2.6 years, all of our aircraft require less maintenance now than they will in the future. Our maintenance costs will increase significantly, both on an absolute basis and as a percentage of our unit costs, as our fleet ages. Other operating expenses consist of purchased services (including expenses related to fueling, ground handling, skycap, security and janitorial services), insurance, personnel expenses, cost of goods sold to other airlines by LiveTV, professional fees, passenger refreshments, supplies, bad debts, communication costs and taxes other than payroll taxes, including fuel taxes.

The airline industry is one of the most heavily taxed in the U.S., with taxes and fees accounting for approximately 14% of the total fare charged to a customer. Airlines are obligated to fund all of these taxes and fees regardless of their

ability to pass these charges on to the customer. Additionally, if the TSA changes the way the Aviation Security Infrastructure Fee is assessed, our security costs may be higher.

Our operating margin, which measures operating income as a percentage of operating revenues, was 5.4% in 2006 and 2.8% in 2005 and was the third and second highest operating margin, respectively, among all traditional network and low-cost major U.S. airlines.

The airline industry has been intensely competitive in recent years, due in part to persistently high fuel prices and the adverse financial condition of many of the domestic airlines. In late 2005, US Airways and America West merged and Delta Air Lines and Northwest Airlines filed for bankruptcy protection. The airlines currently operating in bankruptcy may emerge with substantially lower costs or consolidate with other carriers, either of which could allow them to compete more vigorously. In the fourth quarter of 2006, there were other reports of potential consolidation. We are unable to predict what the effect of further industry consolidation would be for us or for the airline industry in general. During 2006, most traditional network airlines increased capacity on their international routes and decreased domestic capacity. During the same period, some of our competitors, notably Delta Air Lines and its discontinued low-fare operation, Song, shifted some of their domestic capacity out of markets where they had competed directly with us. These developments, in conjunction with our shift

29

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## Table of Contents

of capacity from transcontinental flights to short- and medium-haul routes, contributed to our improved financial performance in 2006.

Our ability to be profitable in this competitive environment depends on, among other things, operating at costs equal to or lower than those of our competitors, providing high quality customer service and maintaining adequate liquidity levels. Although we have been able to raise capital and continue to grow, the highly competitive nature of the airline industry could prevent us from attaining the passenger traffic or yields required to be profitable in new and existing markets.

The highest levels of traffic and revenue on our routes to and from Florida are generally realized from October through April, and on our routes to and from the western United States in the summer. Many of our areas of operations in the Northeast experience bad weather conditions in the winter, causing increased costs associated with deicing aircraft, cancelled flights and accommodating displaced passengers. Our Florida and Caribbean routes experience bad weather conditions in the summer and fall due to thunderstorms and hurricanes. As we enter new markets, we could be subject to additional seasonal variations along with competitive responses to our entry by other airlines. Given our high proportion of fixed costs, this seasonality may cause our results of operations to vary from quarter to quarter.

## Outlook for 2007

Our focus in 2007 will continue to be on rigorous cost control and enhancing our revenue management processes. 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 yield and RASM to continue through 2007. In addition, we are continuously looking to expand our other revenue opportunities, including charter services and marketing alliances.

We expect our full-year operating capacity for 2007 to increase approximately 11% to 14% over 2006 with the addition of 12 new Airbus A320 aircraft and 10 new EMBRAER 190 aircraft to our operating fleet. In our efforts to create a growth plan that is sustainable, we may modify our rate of growth over the next few years through a combination of additional aircraft sales, leases, assignments and/or delivery deferrals. The impact of the shorter range EMBRAER 190 aircraft, which is expected to represent 10% of our total estimated 2007 operating capacity, and utilization of our Airbus A320 fleet for more short- and medium-haul flying is expected to result in a 7% decrease over our 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. Assuming fuel prices of \$1.93 per gallon, net of effective hedges, our cost per available seat mile for 2007 is expected to increase by 5% to 7% over 2006. Our operating margin is expected to be between 10% and 12% and our pre-tax margin is expected to be between 5% and 7% for the full year.

### Results of Operations

The U.S. domestic airline environment continues to be extremely challenging primarily due to high aircraft fuel prices and vigorous price competition. Our results were further impacted by the effects of overall lower demand for domestic air travel and security concerns related to the August 2006 terrorist threat in London. However, due to capacity reductions in the U.S. domestic market and the optimization of our own fare mix, average fares for the year increased 9% over 2005 to \$119.73, while load factor declined 3.6 points to 81.6% from the full year 2005.

Our on-time performance, defined by the U.S. Department of Transportation as arrivals within 14 minutes of schedule, was 72.9% in 2006 compared to 71.4% in 2005. Our on-time performance was affected by our commitment to operate our scheduled flights whenever possible, along with operating at three of the most congested and delay-prone airports in the U.S., as reflected by our 99.6% and 99.2% completion factors in 2006 and 2005, respectively.

### Year 2006 Compared to Year 2005

We had a net loss of \$1 million in 2006 compared to a net loss of \$20 million in 2005. In 2006, we had operating income of \$127 million, an increase of \$79 million over 2005, and our operating margin was 5.4%, up 2.6 points from 2005. Diluted loss per share was \$0.00 for 2006 and \$0.13 for 2005.

30

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### Table of Contents

**Operating Revenues.** Operating revenues increased 39%, or \$662 million, primarily due to an increase in passenger revenues. Increased passengers resulting from a 42% increase in departures, or \$251 million, and a 19% increase in yield, or \$352 million, drove the increase in passenger revenue of \$603 million for the year 2006. Although our load factor was 3.6 points lower than that of last year, the increase in our yields more than compensated for this decrease. During 2006, we entered into agreements with four global distribution systems, which allow our flights to be available on their online travel reservation systems. Bookings through these global distribution systems have resulted in higher average fares, which have more than offset the increased distribution costs.

Other revenue increased 74%, or \$59 million, primarily due to increased change fees of \$22 million resulting from more passengers and increased adherence to related company policies and the marketing component of TrueBlue point sales of \$11 million.

Operating Expenses. Operating expenses increased 35%, or \$583 million, primarily due to operating an average of 29 additional aircraft, which provided us with higher capacity, and a 24% increase in average fuel price per gallon. Operating capacity increased 21% to 28.6 billion available seat miles in 2006 due to having 37% more average aircraft in-service. Operating expenses per available seat mile increased 12% to 7.82 cents. Excluding fuel, our cost per available seat mile increased 6% in 2006. In detail, operating costs per available seat mile were (percent changes are based on unrounded numbers):

	Year Ended December 31,		Percent Change
	2006	2005	
	(in cents)		
Operating expenses:			
Salaries, wages and benefits	1.94	1.81	7.2%
Aircraft fuel	2.63	2.06	27.7
Landing fees and other rents	.55	.47	16.5
Depreciation and amortization	.53	.48	9.2
Aircraft rent	.36	.31	15.2
Sales and marketing	.36	.35	5.3
Maintenance materials and repairs	.30	.27	12.6
Other operating expenses	1.15	1.23	(6.5)
Total operating expenses	7.82	6.98	12.1%

In 2006, our average stage length declined 13% to 1,186 miles due to increased operation of the shorter range EMBRAER 190 and capacity reductions in our East-West markets. A shorter average stage length results in fewer available seat miles and, therefore, higher unit costs. We estimate that more than half of the year-over-year increase in our total cost per available seat mile was attributable to the decrease in our average stage length and also was a significant factor of the increase in each component.

Salaries, wages and benefits increased 29%, or \$125 million, due primarily to an increase in average full-time equivalent employees of 25% in 2006 compared to 2005 and a \$12 million increase in non-cash stock-based compensation expense. We recorded \$3 million of profit sharing in 2006 compared to none in 2005. Cost per available seat mile increased 7% as a result of stock-based compensation expense and profit sharing.

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, and related interpretations, or SFAS 123(R), 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 December 31, 2006, there was \$35 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all of our equity compensation plans. We expect to recognize that cost over the remaining vesting period of five years. See Notes 1 and 7 to our consolidated financial statements for more information regarding the adoption of this accounting standard.

Aircraft fuel expense increased 54%, or \$264 million, due to 74 million more gallons of aircraft fuel consumed resulting in \$119 million of additional fuel expense and a 24% increase in average fuel cost per gallon, or \$145 million. Aircraft fuel prices remained at or near historically high levels in 2006, with our average fuel price per gallon at \$1.99 compared to \$1.61 for the year ended December 31, 2005. Our fuel costs represented 34% and 30% of our operating expenses in 2006 and 2005, respectively. Our fuel consumption per block hour decreased 5% due to utilization of the lighter EMBRAER 190 aircraft and various fuel conservation initiatives. Based on our expected fuel volume for 2007, a \$.10 per gallon increase in the cost of aircraft fuel would increase our annual fuel expense by approximately \$45 million. Cost per available seat mile increased 28% primarily due to the increase in average fuel cost per gallon.

Landing fees and other rents increased 41%, or \$46 million, due to a 42% increase in departures over 2005 and increased airport rents associated with opening 16 new cities in 2006. Cost per available seat mile increased 17% due to ground rents associated with our new terminal under construction at JFK.

Depreciation and amortization increased 32%, or \$36 million, primarily due to having an average of 67 owned and capital leased aircraft in 2006 compared to 52 in 2005 and the associated depreciation of our seven-gate temporary facility at JFK, which was placed into service in June 2006. Cost per available seat mile increased 9% primarily due to our temporary facility at JFK, partially offset by a lower percentage of our fleet being owned or under capital lease.

Aircraft rent increased 39%, or \$29 million, due to 16 new EMBRAER 190 aircraft leases. Cost per available seat mile increased 15% due to a higher percentage of our fleet being leased.

Sales and marketing expense increased 27%, or \$23 million, primarily due to \$16 million in higher credit card fees resulting from increased passenger revenues and \$6 million in increased advertising expenses. On a cost per available seat mile basis, sales and marketing expense increased 5% primarily due to higher credit card fees resulting from higher average fares. We book the majority of our reservations through a combination of our website and our agents (79% and 19% in 2006, respectively).

Maintenance materials and repairs increased 36%, or \$23 million, due to 29 more average operating aircraft in 2006 compared to 2005 and a gradual aging of our fleet. Cost per available seat mile increased 13% year-over-year due primarily to operating under airframe parts maintenance third-party contracts in 2006, one-time warranty coverage on our engines in 2005 and outsourced line maintenance for the 16 new cities we opened in 2006. Maintenance costs are expected to increase significantly as our fleet ages.

Other operating expenses increased 13%, or \$37 million, due to higher variable costs associated with increased capacity and number of passengers served. Cost per available seat mile decreased 7% due primarily to \$12 million in gains related to the sale of five Airbus A320 aircraft in 2006 and the write-off of \$6 million in development costs related to a maintenance and inventory tracking system in 2005.

Other Income (Expense). Interest expense increased 62% primarily due to having 12 additional debt or capital lease financed aircraft, financing related to new maintenance and training facilities, financing of previously unsecured property and interest on our 3¾% convertible debentures, resulting in \$40 million of additional interest expense, and higher interest rates, which resulted in \$19 million of additional interest expense. Interest expense also includes \$7 million related to our construction obligation for our new terminal at JFK and represented the majority of the \$11 million increase in capitalized interest, with the remainder attributable to higher interest rates.

Interest income and other increased 44%, or \$9 million, primarily due to higher interest rates and higher average cash and investment balances in 2006, offset by fuel hedge losses of \$5 million. We are unable to predict the amount of accounting ineffectiveness related to our crude and heating oil derivative instruments each period, or the potential loss of hedge accounting, which is determined on a derivative-by-derivative basis, due to the volatility in the market for these commodities.

Table of Contents

Our effective tax rate increased to 109% in 2006 from 15% in 2005. Our effective tax rate differs from the statutory income tax rate due to the nondeductibility of certain items for tax purposes and the relative size of these items to our pre-tax income of \$9 million.

## Year 2005 Compared to Year 2004

We had a net loss of \$20 million for the year 2005 compared to net income of \$46 million for the year 2004. We had operating income of \$48 million, a decrease of \$63 million over 2004, and our operating margin was 2.8%, down 6.0 points from 2004. Diluted loss per share was \$0.13 for 2005 and diluted earnings per share was \$0.28 for 2004.

**Operating Revenues.** Operating revenues increased 35%, or \$436 million, primarily due to an increase in passenger revenues. Increased passengers resulting from a 24% increase in departures, or \$345 million, and a 3% increase in yields, or \$55 million, drove the increase in passenger revenue of \$400 million for the year 2005. Additionally, three major hurricanes during the third and fourth quarters of 2005 resulted in estimated lost revenue of \$8 to \$10 million. Other revenue increased 78%, or \$36 million, primarily due to increased LiveTV third party revenues of \$13 million, increased change fees of \$6 million resulting from more passengers and the marketing component of TrueBlue point sales of \$7 million.

**Operating Expenses.** Operating expenses increased 43%, or \$499 million, primarily due to operating an average of 17 additional aircraft, which provided us with higher capacity, and a 52% increase in average fuel price per gallon. Operating capacity increased 25% to 23.70 billion available seat miles in 2005 due to having 28% more average aircraft in-service offset by lower utilization of the EMBRAER 190. Operating expenses per available seat mile increased 14% to 6.98 cents. In detail, operating costs per available seat mile were (percent changes are based on unrounded numbers):

	Year Ended December 31,		Percent Change
	2005	2004	
	(in cents)		
Operating expenses:			
Salaries, wages and benefits	1.81	1.78	1.2%
Aircraft fuel	2.06	1.35	52.4
Landing fees and other rents	.47	.48	(2.3)
Depreciation and amortization	.48	.41	19.1
Aircraft rent	.31	.37	(15.6)
Sales and marketing	.35	.33	2.9
Maintenance materials and repairs	.27	.24	14.5
Other operating expenses	1.23	1.14	8.3
Total operating expenses	6.98	6.10	14.4%

Salaries, wages and benefits increased 27%, or \$91 million, due primarily to an increase in average full-time equivalent employees of 27% in 2005 compared to 2004. We did not record any profit sharing in 2005 compared to



\$14 million in 2004. This decrease was partially offset by the incurrence of \$7 million in non-cash stock-based compensation expense related to the accelerated vesting of 19.9 million stock options in December 2005. The decision to accelerate the vesting of these options was made primarily to avoid recognizing related compensation costs in future consolidated financial statements upon our adoption of SFAS 123(R) in January 2006. All other terms and conditions applicable to such options, including the exercise prices, remain unchanged. Following the acceleration, 28.4 million or 91% of our outstanding options were vested. Cost per available seat mile remained relatively flat as a result of higher wages being offset by lower profit sharing.

33

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### Table of Contents

Aircraft fuel expense increased 91%, or \$233 million, due to 62 million more gallons of aircraft fuel consumed resulting in \$66 million of additional fuel expense and, even after giving effect to \$43 million of fuel hedging gains, a 52% increase in average fuel cost per gallon, or \$167 million. Our fuel costs represented 30% and 22% of our operating expenses in 2005 and 2004, respectively. During 2005, aircraft fuel prices remained at historically high levels, with our average fuel price per gallon at \$1.61 compared to \$1.06 in 2004. Cost per available seat mile increased 52% due to the increase in average fuel cost per gallon.

Landing fees and other rents increased 22%, or \$20 million, due to a 23.7% increase in departures over 2004 offset by lower landing fee rates. Cost per available seat mile decreased 2.3% due to higher capacity and an increase in average stage length. Landing fees and other rents are expected to increase in 2006 as a result of ground rent on our new terminal at JFK, which is under construction.

Depreciation and amortization increased 49%, or \$38 million, primarily due to having an average of 52 owned aircraft in 2005 compared to 36 in 2004. Cost per available seat mile increased 19% due to a higher percentage of our aircraft fleet being owned and as a result of placing into service our new hangars and training center during 2005.

Aircraft rent increased 6%, or \$4 million, due to \$2 million in higher rental rates and \$2 million related to new aircraft leases. Cost per available seat mile decreased 16% due to higher capacity and a lower percentage of our fleet being leased.

Sales and marketing expense increased 29%, or \$18 million, due to higher credit card fees resulting from increased passenger revenues. On a cost per available seat mile basis, sales and marketing expense increased 3% primarily due to higher credit card fees resulting from higher average fares. We book all of our reservations through a combination of our website and our agents (78% and 22% in 2005, respectively).

Maintenance materials and repairs increased 44%, or \$19 million, due to 17 more average aircraft in 2005 compared to 2004 and a gradual aging of our fleet. Cost per available seat mile increased 15% year-over-year due to the completion of 63 airframe checks in 2005 compared to 54 in 2004, as well as increased engine and component repairs.

Effective July 1, 2005, we executed a ten-year engine services agreement with MTU covering the scheduled and unscheduled repair of the engines on our Airbus A320 aircraft. This agreement requires monthly payments to MTU at rates based on number of flight hours each engine was operated during each month. MTU has assumed the responsibility to repair and overhaul our engines as required during the term of the agreement. These payments will be expensed as the flight hours are incurred. This agreement will eliminate the significant judgment in determining estimated costs of overhauls and is expected to result in lower maintenance costs than on a time and materials basis.

Other operating expenses increased 36%, or \$76 million, primarily due to higher variable costs associated with increased capacity and number of passengers served. Cost per available seat mile increased 8% as a result of increased LiveTV third party installations, fuel related taxes and services, and a \$6 million write-off of development costs related to a maintenance and inventory tracking system.

Other Income (Expense). Interest expense increased 99% primarily due to our debt financing of 16 additional aircraft and interest on our \$250 million convertible debt issued in March 2005, resulting in \$35 million of additional interest expense and higher interest rates, which resulted in \$19 million of additional interest expense. Interest income increased by \$11 million due to higher interest rates. Capitalized interest increased 79%, or \$7 million, due to higher predelivery deposit balances and increased rates.

Our effective tax rate decreased to 15% in 2005 from 38% in 2004. The decrease is attributable to our decreased profitability resulting primarily from higher fuel prices and the non-deductibility of certain items for tax purposes.

#### Quarterly Results of Operations

The following table sets forth selected financial data and operating statistics for the four quarters ended December 31, 2006. The information for each of these quarters is unaudited and has been

34

#### Table of Contents

prepared on the same basis as the audited consolidated financial statements appearing elsewhere in this Form 10-K.

	Three Months Ended			
	March 31,	June 30,	September	December
	2006	2006	30, 2006	31, 2006
Statements of Operations Data				