

JETBLUE AIRWAYS CORP  
Form 10-K  
February 21, 2008

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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, 2007

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 Stock Purchase Rights	The NASDAQ Global Select Market Participating Preferred

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

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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

<input type="checkbox"/> Accelerated filer reporting company)	<input type="checkbox"/> Non-accelerated filer	<input type="checkbox"/> Smaller reporting company	<input type="checkbox"/> Large accelerated filer (Do not check if a smaller reporting company)
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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, 2007 was approximately \$1,909,200,000 (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, 2008 was 224,231,762 shares.

DOCUMENTS INCORPORATED BY REFERENCE

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Portions of the Registrant's Proxy Statement for its 2008 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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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.

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ITEM 1. BUSINESS

Overview

JetBlue Airways Corporation is a passenger airline that provides award-winning customer service at low fares primarily on point-to-point routes. As of December 31, 2007, we served 53 destinations in 21 states, Puerto Rico, Mexico and the Caribbean. Most of our flights have, as an origin or destination, one of our focus cities: Boston, Fort Lauderdale, Long Beach, New York, or Washington, D.C. At the end of 2007, we operated over 550 daily flights with a fleet of 104 Airbus A320 aircraft and 30 EMBRAER 190 aircraft. For the year ended December 31, 2007, JetBlue was the 8th largest passenger carrier in the United States based on revenue passenger miles as reported by those airlines. 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.

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.

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### Our Strategy

Our goal is to maintain JetBlue as an innovative, high quality, low cost passenger airline that provides competitive fares for our customers. We intend to continue to execute a disciplined growth plan that takes advantage of our competitive strengths. The key elements of our strategy are:

**Offer High Quality Service and Product.** We believe that a key element of our current and long-term success is that 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, award-winning, customer service-oriented employees, new aircraft, roomy leather seats with 36 channels of free DirecTV®, 100 channels of free XM satellite radio and in-flight pay per view movie channel offerings. 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 introduced the JetBlue Airways Customer Bill of Rights in 2007, which provides for compensation to customers who experience avoidable inconveniences and commits us to perform at high service standards and holds us accountable if we do not. We are the first and currently the only major airline to provide such a comprehensive plan. In 2007, we completed 98.1% of our scheduled flights, the 9th 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. Our Airbus A320 aircraft, with 150 seats, has a wider cabin than both the Boeing 737 and 757, two comparable types of aircraft operated by many of our competitors. Our Airbus A320 cabin has at least 36 inches of seat pitch between rows 1-11 and at least 34 inches between rows 12-25, providing the most legroom in coach of all U.S. airlines. Our EMBRAER 190 aircraft each have 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.

**Stimulate Demand with Low Fares.** Upon entry in a market, 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 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 focus on maintaining our low cost structure.

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 domestic airline at New York's John F. Kennedy International Airport, or JFK, as measured by passengers and, by the end of 2007, our operations at JFK were nearly equal to that of all other domestic 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

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concentration at JFK and at our other focus cities, 83% of our passengers and 90% of our passenger revenue in 2007 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 3.1 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. As the initial customer of the EMBRAER 190, we have seen the dispatch reliability of this new aircraft improve significantly since its launch.

## Our Competitive Strengths

**Low Operating Costs.** For the year ended December 31, 2007, our cost per available seat mile, excluding fuel, of 5.47 cents was lower than that reported by all 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, 2007, our aircraft operated an average 12.8 hours per day, which we believe is one of the highest amongst all major U.S. airlines. 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. For the year ended December 31, 2007, 76% of our sales were booked on [www.jetblue.com](http://www.jetblue.com), our least expensive form of distribution, while 16% 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. 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 2007, we were voted the “Best Domestic Airline” in the Conde Nast Traveler’s Readers’ Choice Awards for the sixth consecutive year and for a second consecutive year we were ranked highest among major airlines in the domestic airline category of Travel + Leisure’s World’s Best Awards 2007 readers’ survey. The magazine also named us “Best Domestic Airline for Value.” In addition, JetBlue was rated as the top major airline in domestic quality in the 17th annual National Airline Quality Ratings. In a 2007 survey by Consumer Reports National Research

Center, JetBlue achieved the highest ranking in customer satisfaction among U.S. airlines.

**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

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through an extensive orientation program for our new employees that emphasizes the importance of 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. In 2007, David Barger, who had previously served as our President and Chief Operating Officer, became our Chief Executive Officer and Russell Chew, who had previously served as Chief Operating Officer of the Federal Aviation Administration, or FAA, joined us as our Chief Operating Officer. We believe that these changes, as well as other changes to our management team, have positioned us to increase revenues while maintaining our low cost discipline 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, the largest New York metropolitan area airport, 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's infrastructure includes four runways, large facilities and a direct light-rail connection to the New York City subway system and the Long Island Rail Road. In November 2005, we entered into a 30-year lease for the construction and operation of a new terminal at JFK, which we believe, when completed in 2008, will enable us to better serve our customers and expand the JetBlue Experience.

Historically, JFK generally experienced congestion only from the late afternoon to the early evening when international traffic and the domestic traffic that feeds it were at their peak. Accordingly, we have scheduled approximately two-thirds of our JFK flights outside of this traditionally congested period. However, as a result of an increase in total departures, 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 FAA on solutions to ease this congestion. In December 2007, the FAA announced that it would impose slot restrictions and hourly operational caps at JFK and Newark's Liberty International Airport in an effort to ease congestion in the New York metropolitan area airspace. We believe that these restrictions, when imposed in 2008, will ease congestion, improve the operational performance of JFK and aid us in providing reliable service to our customers.

We also serve Newark's Liberty International Airport, New York's LaGuardia Airport, Newburgh, New York's Stewart International Airport and 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 and currently consists of 16 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.

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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, including a new class of carrier styling themselves as “ultra low cost carriers.” 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 consolidation and several airlines filed for bankruptcy protection and there were reports of further other potential consolidation throughout 2007. Further industry consolidation 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.

The Open Skies Agreement between the U.S. and the European Union, or E.U., when it takes effect in March 2008, will allow any U.S. or European carrier to fly any route between any city in the E.U. and any city in the U.S. We believe that this new accord will result in increased competition in the U.S. airline industry by providing customers with an even greater choice of airlines to fly.

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 2007, most traditional network airlines continued to increase capacity on their international routes while only slightly increasing domestic capacity. In mid-2007, Virgin America commenced operations with some routes that compete directly with us. Although we experienced improved yields in 2007, 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

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convenient connections and other joint marketing activities. These alliances also permit an airline to 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 currently participate in marketing alliances with Cape Air, an airline that services destinations out of Boston and San Juan, Puerto Rico, and recently announced a marketing alliance with Aer Lingus, an airline based in Dublin, Ireland. We plan to pursue other alliances with international airlines, including Deutsche Lufthansa AG, 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 95.2% of our capacity in 2007. The historic distribution of our available seat miles, or capacity, by region is as follows:

			Year Ended December					
31, Capacity Distribution	2007	2006	2005	East Coast – Western U.S.	47.4 %	51.7 %	55.1 %	Northeast – Florida
	31.8	31.8	33.5	Medium – haul	2.8	1.3	1.1	Short – haul
including Puerto Rico	10.6	8.6	6.4	Total	100.0 %	100.0 %	100.0 %	Caribbean,

We currently provide service to 53 destinations in 21 states, Puerto Rico, Mexico and the Caribbean. We have begun service to seven new destinations since December 31, 2006, as set forth in the following table:

		Destination	Service Commenced
Chicago, Illinois	January 2007	White Plains, New York	March 2007
San Francisco, California	May 2007		
Nantucket, Massachusetts	May 2007	Santo Domingo, Dominican Republic	May 2007
Puerto Plata, Dominican Republic	January 2008	St. Maarten, Netherlands Antilles	January 2008

In January 2008, we discontinued service to Nashville, TN and Columbus, OH. We plan to open three additional cities in 2008.

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.

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:

- are pre-assigned;
- ticketless, using electronic tickets;
- overbook flights;
- all seats
- all travel is
- our policy is not to
- fares are based on

one-way travel; and  
stay is required.

- no Saturday night

Our customer commitment is also demonstrated by our reliable operational performance. For the year ended December 31, 2007, based on our data compared to the other major U.S. airlines:

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policy of not overbooking our flights, we had virtually no incidences of passenger denied boardings and, therefore, led the industry in this DOT metric;

- because we have a
- we are committed to

operating flights whenever possible and not canceling. However, operating out of JFK, one of the most congested and delay-prone airports in the U.S., affected both our completion factor, which was 98.1% compared to an average of 97.9% by all major U.S. airlines, and our on-time performance, which at 70.1% was lower than all but five major U.S. airlines.

our incidence of delayed, mishandled or lost bags of 5.23 per 1,000 customers was the 3rd lowest as compared to other major U.S. airlines, which had an average of 7.12 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 0.78 was the 5th lowest as compared to the other major U.S. airlines, which had an average of 1.41 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 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 workgroups at greatest risk of ergonomic injuries, we have seen significant year-over-year decreases in OSHA recordable injuries and the subsequent rate. 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.

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 A320 aircraft with a live video feed to the cockpit crew that provides real time situational awareness. We have also instituted a 24-hour security operations desk, "Blue Watch," which assesses and manages threats, records and monitors suspicious activity within the JetBlue operating system, and serves as a prime communications channel

between us and our law enforcement and aviation security business partners. In addition to these voluntary measures, we comply with all TSA security requirements.

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### 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 76% for the year ended December 31, 2007. Our second largest distribution channel is our agents, who accounted for 16% of our sales. We booked the remaining 8% of our 2007 sales through global distribution systems, or GDSs and online travel agencies, or OTAs. Our re-entry into GDSs in 2007 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 and four major OTAs. 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.

### Customer Loyalty Program

JetBlue's customer loyalty program, TrueBlue Flight Gratitude, or 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 12 months. A free round trip award to any JetBlue destination is earned after attaining 100 points within a consecutive 12 month period. Awards are automatically generated and are valid for one year. We now have over five million TrueBlue members. We expect our TrueBlue membership will continue to grow.

The number of estimated travel awards outstanding at December 31, 2007 was approximately 221,000 awards and includes an estimate for partially earned awards. The number of travel awards used on JetBlue during 2007 was approximately 217,000, which represented 3% 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

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5% discount on JetBlue travel and automatic enrollment in the American Express OPEN Savings® program. In addition, small business owners with any American Express OPEN small business card 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, low fares to our customers. We offer a range of fares, including 21-day, 14-day, 7-day and 3-day advance purchase fares and day-of-flight, or walk-up, fares, depending on the market. Generally, our fares increase as the number of days prior to travel decreases. In addition to our regular fare structure, we frequently offer sale fares 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 that in most of our markets, the difference between our lowest and highest fare for a given flight is smaller than our competitors.

All of our fares are one-way and never require an overnight stay. We offer refundable and non-refundable fares that must be purchased at the time of reservation. Our non-refundable 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 20% to 30% below those existing in markets prior to our entry, while our walk-up fares have generally been up to 20% to 30% 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 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. 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. This ability to adjust seat allocations based on fluctuating demand patterns allows us to balance loads and capture more revenue from existing capacity. We balance our yield, which is the amount that one passenger pays to fly one mile, and our load factors to maximize passenger revenues. While we continue to provide our customers with competitive fares, our yield for the year ended December 31, 2007 increased 7.4% compared to 2006, 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

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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 crewmember 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, and an employee stock purchase plan. We review our compensation packages on a regular basis to ensure that they are competitive, which allows us 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. 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, 2007 consisted of 1,794 pilots, 1,890 flight attendants, 2,874 airport operations personnel, 431 technicians, whom others refer to as mechanics, 844 reservation agents, and 2,386 management and other personnel. At December 31, 2007, we employed 8,785 full-time and 2,847 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 use qualified maintenance personnel, ensure they have comprehensive training, and maintain our aircraft and associated maintenance records in accordance with FAA regulations.

The work performed on our fleet can be divided into four general categories of maintenance: aircraft line, aircraft heavy, component and power plant. The bulk of line maintenance requirements are handled by JetBlue technicians and inspectors and consist of daily checks, overnight and weekly checks, A checks, diagnostics and routine repairs. All other maintenance activity is sub-contracted to business partner maintenance, repair and overhaul organizations.

Aircraft heavy maintenance checks consist of a series of more complex tasks that take from one to four weeks to accomplish. The typical frequency for these events is once every 15 months. We contract with ACTS Aero Technical Support & Services, Inc. in Canada and TACA Aeroman in El Salvador to perform this work with oversight from

JetBlue personnel.

Component and power plant maintenance, repairs and overhauls on equipment such as engines, auxiliary, power units, landing gears, pumps and avionic computers are performed by a number of different FAA-approved repair stations. For example, maintenance of our V2500 series engines on our Airbus A320 aircraft is performed under a fifteen-year service agreement with MTU Maintenance Hannover GmbH in Germany. Most of our maintenance service agreements are based on a fixed cost per flying hour.

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## Aircraft Fuel

In 2007, 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, 2007	2006	2005
Gallons consumed (millions)	444	377
Total cost (millions)	\$ 929	\$ 752
Average price per gallon	\$ 2.09	\$ 1.99
Percent of operating expenses	34.8 %	33.6 %
	29.5 %	

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

We enter into crude and heating oil option contracts and swap agreements with a goal of achieving a 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, 2007, we had hedged approximately 13% of our projected 2008 fuel requirements.

## LiveTV, LLC

LiveTV, LLC, a wholly owned subsidiary of JetBlue, provides in-flight entertainment systems and data connectivity services 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 Communications Commission, or the FCC, and rights to all the patents and intellectual property used for live in-seat satellite television, XM Satellite Radio service, wireless aircraft data communication service, cabin surveillance systems and Internet services. LiveTV's major competitors in the in-flight entertainment systems include Rockwell Collins, Thales Avionics and Panasonic Avionics. Only Panasonic is currently providing in-seat live television. In the data communication services market, LiveTV's primary competitors are Aircell, Row 44, Panasonic, OnAir and Aeromobile. These competitors offer subscription services while LiveTV provides free connectivity to passengers supported by advertising, ecommerce and/or airline payments.

LiveTV has contracts with seven other domestic and international airlines, including the recently announced agreement with Continental 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.

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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.

We are also subject to state and local laws and regulations in a number of states in which we operate.

**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.

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, California 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.** In January 2007, 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 was no longer regulated and airlines became able to schedule flights without restrictions. As a result of over-scheduling beyond the airport's hourly capacity, congestion and delays increased significantly in 2007. In response to this increased congestion, in December 2007, the DOT announced that JFK, beginning in 2008, would again become a slotted airport, from 6:00 a.m. until 10:59 p.m. During this period, all scheduled commercial aircraft, domestic and international, must possess an FAA-assigned slot or slot exemption in order to arrive at or depart from

JFK.

At LaGuardia, where we maintain a small presence, the High Density Rule was replaced by the FAA with a temporary rule continuing the strict limitations on operations during the hours of

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6:00 a.m. to 9:59 p.m. This rule had been scheduled to expire in late 2007 upon the enactment of a permanent rule restructuring the rights of carriers to operate at LaGuardia. However, because the permanent rule has not been issued, the FAA has extended the temporary rule. 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. 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 24 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. JetBlue also began service to St. Maarten in January 2008. 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 24.99% 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.

## 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. 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

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strategy, which would harm our business. Additionally, if a traditional network airline were to fully develop a low cost structure, or if other low cost carriers were to compete with us directly, 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 the cost of fuel is our single largest operating expense. Our 2007 average fuel price, including the impact of fuel hedging, increased 97% from 2004, 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, supply shortages can result for extended periods of time. The availability of fuel is also affected by demand for home heating oil, gasoline and other petroleum products, as well as crude oil reserves, dependence on foreign imports of crude oil and potential hostilities in oil producing areas of the world. Because of the effects 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. We have and may continue to enter into crude oil and heating oil option contracts and swap agreements to partially protect against significant increases in fuel prices; however, such contracts and agreements do not completely protect us against price increases and are limited in fuel 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 or further price increases or fuel supply shortages may result in a curtailment of scheduled services and could 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 requires 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 has become increasingly difficult to fund our growth profitably. As a result, beginning in 2006 we modified our growth plans by deferring delivery of some of our Airbus A320 aircraft and EMBRAER 190 aircraft and selling or terminating our leases for some of our 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.

LiveTV has contracts to provide in-flight entertainment products and services with seven other airlines. At December 31, 2007, LiveTV services were available on 372 aircraft under these agreements, with firm commitments for 314 additional aircraft through 2012, with options for 182

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additional installations through 2017. Performance under these agreements requires that LiveTV hire, train and retain qualified employees, receive component parts unique to its systems and services from their suppliers and secure facilities necessary to perform installations and maintenance on those systems. Should LiveTV be unable to satisfy its commitments under these third party contracts, 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, 2007, our debt of \$3.05 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, 2007, future minimum payments under noncancelable leases and other financing obligations were approximately \$1.12 billion for 2008 through 2012 and an aggregate of \$2.11 billion for the years thereafter. We are also constructing a new terminal at JFK, which will be operated 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 in the totals above.

As of December 31, 2007, we had commitments of approximately \$5.27 billion to purchase 144 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 a large portion 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 flows, 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 principally 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 flows 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. The unionization of any our

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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. The majority of our operations are concentrated in the Northeast and Florida, 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 congestion or a reduction in demand for air travel in this market, or our inability to open and operate reliably out of our new terminal at JFK, would harm our business.

We are highly dependent on the New York metropolitan market where we maintain a large presence with approximately 66% of our daily flights having JFK, LaGuardia, Newark, Westchester County Airport or Newburgh's Stewart International Airport as either their origin or destination. We have experienced an increase in flight delays and cancellations at JFK due to airport congestion, which has adversely affected our operating performance and results of operations. Our business could be further harmed by an increase in the amount of direct competition we face in the New York metropolitan market or by continued or increased congestion, delays or cancellations. Our business would also 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, terrorist attacks or significant price increases linked to increases in airport access costs and fees imposed on passengers.

In the third quarter of 2008, we plan to commence operations out of a new 26-gate terminal at JFK, which we have been constructing since 2005 under a 30-year lease with the PANYNJ. Any significant delays in completing this construction or in commissioning of the new facility, including the adjacent parking garage and the skywalk connection to the AirTrain, or any non-performance of the building's critical systems, such as baggage sortation, information technology or customer notification systems, could negatively affect our operations and harm our business.

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. These systems require upgrades or replacement periodically, which involve implementation and other operational 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

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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 other airlines. 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 3.1 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.

If we are unable to operate the new EMBRAER 190 aircraft reliably, our business could be harmed.

We were the first airline to take delivery of the new EMBRAER 190 aircraft in late 2005. Acquisition of a new type of aircraft, such as the EMBRAER 190, involves a variety of risks relating to its operational reliability, including the ability of the aircraft and all of its components to comply with agreed upon specifications and performance standards. If we are unable to operate the new EMBRAER 190 aircraft reliably, 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

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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 resulting in an inability to operate our aircraft. 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 in flight entertainment including DirecTV®. 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.

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. In recent years, the U.S. airline industry has experienced consolidation and there continue to be 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

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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.

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ITEM 2. PROPERTIES

Aircraft

As of December 31, 2007, we operated a fleet consisting of 104 Airbus A320 aircraft each powered by two IAE International Aero Engines V2527-A5 engines and 30 EMBRAER 190 aircraft each powered by two General Electric Engines CF-34-10 engines, as follows:

Aircraft Seating Capacity	Owned	Capital Leased	Operating													
Leased	Total	Average Age														
in Years	Airbus A320	150	76	4	24	104	3.6	EMBRAER 190	100	1	—	29	30			
1.5	Totals	77	4	53	134	3.1										

Our aircraft leases have an average remaining initial lease term of approximately 13.8 years at December 31, 2007. The earliest of these terms ends in 2009 and the latest ends in 2025. 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 77 of our owned aircraft and 19 of our 21 owned spare engines are subject to secured debt financing.

In October 2007, we amended our EMBRAER 190 purchase agreement, deferring delivery of 16 EMBRAER 190 aircraft originally scheduled for delivery from 2007 through 2012 to 2013 through 2015. In January 2008, we amended our Airbus A320 purchase agreement, deferring delivery of 16 Airbus A320 aircraft originally scheduled for delivery from 2011 through 2012 to 2012 through 2013. This amendment also affected our A320 purchase options as follows: 1) the deferral of eight to 2013 and 2014, 2) the conversion of eight into purchase rights for A320 aircraft scheduled for delivery through 2015 and 3) the cancellation of four. As of December 31, 2007, including the effects of these amendments, we had on order 144 aircraft, which are scheduled for delivery through 2015 on a relatively even basis during each year, with options to acquire 123 aircraft as follows:

																	Firm	Option																			
Year	Airbus A320	EMBRAER 190	Total Airbus A320	EMBRAER 190	Total	2008	12	6	18	—	—	—	2009 (1)	12	9	21	—	4	4	2010	10	8	18														
—	9	9	2011	10	8	18	6	11	17	2012	13	10	23	8	12	20	2013	13	12	25	10	14	24	2014	—	12	12	4	21	25	2015	—	9	9	4	20	24
70	74	144	32	91	123																																

(1) In 2007, we exercised options for three of our EMBRAER 190 aircraft scheduled for delivery in 2009, which are now included as firm commitments.

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.

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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 a connection to the AirTrain, 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 nine gates and 22 ticket counter positions. In 2008, we expect to add our tenth gate in May and our eleventh gate in November at Logan. Our operations at Washington's Dulles International Airport are based at Terminal B, where we currently operate four gates and ten 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 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 LiveTV 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, at-home reservation agent supervision, disbursements and credit card fraud investigation. In addition to the above, our information technology department is based in Garden City, New York, where we occupy space under a lease that expires in 2015.

## 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.



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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 2007.

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 Barger, age 50, is our Chief Executive Officer and has served in this capacity since May 2007. He is also a member of our board of directors. He served as our President from August 1998 to September 2007 and Chief Operating Officer from August 1998 to March 2007. 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.

Edward Barnes, age 43, is our Executive Vice President and Chief Financial Officer, a position he has held since February 2008. Mr. Barnes joined the Company in October 2006 as Vice President, Cost Management and Financial Analysis and more recently served as Vice President, Finance. His prior experience includes serving as Vice President, Controller of JDA Software from April 2005 through September 2006; Senior Vice President, Chief Financial Officer at Assisted Living Concepts from December 2003 to March 2005; and Vice President, Controller at Pegasus Solutions from June 2000 to December 2003. He is a Certified Public Accountant and a member of the AICPA.

Russell Chew, age 54, is our President and Chief Operating Officer and has served in these capacities since September 2007 and March 2007, respectively. Mr. Chew served as Chief Operating Officer of the Federal Aviation Administration from 2003 until February 2007. Before joining the FAA, Mr. Chew was employed by American Airlines, Inc. from 1985 through 2003, most recently as Managing Director of Systems Operations Control.

James Hnat, age 37, is our Executive Vice President Corporate Affairs, General Counsel and Secretary and has served in this capacity since April 2007. He served as our Senior Vice President, General Counsel and Assistant Secretary from March 2006 to April 2007 and 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.

Robert Maruster, age 36, is our Senior Vice President Airports Customer Services 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.

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PART II

ITEM 5.

MARKET FOR REGISTRANT’S COMMON EQUITY; RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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.

								High	Low
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	2007 Quarter Ended		March 31	\$ 17.02	\$ 11.33	
June 30	12.08	9.72	September 30	11.99	8.53	December 31	9.98	5.90	

As of January 31, 2008, 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.

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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, 2007. The comparison assumes the investment of \$100 in our common stock and each of the foregoing indices and reinvestment of all dividends.

	12/31/2002	12/31/2003	12/31/2004	12/31/2005	12/31/2006	12/31/2007	JetBlue Airways Corporation
\$ 100	\$ 147	\$ 129	\$ 128	\$ 118	\$ 49	\$ 49	S&P 500 Stock Index
100	126	138	142	161	167	167	AMEX Airline Index(1)
100	158	155	140	150	88	88	

(1) As of December 31, 2007, 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.



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## ITEM 6. SELECTED FINANCIAL DATA

The following financial information for the five years ended December 31, 2007 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,	2007	2006	2005	2004	2003	(in millions, except per share data)					Statements	
of Operations Data:						Operating revenues	\$ 2,842	\$ 2,363	\$ 1,701	\$ 1,265	\$ 998	
Operating expenses:						Aircraft fuel	929	752	488	255	147	Salaries, wages and
benefits	648	553	428	337	267	Landing fees and other rents	180	158	112	92	70	
Depreciation and amortization	176	151	115	77	51	Aircraft rent	124	103	74	70	60	
Sales and marketing	121	104	81	63	54	Maintenance materials and repairs	106	87	64			
45 23 Other operating expenses (1)	389	328	291	215	159	Total operating expenses (2)	2,673					
2,236 1,653 1,154 831	Operating income	169	127	48	111	167	Government					
compensation (3)	—	—	—	—	23	Other income (expense)	(128)	(118)	(72)	(36)	(16)	
Income (loss) before income taxes	41	9	(24)	75	174	Income tax expense (benefit)	23	10				
(4) 29 71	Net income (loss)	\$ 18	\$ (1)	\$ (20)	\$ 46	\$ 103	Earnings (loss) per common share:					
	Basic	\$ 0.10	\$ —	\$ (0.13)	\$ 0.30	\$ 0.71	Diluted	\$ 0.10	\$ —	\$ (0.13)	\$	
0.28 \$ 0.64	Other Financial Data:						Operating margin	6.0 %	5.4 %	2.8 %		
8.8 % 16.8 %	Pre-tax margin	1.4 %	0.4 %	(1.4)%	5.9 %	17.4 %	Ratio of earnings to fixed					
charges (4)	—	—	—	1.6 x	3.1 x	Net cash provided by operating activities	\$ 358	\$ 274	\$ 170	\$		
199 \$ 287	Net cash used in investing activities	(734)	(1,307)	(1,276)	(720)	(987)	Net cash					
provided by financing activities	556	1,037	1,093	437	789							

(1) In 2007, we sold three Airbus A320 aircraft, which resulted in gains of \$7 million. In 2006, we sold five Airbus A320 aircraft, resulting in gains 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 \$1 million, \$17 million and \$39 million for the years ended December 31, 2007, 2006 and 2005, respectively.

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		2007	2006	2005	2004	2003	(in millions) Balance Sheet Data:					
Cash, cash equivalents and investment securities						\$ 834	\$ 699	\$ 484	\$ 450	\$ 607	Total	
assets		5,598	4,843	3,892	2,797	2,185	Total debt	3,048	2,840	2,326	1,545	1,109
Common stockholders' equity		1,036	952	911	754	670						

		2007	2006	2005	2004	2003	Operating Statistics (unaudited):					
Revenue passengers (thousands)			21,387	18,565	14,729	11,783	9,012	Revenue passenger				
miles (millions)		25,737	23,320	20,200	15,730	11,527	Available seat miles (ASMs)(millions)					
31,904	28,594	23,703	18,911	13,639	Load factor		80.7 %	81.6 %	85.2 %	83.2 %	84.5 %	
% Breakeven load factor (5)		80.7 %	81.4 %	86.1 %	77.9 %	72.6 %	Aircraft utilization (hours per day)					
12.8	12.7	13.4	13.4	13.0	Average fare		\$ 123.23	\$ 119.73	\$ 110.03	\$ 103.49	\$ 107.09	
Yield per passenger mile (cents)		10.24	9.53	8.02	7.75	8.37	Passenger revenue per ASM (cents)					
8.26	7.77	6.84	6.45	7.08	Operating revenue per ASM (cents)		8.91	8.26	7.18	6.69	7.32	
Operating expense per ASM (cents)		8.38	7.82	6.98	6.10	6.09	Operating expense per ASM, excluding fuel (cents)					
5.47	5.19	4.92	4.75	5.01	Airline operating expense per ASM (cents)							
(5)	8.27	7.76	6.91	6.04	6.08	Departures		196,594	159,152	112,009	90,532	
66,920	Average stage length (miles)		1,129	1,186	1,358	1,339	1,272	Average number of operating aircraft during period				
127.8	106.5	77.5	60.6	44.0	Average fuel cost per gallon		\$ 2.09	1.99	\$ 1.61	\$ 1.06	\$ 0.85	
Fuel gallons consumed (millions)		444	377	303	241	173	Percent of sales through jetblue.com during period					
75.7 %	79.1 %	77.5 %	75.4 %	73.0 %	Full-time equivalent employees at period end (5)							
9,909	9,265	8,326	6,413	4,892								

(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.

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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.

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ITEM 7.

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

Overview

We are an innovative, low cost passenger airline that provides award-winning customer service primarily on point-to-point routes. We offer our customers a high quality product, including generous legroom, free in-flight entertainment, pre-assigned seating, unlimited snacks and reliable performance. We currently serve 53 destinations in 21 states, Puerto Rico, Mexico and the Caribbean and operate over 550 flights a day with a fleet of 104 Airbus A320 aircraft and 30 EMBRAER 190 aircraft.

In 2007, we reported net income of \$18 million and an operating margin of 6.0%, compared to a net loss of \$1 million and an operating margin of 5.4% in 2006. We achieved these results despite operational challenges in the first quarter and record high fuel prices, through revenue optimization, continued cost discipline and strategically managing our growth.

In the first quarter of 2007, we were negatively impacted by an ice storm which hit the New York metropolitan area and resulted in our cancelling approximately 1,200 flights over a six day period. Following our recovery from the storm, we appointed Russell Chew as our Chief Operating Officer who led our successful implementation of a multi-phased strategy to improve our overall operating reliability, better handle of irregular operations (which includes preemptive cancellations for severe weather), and improve customer communications. We further demonstrated our industry-leading commitment to our customers with the introduction of the JetBlue Airways Customer Bill of Rights which provides for compensation to our customers who are inconvenienced by service disruptions within our control. We believe that we have emerged from 2007 a better airline through these strategic changes, which also have contributed to our improved operating results.

The summer of 2007 was one of the worst for flight delays in the New York metropolitan area, principally as a result of airlines' over-scheduling the capacity of the New York metropolitan airports during certain hours of the day. In response to these chronic delays, the DOT announced that beginning in 2008, it would limit the number of flights in and out of JFK. We believe that, along with other initiatives the FAA and DOT are undertaking to enhance capacity, these restrictions will help alleviate congestion in the nation's largest travel market and thereby enable us to operate more reliably, reduce costs and improve the customer experience.

In 2007, we continued our focus on a more disciplined growth strategy, beginning with managing the growth, size and age of our fleet. In March 2007, we amended our Airbus A320 purchase agreement, deferring four aircraft deliveries from 2009 to 2012. In 2008, we further amended this purchase agreement, deferring delivery of 16 aircraft, which had been scheduled for delivery in 2010 and 2011, to 2012 and 2013. During 2007, we sold three of our older Airbus A320 aircraft and returned another to its lessor. Removing older aircraft from our fleet allows us to keep the average age of our fleet down and improves our efficiency, which results in a better experience for our customers as well as reduces maintenance costs. We plan further sales and lease terminations of older aircraft in 2008, including commitments to sell six A320 aircraft in 2008. In 2007, we also amended our purchase agreement with Embraer by slowing delivery of 16 firm aircraft orders. Our original purchase agreement called for delivery of an average of 18 EMBRAER 190 aircraft per year. Following the 2007 amendments, we slowed the pace of firm aircraft deliveries to an average of 10 per year. However, because we have 91 EMBRAER 190 purchase options remaining, we retained the flexibility to increase deliveries if demand warrants. In December 2007, we exercised purchase options for three EMBRAER 190 aircraft to be delivered in 2009 (which purchase options would have otherwise expired).

Our growth in 2007 was achieved largely through expanding our existing route network by adding frequencies and new routes between existing destinations. We added only five new destinations in 2007, compared to the 16 that were added in 2006. In late 2007, we made the decision to close our stations in Nashville, TN and Columbus, OH, which allowed us to redeploy aircraft to more profitable routes. In 2008, we plan to continue to focus on adding service between existing destinations and rational growth in the number of new destinations, including the January 2008 additions of Puerto Plata in the Dominican Republic and St. Maarten in the Netherlands Antilles.

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In the third quarter of 2008, we plan on opening our new 26-gate terminal at JFK's Terminal 5, or T5. T5 has an optimal airside location, which we believe will increase the efficiency of our operations. Although we will be limited in the number of flights we can operate out of JFK during the airport's peak hours, we believe that T5 will allow us to continue to grow our operations at the airport. We also believe that our customers will have an improved overall experience in T5, including approximately 200 self-service kiosks, a 20-lane security checkpoint and a wide variety of high quality concessions and wireless hotspots, which should differentiate us from our competitors in much the same way that our onboard flight experience has distinguished us from other airlines.

We have increased our revenues through the use of various distribution channels. During 2007, we began selling tickets through several online travel agencies, including Expedia, Travelocity and Orbitz. We also began collecting a \$10 telephonic reservation fee, with the goal of directing more traffic through jetblue.com, our lowest cost distribution channel, in addition to generating more ancillary revenue. We also introduced our Cashless Cabin initiative in November 2007 in order to help monetize ancillary revenue opportunities onboard our aircraft. We are continuing to evaluate additional revenue generating options to improve the JetBlue Experience for our customers without compromising the JetBlue brand.

In December 2007, we announced plans to issue and sell approximately 42 million shares of our common stock to Deutsche Lufthansa AG for approximately \$300 million, net of transaction costs. Following the consummation of this transaction in January 2008, Deutsche Lufthansa AG currently owns approximately 19% of our total outstanding shares of common stock. We believe that this investment by one of the most highly respected leaders and most recognized brands in the global airline industry is an affirmation of the JetBlue brand and business model. The proceeds of this financing will be used to fund working capital and for other corporate purposes.

We derive our revenue primarily from transporting passengers on our aircraft. Passenger revenue was 92.7% of our total operating revenues for the year ended December 31, 2007. Revenues generated from international routes, excluding Puerto Rico, accounted for 4% of our total passenger revenues in 2007. Revenue is recognized either when 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.

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. 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 fees charged to customers in accordance with our published policies relating to reservation changes and baggage limitations, the marketing component of TrueBlue point sales, concession revenues 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 maintain one of the lowest cost structures in the industry due to the young average age of our fleet, a productive workforce, and a strong commitment to cost discipline. In 2008, we plan to continue our focus on cost control while improving the JetBlue Experience for our customers. 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

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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 3.1 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, gains on aircraft sales 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.

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 2005 US Airways and America West merged, and each of Delta Air Lines and Northwest Airlines filed for bankruptcy protection. Both Delta and Northwest emerged from bankruptcy in 2007 with lower costs, which is allowing them to compete more vigorously. Through 2007 and into 2008, there have been other reports of potential consolidation within the industry. We are unable to predict what the effect of further industry consolidation would be for us or for the airline industry in general. In 2007, most traditional network airlines continued to increase capacity on their international routes and only slightly increased their domestic capacity. These developments, in conjunction with our shift of capacity from some transcontinental flights to more short- and medium-haul routes, contributed to our improved financial performance in 2007.

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, continuing to provide 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 2008

Our focus in 2008 will continue to be on disciplined growth, rigorous cost control and revenue optimization. We expect the year-over-year upward trend in yield and RASM to continue through 2008 as a result of our overall decreased domestic capacity and maturity of our markets. In addition, we are continuously looking to expand our other revenue opportunities, including charter services, marketing alliances, and through our 2008 introduction of



refundable fares.

We expect our full-year operating capacity for 2008 to increase approximately 5% to 8% over 2007 with the addition of 12 new Airbus A320 aircraft and six new EMBRAER 190 aircraft to our operating fleet, offset by the planned sale of six of our Airbus A320 aircraft during the year. In our

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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, returns, assignments and/or delivery deferrals. Assuming fuel prices of \$2.55 per gallon, net of effective hedges, our cost per available seat mile for 2008 is expected to increase by 10% to 12% over 2007. Our operating margin is expected to be between 6% and 8% and our pre-tax margin is expected to be between 1% and 3% 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. However, due to the optimization of our own fare mix, average fares for the year increased 3% over 2006 to \$123.23, while load factor declined 0.9 points to 80.7% from the full year 2006.

Our on-time performance, defined by the DOT as arrivals within 14 minutes of schedule, was 70.2% in 2007 compared to 72.9% in 2006. 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 98.0% and 99.6% completion factors in 2007 and 2006, respectively.

Year 2007 Compared to Year 2006

We reported net income of \$18 million in 2007 compared to a net loss of \$1 million in 2006. In 2007, we had operating income of \$169 million, an increase of \$42 million over 2006, and our operating margin was 6.0%, up 0.6 points from 2006. Diluted earnings per share was \$0.10 for 2007 and \$0.00 for 2006.

**Operating Revenues.** Operating revenues increased 20%, or \$479 million, primarily due to an increase in passenger revenues. The \$413 million increase in passenger revenues was attributable to a 7.4% increase in yield due to higher average fare offset by a slightly lower load factor. Passenger revenues were also higher due to a 24% increase in departures.

Other revenue increased 47%, or \$66 million, primarily due to higher change fees and excess baggage fees of \$28 million resulting from more passengers and higher rates. Other revenue also increased due to higher LiveTV third-party revenues of \$12 million, rental income of \$8 million, mail revenues of \$3 million and the marketing component of TrueBlue point sales of \$3 million.

**Operating Expenses.** Operating expenses increased 20%, or \$437 million, primarily due to operating an average of 21 additional aircraft, which resulted in higher capacity, and a 5% increase in average fuel price per gallon. Operating capacity increased 12% to 31.9 billion available seat miles in 2007 due to having 20% more average aircraft in-service. Our increase in capacity was partially offset by a 3% reduction in available seat miles due to the removal of a row of seats on our Airbus A320 aircraft in the first quarter of 2007. Operating expenses per available seat mile increased 7% to 8.38 cents. Excluding fuel, our cost per available seat mile increased 5% in 2007. In detail, operating costs per available seat mile were (percent changes are based on unrounded numbers):

						Year	
Ended December 31,		2007	2006	Percent			
Change (in cents)							
and benefits	2.03	1.94	5.1		Aircraft fuel	2.91	2.63 10.7 %
					Landing fees and other rents	.57	.55 2.5
							Depreciation and
							Salaries, wages

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amortization	.55	.53	4.2	Aircraft rent	.39	.36	7.2	Sales and marketing	.38	.36	4.3
Maintenance materials and repairs		.33	.30	8.8	Other operating expenses	1.22	1.15	6.2	Total		
operating expenses	8.38	7.82	7.1 %								

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In 2007, our average stage length declined 5% to 1,129 miles due to increased operation of the shorter-range EMBRAER 190 aircraft. 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.

Aircraft fuel expense increased 24%, or \$177 million, due to 67 million more gallons of aircraft fuel consumed resulting in \$133 million of additional fuel expense and a 5% increase in average fuel cost per gallon, or \$44 million. Aircraft fuel prices remained at or near historically high levels in 2007, with our average fuel price per gallon at \$2.09 compared to \$1.99 for the year ended December 31, 2006. Our fuel costs represented 35% and 34% of our operating expenses in 2007 and 2006, respectively. Our fuel consumption per block hour decreased 3% due to utilization of the lighter EMBRAER 190 aircraft and various fuel conservation initiatives. Cost per available seat mile increased 11% primarily due higher fuel prices and increased stage length..

Salaries, wages and benefits increased 17%, or \$95 million, due primarily to changes in our employee retirement plan, increases in our 2007 pilot pay rates, increased profit sharing and overtime pay resulting from the weather-related events in the first quarter of 2007. Specifically, we recorded \$20 million of profit sharing in 2007 compared to \$3 million in 2006. Cost per available seat mile increased 5% as a result of the 2007 pilot pay increases and profit sharing.

Landing fees and other rents increased 14%, or \$22 million, due to a 24% increase in departures over 2006 and increased airport rents associated with opening five new cities in 2007. Cost per available seat mile increased 3% due to the decrease in average stage length.

Depreciation and amortization increased 16%, or \$25 million, primarily due to having an average of 78 owned and capital leased aircraft in 2007 compared to 67 in 2006.

Aircraft rent increased 20%, or \$21 million, due to seven new EMBRAER 190 aircraft leases. Cost per available seat mile increased 7% due to a higher percentage of our fleet being leased.

Sales and marketing expense increased 16%, or \$17 million, primarily due to \$11 million in higher credit card fees resulting from increased passenger revenues and \$5 million in commissions related to our participation in GDSs. On a cost per available seat mile basis, sales and marketing expense increased 4% primarily due to higher credit card fees and more GDS commissions. We book the majority of our reservations through a combination of our website and our agents (76% and 16% in 2007, respectively).

Maintenance materials and repairs increased 21%, or \$19 million, due to 21 more average operating aircraft in 2007 compared to 2006 and a gradual aging of our fleet. Cost per available seat mile increased 9% primarily due to an increase in the average age of our fleet. Maintenance expense is expected to increase significantly as our fleet ages.

Other operating expenses increased 19%, or \$61 million, primarily due to higher variable costs associated with 12% increased capacity and a 15% increase in the number of passengers served. \$4 million of the increase is related to LiveTV's development of in-flight data connectivity and \$5 million is attributable to higher interrupted trip expenses. In addition, other operating expenses include \$7 million and \$12 million in gains on sales of aircraft in 2007 and 2006, respectively. Cost per available seat mile increased 6% due primarily to fewer gains on the sale of aircraft.

Other Income (Expense). Interest expense increased 31%, or \$52 million, primarily due to increases of \$34 million in interest associated with the debt or capital lease financing for new aircraft deliveries, \$13 million of interest for the financing of previously unsecured property and \$18 million of interest related to our construction obligation for our new terminal at JFK. Interest expense was reduced by approximately \$7 million due to the scheduled pay downs of our long-term debt obligations and by an additional \$6 million related to retired debt for sold aircraft. The increase in capitalized interest was primarily attributable to the higher interest expense incurred for our new terminal.

Interest income and other increased 96%, or \$26 million, primarily due to a \$17 million increase in interest income due to higher average cash and investment balances and fuel hedge gains of

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\$5 million in 2007 compared to fuel hedge losses of \$5 million in 2006. 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.

Our effective tax rate decreased to 55% in 2007 from 109% in 2006. 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 \$41 million and \$9 million in 2007 and 2006, 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.

**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 2005, the increase in our yields more than compensated for this decrease. During 2006, we entered into agreements with four GDSs, which allow our flights to be available on their online travel reservation systems. Bookings through these GDSs 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,	2006	2005	Percent		
Change (in cents)	Operating expenses:			Aircraft fuel	2.63 2.06 27.7 %
and benefits	1.94 1.81 7.2	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 aircraft 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.

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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 \$0.10 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.

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. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. We expect to recognize that cost over the remaining vesting period of five years. See Notes 1 and 7 to our consolidated financial statements for more information regarding the adoption of this accounting standard.

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%

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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.

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 2006 pre-tax income of \$9 million.

Quarterly Results of Operations

The following table sets forth selected financial data and operating statistics for the four quarters ended December 31, 2007. The information for each of these quarters is unaudited and has been prepared on the same basis as the audited consolidated financial statements appearing elsewhere in this Form 10-K.

Three Months Ended March 31,  
2007 June 30,  
2007 September 30,  
2007 December 31,

2007 Statements of Operations Data (dollars in millions)				Operating revenues				\$ 608	\$ 730			
\$ 765	\$ 739	Operating expenses:		Aircraft fuel	190	226	249	264	Salaries, wages			
and benefits	164	158	159	167	Landing fees and other rents	45	47	44	44	Depreciation and		
amortization	42	43	44	47	Aircraft rent	30	30	32	32	Sales and marketing		
32	29	Maintenance materials and repairs		26	27	25	28	Other operating expenses		(1)	95	95
101	98	Total operating expenses		621	657	686	709	Operating income (loss)		(13)	73	79
30	Other income (expense)		(32)	(30)	(33)	(33)	Income (loss) before income taxes		(45)	43		
46	(3)	Income tax expense (benefit)		(23)	22	23	1	Net income (loss)		\$ (22)	\$ 21	\$ 23
(4)	Operating margin		(2.2)%	10.0%	10.3%	4.1%	Pre-tax margin		(7.3)%	5.9%	6.0%	
(0.4)%												

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Three Months Ended March 31,  
 2007 June 30,  
 2007 September 30,  
 2007 December 31,

2007 Operating Statistics:					Revenue passengers (thousands)	5,091	5,587	5,528	5,181
Revenue passenger miles (millions)	5,942	6,736	6,848	6,211	Available seat miles ASM (millions)				
7,370	8,066	8,355	8,113	Load factor	80.6 %	83.5 %	82.0 %	76.6 %	Breakeven load factor
(2)	88.1 %	79.6 %	78.0 %	78.4 %	Aircraft utilization (hours per day)	12.7	13.2	13.0	12.6
Average fare	\$ 110.79	\$ 122.17	\$ 128.83	\$ 130.61	Yield per passenger mile (cents)	9.49	10.13		
10.40	10.89	Passenger revenue per ASM (cents)	7.65	8.46	8.52	8.34	Operating revenue per ASM		
(cents)	8.25	9.05	9.16	9.10	Operating expense per ASM (cents)	8.43	8.14	8.22	8.73
Operating expense per ASM, excluding fuel (cents)	5.85	5.34	5.24	5.48	Airline operating expense per				
ASM (cents) (2)	8.36	8.07	8.11	8.54	Departures	46,574	49,513	50,233	50,274
Average stage length (miles)	1,086	1,135	1,161	1,133	Average number of operating aircraft during period				
121.5	126.7	130.7	132.1	Average fuel cost per gallon	\$ 1.88	\$ 2.00	\$ 2.13	\$ 2.34	Fuel gallons
consumed (millions)	101	113	117	113	Percent of sales through jetblue.com during period	76.4 %			
74.0 %	74.5 %	78.1 %	Full-time equivalent employees at period end (2)	9,260	9,421	9,301			
9,909									

(1) During the third and fourth quarters of 2007, we sold a total of three Airbus A320 aircraft, which resulted in gains of \$2 million and \$5 million, respectively. (2) Excludes results of operations and employees of LiveTV, LLC, which are unrelated to our airline operations and are immaterial to our consolidated operating results.

Although we have continued to experience significant revenue growth, this trend may not continue. We expect our expenses to continue to increase significantly as we acquire additional aircraft, as our fleet ages and as we expand the frequency of flights in existing markets and enter into new markets. Accordingly, the comparison of the financial data for the quarterly periods presented may not be meaningful. In addition, we expect our operating results to fluctuate significantly from quarter to quarter in the future as a result of various factors, many of which are outside our control. Consequently, we believe that quarter-to-quarter comparisons of our operating results may not necessarily be meaningful and you should not rely on our results for any one quarter as an indication of our future performance.

## Liquidity and Capital Resources

At December 31, 2007, we had cash and cash equivalents of \$190 million and investment securities of \$644 million, compared to cash and cash equivalents of \$10 million and investment securities of \$689 million at December 31, 2006. The increase in our cash and investment balances during 2007 resulted primarily from our results from operations and net proceeds from the sale of three of our aircraft. We presently have no lines of credit other than two short-term borrowing facilities for certain aircraft predelivery deposits. At December 31, 2007, we had \$43 million in borrowings outstanding under these facilities.

We rely primarily on cash flows from operations to provide working capital for current and future operations. Cash flows from operating activities totaled \$358 million in 2007, \$274 million in 2006, and \$170 million in 2005. The \$84 million increase in cash flows from operations in 2007 compared to 2006



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was primarily as a result of the growth of our business. Cash flows from operations in 2006 compared to 2005 also increased due to the growth of our business, offset in part by the increase in fuel prices. Net cash used in investing and financing activities was \$178 million in 2007, \$270 million in 2006, and \$183 million in 2005.

**Investing Activities.** During 2007, capital expenditures related to our purchase of flight equipment included expenditures of \$531 million for 17 aircraft and four spare engines, \$128 million for flight equipment deposits and \$12 million for spare part purchases. Capital expenditures for other property and equipment, including ground equipment purchases and facilities improvements, were \$74 million. Expenditures related to the construction of our new terminal at JFK totaled \$242 million. Net cash provided by the sale of investment securities was \$78 million. Other investing activities included the receipt of \$100 million in proceeds from the sale of three Airbus A320 aircraft, the release of \$72 million related to restricted cash that collateralized a letter of credit we had posted in connection with our new terminal lease at JFK and the refund of \$12 million in flight equipment deposits related to aircraft delivery deferrals.

During 2006, capital expenditures related to our purchase of flight equipment included expenditures of \$874 million for 30 aircraft and five spare engines, \$106 million for flight equipment deposits and \$33 million for spare part purchases. Capital expenditures for other property and equipment, including ground equipment purchases and facilities improvements, were \$89 million. Net cash used for the purchase of investment securities was \$213 million. Other investing activities included the receipt of \$154 million in proceeds from the sale of five Airbus A320 aircraft and the refund of \$19 million in flight equipment deposits related to aircraft delivery deferrals.

**Financing Activities.** Financing activities during 2007 consisted primarily of (1) the sale and leaseback over 18 years of seven EMBRAER 190 aircraft for \$183 million by a U.S. leasing institution, (2) our issuance of \$278 million in fixed rate equipment notes to various European financial institutions secured by eight Airbus A320 aircraft, (3) our issuance of \$69 million in floating rate equipment notes to various European financial institutions secured by two Airbus A320 aircraft, (4) reimbursement of construction costs incurred for our new terminal at JFK of \$242 million, (5) the financing of four spare engine purchases of \$29 million, (6) scheduled maturities of \$197 million of debt and (7) the repayment of \$68 million of debt in connection with the sale of three Airbus A320 aircraft.

Financing activities during 2006 consisted primarily of (1) the sale and leaseback over 18 years of 16 EMBRAER 190 aircraft for \$406 million by a U.S. leasing institution, (2) our issuance of \$329 million in fixed rate equipment notes to various European financial institutions secured by nine Airbus A320 aircraft and one EMBRAER 190 aircraft, (3) our issuance of \$69 million in floating rate equipment notes to various European financial institutions secured by two Airbus A320 aircraft, (4) our issuance of \$223 million in fixed and floating rate debt to various U.S. and European financial institutions secured by eight Airbus A320 aircraft, five of which were refinanced, (5) reimbursement of construction costs incurred for our new terminal at JFK of \$179 million, (6) the financing of previously unsecured owned assets for \$234 million, (7) scheduled maturities of \$162 million of debt and (8) the repayment of \$105 million of debt in connection with the sale of five Airbus A320 aircraft.

In June 2006, we filed an automatic shelf registration statement with the SEC relating to our sale, from time to time, in one or more public offerings of debt securities, pass-through certificates, common stock, preferred stock and/or other securities. The net proceeds of any securities we sell under this registration statement may be used to fund working capital and capital expenditures, including the purchase of aircraft and construction of facilities on or near airports. Through December 31, 2007, we had issued a total of \$124 million of pass-through certificates under this registration statement to finance certain previously purchased aircraft spare parts.

In January 2008, we completed the issuance and sale of approximately 42 million shares of our common stock, representing approximately 19% of our total outstanding shares of common stock, to Deutsche Lufthansa AG for approximately \$300 million, net of transaction costs. At the closing of the stock sale, we and Deutsche Lufthansa AG entered into a Registration Rights Agreement covering the shares pursuant to which we are required, within 90 days after the closing date, to file with the

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SEC a post-effective amendment or supplement to our automatic shelf registration statement filed on June 30, 2006 to allow Deutsche Lufthansa AG to resell the shares. Subject to blackout periods that do not exceed 90 trading days in any 365-day period, we are obligated to keep such shelf registration statement continuously effective under the Securities Act of 1933 until the earlier of (1) the date as of which all of the shares have been sold and (2) the date as of which all of the shares may be sold without registration pursuant to Rule 144 under the Securities Act of 1933.

None of our lenders or lessors are affiliated with us. Our short-term borrowings consist of two floating rate facilities, each with a group of commercial banks to finance aircraft predelivery deposits.

**Capital Resources.** We have been able to generate sufficient funds from operations to meet our working capital requirements. We do not currently have any lines of credit, other than our short-term aircraft predelivery deposit facilities, and virtually all of our property and equipment is encumbered. We typically finance our aircraft through either secured debt or lease financing. At December 31, 2007, we operated a fleet of 134 aircraft, of which 53 were financed under operating leases, four were financed under capital leases and the remaining 77 were financed by secured debt. Financing in the form of secured debt or leases has been arranged for all 12 of our Airbus A320 aircraft and for all six of our EMBRAER 190 aircraft scheduled for delivery in 2008. Although we believe that debt and/or lease financing should be available for our remaining aircraft deliveries, we cannot assure you that we will be able to secure financing on terms attractive to us, if at all. While these financings may or may not result in an increase in liabilities on our balance sheet, our fixed costs will increase significantly regardless of the financing method ultimately chosen. To the extent we cannot secure financing, we may be required to modify our aircraft acquisition plans or incur higher than anticipated financing costs.

**Working Capital.** We had a working capital deficit of \$140 million at December 31, 2007, which is customary for airlines since air traffic liability is classified as a current liability, compared to working capital of \$73 million at December 31, 2006. Included in our working capital deficit is \$175 million of indebtedness related to our 3 ½% convertible notes due 2033, which is now classified as a current liability because we expect holders of these notes to exercise their option to have us repurchase them on their first purchase date of July 15, 2008. We expect to meet our obligations as they become due through available cash, investment securities and internally generated funds, supplemented as necessary by debt and/or equity financings and proceeds from aircraft sale and leaseback transactions. We also plan to sell six additional Airbus A320 aircraft in 2008 and may further reduce our obligations through additional aircraft sales and/or return of leased aircraft. We expect to generate positive working capital through our operations. However, we cannot predict what the effect on our business might be from the extremely competitive environment we are operating in or from events that are beyond our control, such as continued unprecedented high fuel prices, the impact of airline bankruptcies or consolidations, U.S. military actions or acts of terrorism.

As of December 31, 2007, \$611 million of our short-term investments were invested in auction rate securities, or ARSs. We also had \$45 million of restricted cash invested in ARSs. Through February 11, 2008, we had reduced our total investments in ARSs to \$330 million, principally by investing in other short-term investments as individual ARS reset periods came due and the securities were once again subject to the auction process. The \$330 million we have invested in ARSs at February 18, 2008 is collateralized by portfolios of student loans, substantially all of which is guaranteed by the United States government. Through February 18, 2008, auctions for \$144 million of these securities were not successful, resulting in our continuing to hold these securities and the issuers paying interest at the maximum contractual rate. Based on current market conditions, it is likely that auctions related to more these securities will be unsuccessful in the near term. Unsuccessful auctions will result in our holding securities beyond their next scheduled auction reset dates and limiting the short-term liquidity of these investments. While these failures in the auction process have affected our ability to access these funds in the near term, we do not believe that the underlying

securities or collateral have been affected. We believe that the higher reset rates on failed auctions provide sufficient incentive for the security issuers to address this lack of liquidity. If the credit rating of the security issuers deteriorates, we may be required to adjust the carrying value of these investments through an impairment charge. Excluding ARSs, at February 18, 2008, we had approximately

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\$810 million in cash and short-term investments. We believe the working capital available to us, including the proceeds from our recent equity financing with Lufthansa will be sufficient to meet our cash requirements for at least the next 12 months.

Our noncancelable contractual obligations at December 31, 2007 include (in millions):

Payments due in	Total	2008	2009	2010	2011	2012	Thereafter	Long-term debt and capital lease obligations (1)
\$ 4,327	\$ 591	\$ 308	\$ 302	\$ 297	\$ 320	\$ 2,509	Lease commitments	2,212
243	217	194	179	160	1,219	Flight equipment obligations	5,270	660
730	885	1,545	Short-term borrowings	43	43	—	—	—
700	730	885	1,545	Short-term borrowings	43	43	—	—
4,071	139	140	145	166	233	3,248	Total	\$ 15,923
\$ 1,341	\$ 1,372	\$ 1,598	\$ 8,521					\$ 1,676
								\$ 1,415
								\$

(1)

Includes actual interest and estimated interest for floating-rate debt based on December 31, 2007 rates. (2) Amounts include noncancelable commitments for the purchase of goods and services.

The interest rates are fixed for \$1.36 billion of our debt and capital lease obligations, with the remaining \$1.65 billion having floating interest rates. The floating interest rates adjust quarterly or semi-annually based on the London Interbank Offered Rate, or LIBOR. The weighted average maturity of all of our debt was 11 years at December 31, 2007. None of our debt instruments contain financial covenants. Our spare parts pass-through certificates issued in November 2006 require us to maintain certain non-financial collateral coverage ratios, which could require us to provide additional spare parts collateral or redeem some or all of the related equipment notes. At December 31, 2007, we were in compliance with all covenants of our debt and lease agreements and 93% of our owned property and equipment was collateralized.

We have operating lease obligations for 53 aircraft with lease terms that expire from 2009 to 2025. Five of these leases have variable-rate rent payments that adjust semi-annually based on LIBOR. We also lease airport terminal space and other airport facilities in each of our markets, as well as office space and other equipment. We have \$26 million of restricted assets pledged under standby letters of credit related to certain of our leases which will expire at the end of the related lease terms.

Including the effects of a January 2008 amendment to our Airbus purchase agreement, our firm aircraft orders at December 31, 2007 consisted of 70 Airbus A320 aircraft and 74 EMBRAER 190 aircraft scheduled for delivery as follows: 18 in 2008, 21 in 2009, 18 in each of 2010 and 2011, 23 in 2012, 25 in 2013, 12 in 2014, and 9 in 2015. We meet our predelivery deposit requirements for our aircraft by paying cash or by using short-term borrowing facilities for deposits required six to 24 months prior to delivery. Any predelivery deposits paid by the issuance of notes are fully repaid at the time of delivery of the related aircraft.

We also have options to acquire 32 additional Airbus A320 aircraft for delivery from 2009 through 2015 and 91 additional EMBRAER 190 aircraft for delivery from 2009 through 2015. We can elect to substitute Airbus A321 aircraft or A319 aircraft for the A320 aircraft until 21 months prior to the scheduled delivery date for those aircraft not on firm order.

In November 2005, we executed a 30-year lease agreement with the Port Authority of New York and New Jersey, or PANYNJ, for the construction and operation of a new terminal at JFK. The aggregate cost of this project is estimated at \$740 million and it is expected to be completed in late 2008. We are committed to making various payments under the lease, including ground rents for the new terminal site which began on lease execution and facility rents that are anticipated to commence upon the date of beneficial occupancy. The facility rents are based on the number of passengers enplaned out of the new terminal, subject to annual minimums. The PANYNJ reimburses us for costs of this project in accordance with the terms of the lease, except for approximately \$80 million in leasehold improvements that will be provided by us, \$39 million of which was spent through

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December 31, 2007. For financial reporting purposes, this project will be accounted for as a financing obligation because we currently do not believe we will qualify for sale and leaseback accounting due to our continuing involvement in the property following the construction period. Minimum ground and facility rents for this terminal totaling \$1.33 billion are included in the commitments table above as lease commitments and financing obligations.

Anticipated capital expenditures for facility improvements, spare parts and ground purchases for 2008 are projected to be approximately \$175 million. Our commitments also include those of LiveTV, which has several noncancelable long-term purchase agreements with its suppliers to provide equipment to be installed on its customers' aircraft, including JetBlue's aircraft.

We enter into individual employment agreements with each of our FAA-licensed employees. 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. 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. As we are not currently obligated to pay this guaranteed income and benefits, no amounts related to these guarantees are included in the table above.

## Off-Balance Sheet Arrangements

None of our operating lease obligations are reflected on our balance sheet. Although some of our aircraft lease arrangements are variable interest entities, as defined by FASB Interpretation No. 46, Consolidation of Variable Interest Entities, or FIN 46, none of them require consolidation in our financial statements. The decision to finance these aircraft through operating leases rather than through debt was based on an analysis of the cash flows and tax consequences of each option and a consideration of our liquidity requirements. We are responsible for all maintenance, insurance and other costs associated with operating these aircraft; however, we have not made any residual value or other guarantees to our lessors.

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

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

We have also made certain guarantees and indemnities to other unrelated parties that are not reflected on our balance sheet, which we believe will not have a significant impact on our results of operations, financial condition or cash flows. We have no other off-balance sheet arrangements. See Notes 2, 3 and 12 to our consolidated financial statements for a more detailed discussion of our variable interests and other contingencies, including guarantees and

indemnities.

#### Critical Accounting Policies and Estimates

The preparation of our financial statements in conformity with generally accepted accounting principles requires management to adopt accounting policies and make estimates and judgments to develop amounts reported in our financial statements and accompanying notes. We maintain a

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thorough process to review the application of our accounting policies and to evaluate the appropriateness of the estimates that are required to prepare our financials statements. We believe that our estimates and judgments are reasonable; however, actual results and the timing of recognition of such amounts could differ from those estimates. In addition, estimates routinely require adjustment based on changing circumstances and the receipt of new or better information.

Critical accounting policies and estimates are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. The policies and estimates discussed below have been reviewed with our independent registered public accounting firm and with the Audit Committee of our Board of Directors. For a discussion of these and other accounting policies, see Note 1 to our consolidated financial statements.

**Passenger revenue.** Passenger ticket sales are initially deferred in Air traffic liability. The Air traffic liability also includes customer credits issued and unused tickets whose travel date has passed. Credit for unused tickets and customer credits can each be applied towards another ticket within 12 months of the original scheduled service or 12 months from the issuance of the customer credit. Revenue is recognized when transportation is provided or when a ticket or customer credit expires. We also defer in the Air traffic liability, an estimate for customer credits issued in conjunction with the JetBlue Airways Customer Bill of Rights that are expected to be ultimately redeemed. These estimates are based on historical experience and are periodically evaluated, and adjusted if necessary, based on actual credit usage.

**Accounting for long-lived assets.** In accounting for long-lived assets, we make estimates about the expected useful lives, projected residual values and the potential for impairment. In estimating useful lives and residual values of our aircraft, we have relied upon actual industry experience with the same or similar aircraft types and our anticipated utilization of the aircraft. Changing market prices of new and used aircraft, government regulations and changes in our maintenance program or operations could result in changes to these estimates. The amortization of our purchased technology, which resulted from our acquisition of LiveTV in 2002, is based on the average number of aircraft in service and expected to be in service as of the date of their acquisition. This method results in an increasing annual expense through 2009 when the last of these aircraft are expected to be placed into service and is adjusted to reflect changes in our contractual delivery schedule.

Our long-lived assets are evaluated for impairment at least annually or when events and circumstances indicate that the assets may be impaired. Indicators include operating or cash flow losses, significant decreases in market value or changes in technology. As our assets are all relatively new and we continue to have positive cash flow, we have not identified any significant impairments related to our long-lived assets at this time.

**Stock-based compensation.** The adoption of SFAS 123(R) in 2006 required the recording of stock-based compensation expense for issuances under our stock purchase plan and stock option plan over their requisite service period using a fair value approach similar to the pro forma disclosure requirements of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, or SFAS 123. We use a Black-Scholes-Merton option pricing model to estimate the fair value of share-based awards under SFAS 123(R), which is the same valuation technique we previously used for pro forma disclosures under SFAS 123. The Black-Scholes-Merton option pricing model incorporates various and highly subjective assumptions. We estimate the expected term of options granted using an implied life derived from the results of a lattice model, which incorporates our historical exercise and post-vesting cancellation patterns, which we believe are representative of future behavior. The expected term for our employee stock purchase plan valuation is based on the length of each purchase period as measured at the beginning of the offering period. We estimate the expected volatility of our common stock at the grant

date using a blend of 75% historical volatility of our common stock and 25% implied volatility of two-year publicly traded options on our common stock as of the option grant date. Our decision to use a blend of historical and implied volatility was based upon the volume of actively traded options on our common stock and our belief that historical volatility alone may not be completely representative of future stock price trends. Regardless of the

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method selected, significant judgment is required for some of the valuation variables. The most significant of these is the volatility of our common stock and the estimated term over which our stock options will be outstanding. The valuation calculation is sensitive to even slight changes in these estimates.

**Lease accounting.** We operate airport facilities, offices buildings and aircraft under operating leases with minimum lease payments associated with these agreements recognized as rent expense on a straight-line basis over the expected lease term. Within the provisions of certain leases there are minimum escalations in payments over the base lease term, as well as renewal periods. The effects of the escalations have been reflected in rent expense on a straight-line basis over the lease term, which includes renewal periods when it is deemed to be reasonably assured that we would incur an economic penalty for not renewing. The amortization period for leasehold improvements is the term used in calculating straight-line rent expense or their estimated economic life, whichever is shorter. Had different conclusions been reached with respect to the lease term and related renewal periods, different amounts of amortization and rent expense would have been reported.

**Derivative instruments used for aircraft fuel.** We utilize financial derivative instruments to manage the risk of changing aircraft fuel prices. We do not purchase or hold any derivative instrument for trading purposes. At December 31, 2007, we had a \$33 million asset related to the net fair value of our derivative instruments. The majority of our derivative instruments are traded on active market exchanges. Fair values are assigned based on commodity prices that are provided to us by independent third parties. When possible, we designate these instruments as cash flow hedges for accounting purposes, as defined by Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, or SFAS 133, which permits the deferral of the effective portions of gains or losses until contract settlement.

SFAS 133 is a complex accounting standard, requiring that we develop and maintain a significant amount of documentation related to (1) our fuel hedging program and strategy, (2) statistical analysis supporting a highly correlated relationship between the underlying commodity in the derivative financial instrument and the risk being hedged (i.e. aircraft fuel) on both a historical and prospective basis and (3) cash flow designation for each hedging transaction executed, to be developed concurrently with the hedging transaction. This documentation requires that we estimate forward aircraft fuel prices since there is no reliable forward market for aircraft fuel. These prices are developed through the observation of similar commodity futures prices, such as crude oil and/or heating oil, and adjusted based on variations to those like commodities. Historically, our hedges have settled within 24 months; therefore, the deferred effective portions of gains and losses have been recognized into earnings over a relatively short period of time.

**Frequent flyer accounting.** We utilize a number of estimates in accounting for our TrueBlue customer loyalty program, which are consistent with industry practices. We record a liability, which was \$5 million as of December 31, 2007, for the estimated incremental cost of providing free travel awards, including an estimate for partially earned awards. The estimated cost includes incremental fuel, insurance, passenger food and supplies, and reservation costs. In estimating the liability, we currently assume that 90% of earned awards will be redeemed and that 30% of our outstanding points will ultimately result in awards. Periodica