

# JetBlue Airways Corporation

## ASSESSMENT OF BUSINESS STRATEGY

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Even before September 11, 2001, the U.S. airline industry was in trouble. Corporate America, which accounts for about 70 percent of the industry's revenue, had slashed budgets for business travel. The weakening economy was keeping the regular household consumer closer to home and on the ground. Then, on September 11, 2001, the unimaginable happened. Two American Airlines and two United Airlines jets were turned into missiles by terrorists and more than 3,500 people died as a direct result.

By the beginning of November 2001, lower gasoline prices and the upcoming Thanksgiving holiday began to brighten the spirits of U.S. travelers. However on November 12, 2001 American Airlines Flight 587 literally dropped from the sky over New York City's Borough of Queens, killing 265. During the same week, "a Nepalese man, in the United States on an expired visa, got through security at Chicago's O'Hare airport with five knives, a stun gun, and a container marked TEAR GAS/PEPPER SPRAY."<sup>1</sup> Nervous travelers, worried about security and long delays at airports, just didn't want to fly. By late November, U.S. airlines had cut flights 20% from pre-September 11, 2001 levels, and still had planes flying at only 65% of capacity, compared with an estimated 73% before the terror attacks.

With the exception of fuel prices, which were nearly 25% cheaper than the prior year, the airlines were also watching costs spiral upward. The airline industry has always been a difficult business, with thin profit margins and business cycles that resemble roller-coaster rides. However, now with revenue off so sharply, the airlines were still stuck with high fixed costs such as airplane and airport leases as well as large labor contracts. From 1990-2001, wages, which account for more than one-third of an airline's costs, had risen faster than fares. With expense growth exceeding revenue growth, it was only a matter of time before bankruptcy protection is sought by many of the major airlines. In fact, during October 2001, United Airlines all but admitted that bankruptcy was needed. The airline admitted that it would need to fill 96% of its seats *at all times in order to breakeven*, and warned its employees that the airline "will perish" unless changes are made.<sup>2</sup>

Fifteen miles from the World Trade Center site, and seven miles from the American Airlines Flight 587 crash site, sits the headquarters of JetBlue Airways Corporation in Kew Gardens, Queens, New York. Organized in 1999 and in the air by February 2000, JetBlue was the best funded start-up passenger airline in U.S. aviation history with \$130 million in investments coming from Chairman and CEO David

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<sup>1</sup> Cohen, Adam (November 19, 2001) Flying Low; Time; pages 68-71

<sup>2</sup> Bryant, Adam (November 26, 2001) The Cruel New Math; New York Magazine; pages 58-60

Neeleman and a group of investors including Chase Capital Partners, David Checketts, and two funds controlled by legendary investor George Soros. The new airline sought to enter the highly competitive “low-fare” segment of the airline market by focusing on air travel between underserved markets and large metropolitan areas with high average fares. Instead of using a large fleet of older model jets to establish operations like the other low-fare airlines, JetBlue elected to buy brand new aircraft for its new operations. Also instead of establishing its headquarters in a second-tier city, JetBlue elected to have its home base in one of the most expensive, congested, and rundown airports in the country: John F. Kennedy International Airport (JFK) in New York City.

JetBlue was entering some well-charted and turbulent airspace. Of the 51 U.S. airlines founded during the 1980’s only two, America West and Midwest Express were still in operation, and America West has been close to bankruptcy several times.<sup>3</sup> Between 1989 and 1999, 39 jet carriers began operating within the U.S. In 2000, only 17 of these airlines remained in operation.<sup>4</sup> Clearly there were few formulas for success in the airline business.

Huge spending on brand new aircraft and expensive “used” terminal space are not usually found in winning business plans for start-up airlines, and therefore several industry experts were skeptical about JetBlue’s chances for success. Richard Branson, founder of Virgin Atlantic Airways, was quoted as saying “If you want to become a millionaire, start with a billion dollars and launch a new airline.”<sup>5</sup> The business press was not entirely supportive about JetBlue’s chances of success against the large carriers. “It’s really risky business to take on these eight hundred pound gorilla. You have to be a little nuts to do this,” said Conde Nast Traveler.<sup>6</sup> So why would a group of millionaires and billionaires choose to start up a new airline in such a difficult industry? Who, after the terrorist activity of September 11, 2001, several security lapses, and the crash of American Airlines Flight 587, would ever consider buying the initial public offering (IPO) for the stock of such an airline?

### ***JetBlue Airways***

JetBlue was established as a low-fare, low-cost passenger airline that would provide high-quality customer service primarily on point-to-point routes. JetBlue sought to focus on travel between underserved markets and large metropolitan areas that typically have high average fares. JetBlue’s strategy was to make heavy use of technology and innovation to reduce operating costs, and to use common sense to treat customers to a better flying experience. Founder David Neeleman sought to “bring

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<sup>3</sup> Ibid

<sup>4</sup> Ibid

<sup>5</sup> P. Greenberg, “Why JetBlue will be different,” MSNBC as cited in Gittel and O’Reilly (October, 2001) Harvard Business School Press Reprint Number 9-801-354

<sup>6</sup> “A good idea, but will it fly?” Conde Nast Traveler, December 1999 as cited in Gittel and O’Reilly (October, 2001) Harvard Business School Press Reprint Number 9-801-354

humanity back to air travel” but also have “high quality airline service at affordable fares.”<sup>7</sup>

Comparing the amenities of JetBlue’s Kew Gardens office to one of its Airbus A320 planes demonstrated Neeleman’s vision in action. As noted by Crain’s New York Business, JetBlue’s offices were “cheerful but decidedly down-market... offer(ing) only bare-bones amenities: pressboard furniture, plastic-framed pictures and thin gray carpets.”<sup>8</sup> On the other hand, at JetBlue’s John F. Kennedy International Airport (JFK) terminal the Company has several brand-new \$38 million all-coach Airbus A320s that contain leather seats, free satellite TV monitors for every passenger, and more legroom than can be found in the coach class of any other airline. In June of 2001, JetBlue had just taken delivery of 14 new A320s (the only model of plane it uses) but still had 11 more to buy as part of a 25-plane contract with Airbus. Clearly, the JetBlue customer traveled in comfort at the expense of a plush row of executive offices in a swank midtown Manhattan high-rise.

As of December 31, 2001, JetBlue operated 102 flights per day, including 50 daily flights between JFK and Florida, 24 daily flights between JFK and upstate New York and 18 daily flights between JFK and the western United States. On August 28, 2001, JetBlue began service at its new West Coast base of operations, Long Beach Municipal Airport, which serves the Los Angeles area.<sup>9</sup>

JetBlue’s strategy was to use new airplanes with leather seats, an uncommon amount of legroom, and free satellite TV at every seat, leverage technology to reduce “paper” work and employee headcount, offer first-rate personal service, and create a single class of service with fares averaging 65% less than the competition. To accomplish this, all seats would be assigned, all travel would be ticket less, there would be no discount seats, and all fares would be one-way with a Saturday night stay over never required. JetBlue would strive to be truly customer friendly, with computer terminals that could be rotated to show the customer what the agent was looking at, giving a \$159 voucher whenever a flight was delayed for more than four hours for reasons other than weather or traffic, and giving a \$25 voucher for misplaced bags. However, JetBlue did not sell tickets to coordinate with other airlines, nor would they transfer a passenger’s bags to another airline.<sup>10</sup>

As noted, JetBlue went against conventional wisdom by picking JFK as its home base of operations. Neeleman’s logic was three-fold. First, JFK was in the middle of a huge population center, with 19 million people living within a 60-mile radius. Second, JFK, widely thought of as an old, rundown, busy, *international* airport, had capacity to add *domestic* flight routes out of its existing terminals. To quote Joan Feldman of Air Transport World, “...Kennedy? That collection of dilapidated, dysfunctional terminals

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<sup>7</sup> Gittell and O’Reilly (October, 2001) Harvard Business School Press Reprint Number 9-801-354

<sup>8</sup> Fredrickson, Tom, Plane Sailing, Crain’s New York Business, November 12, 2001

<sup>9</sup> JetBlue Airways Corporation Form S-1 Registration Statement with the United States Securities and Exchange Commission dated February 12, 2002

<sup>10</sup> Gittell and O’Reilly (October, 2001) Harvard Business School Press Reprint Number 9-801-354

whose ground access drove, and still drives, passengers nuts?” No new space needed to be built, since plenty of start-up airlines had failed in the past leaving good space behind, but waivers (slot exemptions) needed to be obtained for flights during peak hours. Neeleman’s business plan was to fly to several under-served cities in New York State. Unrestricted roundtrip fares from New York City to Buffalo, Rochester, and Syracuse ranged from \$500 to \$800. JetBlue charged an unrestricted roundtrip fare of \$158. State and local leaders eagerly lobbied the United States Department of Transportation (DOT) for the peak hour flight waivers so that JetBlue would service the voters in their districts. Every politician wanted to be viewed as the person who helped reduce fares between New York City and Upstate New York.

In describing the state support, Governor Pataki of New York said, “Our administration has worked with (JetBlue) to help them succeed in providing low-cost accessible air service that is long overdue for so many New Yorkers.” U.S. Senator Charles Schumer reinforced this view, “The high fares to Buffalo, Rochester, and Syracuse Airports have had a crippling effect on the local economy and the prospect of adding a new, low-cost air service will provide a boost to the region’s economy.”<sup>11</sup>

Even with the strong public support, the JFK headquarters was not without risk. For example, the DOT granted JetBlue 75 daily takeover and landing slot exemptions at JFK in 1999 after vigorous lobbying by political leaders and David Neeleman. JetBlue paid a down payment of approximately \$25,000 per slot and the slots cannot be sold, given, or traded to anyone else. If the Company does not use all of its slot exemptions by February 2003, the DOT has the right to take them back. In addition, JetBlue operates out of Terminal 6 at JFK under an annual one-year permit from the Port Authority of New York and New Jersey. Either party with 30 days notice could cancel the current permit. At December 31, 2001, JetBlue was working with the Port Authority to negotiate a long-term lease.

JetBlue’s pricing strategy provided widely available low fares that were designed to stimulate demand, and the airline had demonstrated its ability to increase passenger traffic in the markets they served. For example, according to the DOT, in the fourth quarter of 1999, before JetBlue introduced its service, the average number of daily passengers flying between Buffalo and all three New York City metropolitan airports was 584. For the fourth quarter of 2000, after JetBlue began servicing Buffalo, the average number of daily passengers flying in that market increased by 75% to 1,020 of whom 441, or 43% flew JetBlue.

JetBlue’s low cost structure allowed it them to offer simplified, everyday low fares to its customers. JetBlue offered 14-day, 7-day, and 3-day purchase fares and a “walk-up” fare in each market. JetBlue’s fares increased as the number of days prior to travel decreases, with the highest “walk-up” fare generally at approximately twice the amount of the lowest 14-day advance purchase fare. Based on the Company’s research, JetBlue’s advance purchase fares were often 30%-40% below those of existing markets

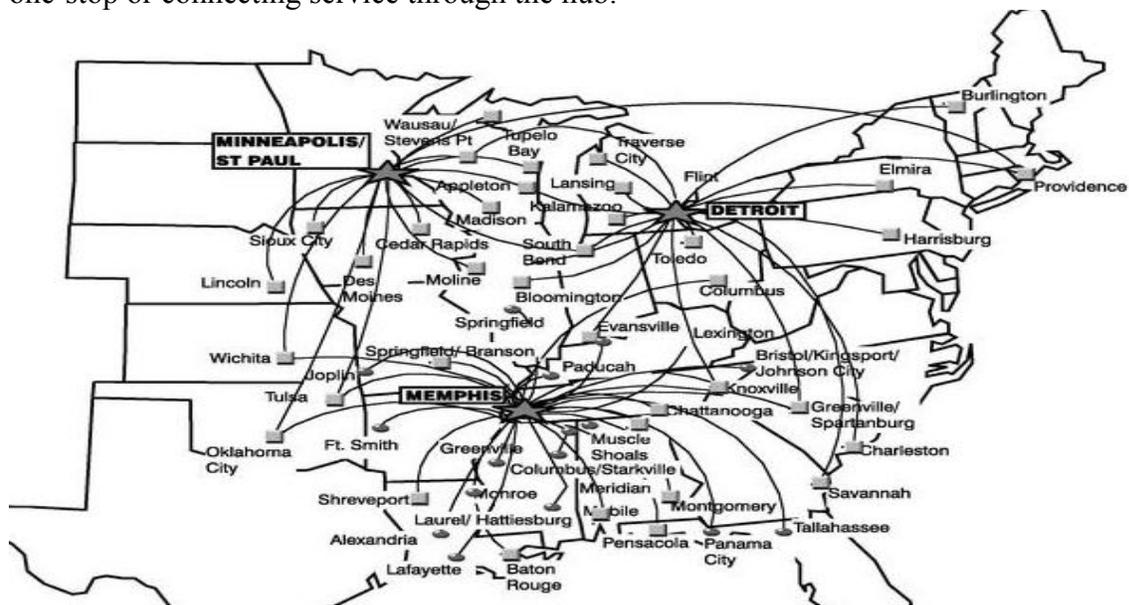
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<sup>11</sup> Gittel and O’Reilly (October, 2001) Harvard Business School Press Reprint Number 9-801-354

prior to JetBlue's entry, while JetBlue's "walk-up" fares are generally 60%-70% below major U.S. airlines' unrestricted "full coach" fares.<sup>12</sup>

### *The Passenger Airline 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 Airlines and US Airways. The DOT defines the major U.S. airlines as those with annual revenues of over \$1 billion, which currently consist of 11 passenger airlines. The major U.S. airlines offer scheduled flights to most large cities with the United States and abroad and also serve numerous smaller cities. Most major U.S. airlines have adopted the "hub and spoke" route system. This system concentrates most of an airline's operations at a limited number of hub cities, serving most other destinations in the system by providing one-stop or connecting service through the hub.



Regional airlines, such as Atlantic Coast Airlines and Sky West Airlines, typically operate smaller aircraft on lower-volume routes than major U.S. airlines. In contrast to low-fare airlines, regional airlines generally do not try to establish an independent route system to compete with the major U.S. airlines. Rather, regional airlines typically enter into relationships with one or more major U.S. airlines under which the regional airline agrees to use its smaller aircraft to carry passengers booked and ticketed by the major U.S. airline between a hub of the major airline and a smaller outlying city.

Low-fare airlines largely developed into the wake of deregulation of the U.S. airline industry in 1978, which permitted competition on many routes for the first time. There are only two low-fare major U.S. airlines. Southwest Airlines, the largest low-fare, major U.S. airline, pioneered the low-cost model by operating a single aircraft fleet with

<sup>12</sup> JetBlue Airways Corporation Form S-1 Registration Statement with the United States Securities and Exchange Commission dated February 12, 2002

high utilization, being highly productive in the use of its people and assets, providing a simplified fare structure and offering only a single class of seating. This enabled Southwest to offer fares that were significantly lower than those charged by other major U.S. airlines.

During the 1980s, industry consolidation, rapid increases in multi-type aircraft fleets; increases in labor costs, and development of the “hub and spoke” system caused the cost structures of the major U.S. airlines to rise substantially. Although a number of low-fare airlines were created during the 1980s, most of them eventually failed, primarily due to under-capitalization or flawed business plans. In the early 1990’s, the domestic airline industry suffered substantial financial losses due to adverse economic conditions and reduced demand for air travel. The turmoil in the airline industry in the early 1990s created an opportunity for a new generation of low-fare airlines. Entrepreneurs capitalized on the availability of surplus aircraft, recently unemployed workers, experienced aviation professionals, and airports with unused capacity.

In recent years, airline passengers became increasingly dissatisfied with airline travel, and in 2000, when JetBlue introduced service; customer dissatisfaction had reached an all-time high. Customer complaints to the DOT increased 21% between 1999 and 2000 alone, prompting an investigation of the airline industry by the DOT and the introduction of multiple passenger rights bills in Congress. Customer dissatisfaction has resulted from a number of factors, including;

- *Flight Delays and Cancellations.* Flight delays and cancellations increased significantly over the past several years. According to the DOT, in 2000, 27.5% of all domestic flights were delayed, cancelled or diverted, affecting approximately 163 million passengers. Exacerbating the problem is the hub-and-spoke system used by most of the major U.S. airlines. 70% of all commercial airline traffic goes through 27 hub airports.
- *Overbooking of Flights.* Many airlines overbook their flights, offering more seats than they have available on a given flight. As a result, they must sometimes displace passengers. In 2000, major U.S. airlines involuntarily displaced over 56,000 passengers off flights, a 22% increase from 1999, according to the DOT. In addition, more than one million passengers accepted concessions from major U.S. airlines in return for voluntarily giving up their seats.
- *Complicated Fare Structures.* Most major U.S. airlines have numerous fares carrying multiple, complex restrictions in any given market. In addition, customers generally must book weeks in advance in order to receive the lowest fares, many of which require a non-refundable advance purchase and a Saturday night stay. As a result of these restrictive fare structures, travelers who book flights on short notice often must pay fares that are several multiples of those paid by others who booked in advance. Customers may

also be required to pay large fees, generally \$75 to \$100 for most major U.S. airlines, in order to reschedule or cancel their flights.

- *Mishandled Baggage.* According to the DOT, in 2000, over 2.7 million passengers on the major U.S. airlines had their bags lost, damaged, or delayed. This represented one out of every 189 passengers.
- *Lack of Customer Care.* According the DOT, one of the most significant complaints among air travelers is a lack of customer care, including poor employee attitudes, and the refusal to provide assistance and unsatisfactory seating and food service.

The September 11, 2001 terrorist attacks and the resulting responses from the government and airline industry led to an improvement in most of these statistics, including a reduction in flight delays, cancellations, and denied boarding. However, some of the enhanced security measures resulting from the attacks have led to increased customer dissatisfaction with airline travel as a result of longer lines at check-in counters and more thorough security screening procedures.

### ***Measuring JetBlue***

In its first full year of operation (calendar 2001), JetBlue performed well. In terms of net income, JetBlue earned \$38.5 million versus a loss of \$21.3 million for the year 2000. The 2001 results included \$18.7 million in compensation under the Air Traffic Safety and System Stabilization Act (see Glossary of Terms).

	Year Ended December 31,	
	<u>2000</u>	<u>2001</u>
<b>Operating Statistics (unaudited):</b>		
Revenue passengers	1,144,421	3,116,817
Revenue passenger miles (000)	1,004,496	3,281,835
Available seat miles (000)	1,371,836	4,208,267
Load factor	73.2%	78.0%
Breakeven load factor	90.6%	73.7%
Aircraft utilization (hours per day)	12.0	12.6
Average fare	\$88.84	\$99.62
Yield per passenger mile (cents)	10.12	9.46
Passenger revenue per available seat mile (cents)	7.41	7.38
Operating revenue per available seat mile (cents)	7.63	7.61
Operating expense per available seat mile (cents)	9.17	6.98
Departures	10,265	26,334
Average stage length (miles)	825	986
Average number of operating aircraft during period	5.8	14.7
Full-time equivalent employees at period end	1,028	2,116
Average fuel cost per gallon (cents)	96.15	75.63
Fuel gallons consumed (000)	18,340	55,095
Percent of sales through jetblue.com during period	28.7%	44.1%

JetBlue's commitment to customer service was demonstrated by several Department of Transportation statistics at December 31, 2001:

- JetBlue's completion factor was 99.5%, higher than that reported by the DOT for any major US airline
- JetBlue's on-time performance was 84.5%, higher than that reported by the DOT for any major US airline
- JetBlue's incidence of delayed, mishandled or lost bags was 2.01 per 1,000 customers, lower than any reported by the DOT for any major US airline
- JetBlue's rate of customer complaints to the DOT per 100,000 passengers was 1.06, compared to an average of 2.11 for the major U.S. airlines, as reported by the DOT.

JetBlue's principal strength is its high level of efficiency on a low operating cost base. JetBlue operates only the technologically advanced Airbus A320 with only a coach class of service. Using one type of aircraft simplifies maintenance issues, keeps spare parts inventories low, and allows employees to be highly knowledgeable about the aircraft. JetBlue uses its fleet of planes in a highly efficient manner, with its planes operating an average of 12.6 hours per day, well ahead of number two Southwest Airlines at 11.1 hours.

<b>JETBLUE AIRWAYS</b>	<b>2000</b>	<b>2001</b>	<b>Percent Change</b>
<b>Year Ended December 31,</b>	(in dollars and cents)		
Operating expenses:			
Salaries, wages and benefits	2.39	2.02	(15.3) %
Aircraft fuel	1.29	.99	(23.0)
Aircraft rent	.95	.78	(17.6)
Sales and marketing	1.24	.67	(45.7)
Landing fees and other rents	.81	.65	(19.8)
Depreciation and amortization	.29	.25	(15.0)
Maintenance materials and repairs	.08	.11	45.8
Other operating expenses	2.12	1.51	(28.9)
<b>Total operating expenses</b>	<b>9.17</b>	<b>(23.9)</b>	<b>%</b>

JetBlue also prides itself in hiring a highly productive union-free workforce that is enthusiastic and incentivized to be highly productive. The high level of employee productivity is created by greater fleet commonality, fewer unproductive labor work rules, a greater use of part-time employees compared to other airlines, and the effective use of advanced technology. For example, most of JetBlue's reservation sales agents are part-time employees who work from their homes (most in the Salt Lake City area), providing better scheduling flexibility and allowing employees to customize their desired schedules. A significant number of employees, including part-time employees, are eligible to participate in the Company's profit sharing plan and will be able to participate in an employee stock purchase program after the Company goes public.

## *New Security Measures*

The terrorist attacks of September 11, 2001 brought major financial damage to the passenger airline industry. Apart from the fact that demand for air travel was down 30% since the attacks, the industry also suffered some immediate losses of revenue due to the Federal Aviation Administration's (FAA) grounding of all commercial air traffic on September 11 through September 14. Residual problems included increased costs for security and insurance and airport closures and flight cancellations and delays, due to security breaches and perceived safety threats.

Since September 11, 2001, JetBlue voluntarily implemented security enhancements, including the following:

- Implementation of a system wide positive bag match program;
- Reinforcement of all cockpit doors with bullet-resistant Kevlar and multiple titanium deadbolt locks capable of being opened only from within the cockpit;
- Implementation of strict in-flight cockpit access procedures, including the removal of all cockpit access keys from within the main cabin;
- Commencement of installation of four cabin security cameras on each aircraft with a live feed to the cockpit crew;
- Creation of a new officer position, Vice President for Security; and
- Opening of new security screening check points at the JFK terminal.

Furthermore, under the new Aviation Security Act, numerous new responsibilities and procedures have been or will be put in place to ensure civil aviation security, including:

- The creation of the Transportation Security Administration, or TSA, of the DOT, with responsibility for assessing transportation security threats, developing responses and acting as the primary liaison between the transportation sector and intelligence and law enforcement communities;
- Federal employees will assume the screening of all passengers and baggage;
- New qualification standards will be set for security screening personnel;
- Criminal background checks will be conducted on all airport employees;
- A law enforcement officer will be present at every screening check point;
- A new security fee of \$2.50 per enplanement levied on passengers;
- All checked baggage will need to be screened;
- Additional training will be required for airline employees;
- Additional air marshals will be deployed; and
- Further steps will be taken to reinforce cockpit doors.

Like many of its competitors, JetBlue expects to see a decline in its net profits due to the drop in revenues and increase in expenses. However, JetBlue remains committed to leasing the planes it currently leases and buying the remaining 14 new planes under its contract with Airbus. JetBlue also remains committed to expanding its routes to California and then between California cities. In fact, on August 28, 2001, JetBlue began service at its new West Coast base of operations, Long Beach Municipal Airport, which

serves the Los Angeles area. In addition, as of December 31, 2001, JetBlue had orders to acquire 47 aircraft and options and purchase rights to acquire an additional 49 aircraft. The JetBlue growth strategy involves increasing the frequency of flights on existing routes and entering attractive new markets.

At Quarter Ended	Cities Served	Number of Full and Part-Time Employees	Operating Aircraft		
			Owned	Leased	Total
March 31, 2000	4	519	—	3	3
June 30, 2000	5	665	1	4	5
September 30, 2000	9	993	4	4	8
December 31, 2000	12	1,174	4	6	10
March 31, 2001	12	1,599	4	7	11
June 30, 2001	15	1,764	4	10	14
September 30, 2001	17	2,078	6	12	18
December 31, 2001	18	2,361	9	12	21

David Neeleman and his team have been challenged before and have been quite successful. Neeleman was the co-founder of the industry's first ticket less airline, Morris Air, which was eventually acquired by industry leader Southwest. He also co-founded Canada's most successful new airline, WestJet. Neeleman and his team have personally invested almost 40% of the initial \$130 million in capital. However the post September 11, 2001 passenger airline industry environment, and the implementation of new security requirements, will test the team as never before. With an initial public offering planned for April of 2002, Neeleman will need to convince nervous potential passengers and nervous potential investors that JetBlue will be able to operate as a low-fare airline in a high cost environment. For without passengers the Company will not attract investors, and without investors the Company will not be able to expand.

On February 12, 2002, JetBlue filed a registration statement with the U.S. Securities and Exchange Commission to sell stock to outside investors and become a public company. With the money from the initial public offering (IPO) of the stock, JetBlue plans to continue to fund its expanding operations. JetBlue must convince several investors of three things:

1. That JetBlue is a successful marketing driven niche player in a regional market.
2. That JetBlue can successfully copy its JFK business model onto the west coast using Long Beach Municipal Airport as its main point of departure.
3. That JetBlue can succeed where others have failed. As noted of the 51 U.S. airlines founded during the 1980's only two, America West and Midwest Express are still in operation. Of the 39 carriers started between 1989 and 1999, only 17 of these airlines remain in operation.

How can JetBlue succeed were so many others have failed?

## JETBLUE AIRWAY CORPORATION – STATEMENT OF INCOME

	August 24, 1998 (inception) to December 31, 1998	Year Ended December 31,		
		1999	2000	2001
(in thousands, except share and per share data)				
<b>Statements of Operations Data:</b>				
Operating revenues	\$ —	\$ —	\$ 104,618	\$ 320,414
Operating expenses:				
Salaries, wages and benefits	423	6,000	32,912	84,762
Aircraft fuel	—	4	17,634	41,666
Aircraft rent	—	324	13,027	32,927
Sales and marketing	—	887	16,978	28,305
Landing fees and other rents	16	447	11,112	27,342
Depreciation and amortization	2	111	3,995	10,417
Maintenance materials and repairs	—	38	1,052	4,705
Other operating expenses	371	6,405	29,096	63,483
<b>Total operating expenses</b>	<b>812</b>	<b>14,216</b>	<b>125,806</b>	<b>293,607</b>
Operating income (loss)	(812)	(14,216)	(21,188)	26,807
Airline Stabilization Act compensation (1)	—	—	—	18,706
Other income (expense)	26	685	(381)	(3,598)
Income (loss) before income taxes	(786)	(13,531)	(21,569)	41,915
Income tax expense (benefit) (2)	4	233	(239)	3,378
<b>Net income (loss)</b>	<b>\$ (790)</b>	<b>\$ (13,764)</b>	<b>\$ (21,330)</b>	<b>\$ 38,537</b>
<b>Earnings (loss) per common share:</b>				
Basic	\$ (2.81)	\$ (36.81)	\$ (26.66)	\$ 9.88
Diluted	\$ (2.81)	\$ (36.81)	\$ (26.66)	\$ 1.14
<b>Weighted-average shares outstanding:</b>				
Basic	299,700	500,360	1,328,666	2,182,753
Diluted	299,700	500,360	1,328,666	33,743,158
<b>Other Financial Data:</b>				
Operating margin	—	—	(20.3)%	8.4%
Net cash provided by (used in) operating activities	\$ (256)	\$ (6,556)	\$ 2,824	\$ 111,279
Net cash used in investing activities	(1,147)	(67,452)	(241,130)	(289,855)
Net cash provided by financing activities	12,917	80,740	254,463	261,695
EBITDA	(810)	(14,105)	(17,193)	37,224
EBITDAR	(810)	(13,781)	(4,166)	70,151

(1) Represents JetBlue's share of compensation under the Air Transportation Safety and System Stabilization Act.

(2) In 2001, income tax expense was reduced due to the full reversal of a deferred tax asset valuation allowance. No similar reductions are expected in the future.

**Market Value of Selected Airlines as March 13, 2002:**

<b>Airline (all in millions)</b>	<b>Ticker Symbol</b>	<b>Revenues for Year Ending 12/31/01</b>	<b>Income for Year Ending 12/31/01</b>	<b>Market Capitalization</b>
Airtran Holdings	AAI	\$648.5	\$21.7	\$453.8
Alaska Air Group	ALK	2,140.0	-84.5	\$876.2
American	AMR	18,963.0	-1,405.6	\$4,264.0
America West	AWA	2,065.9	-195.3	\$203.3
Continental	CAL	8,969.0	-257.8	\$2,051.0
Delta	DAL	13,879.0	-1,027	\$4,406.0
Southwest	LUV	5,555.2	405.3	\$15,297.0
Northwest	NWAC	9,905.0	-526.8	\$1,680.0
US Airways	U	8,288.0	-1,168.7	\$438.1
United	UAL	16,138.0	-1,760.5	\$899.2

Source: Solomon Smith Barney Research

**Pre and Post September 11, 2001 Stock Prices**

<b>Stock Price as of</b>	<b>AAI</b>	<b>ALK</b>	<b>AMR</b>	<b>AWA</b>	<b>CAL</b>	<b>DAL</b>	<b>LUV</b>	<b>NWAC</b>	<b>U</b>	<b>UAL</b>
9/10/01	6.00	30.35	29.70	8.60	39.64	37.25	17.12	19.62	11.62	30.82
3/13/02	6.19	29.05	23.08	3.75	26.80	30.15	18.30	14.14	4.94	12.28
Percent Change	3.2	-4.3	-22.3	-56.4	-32.4	-19.1	6.9	-27.9	-57.5	-60.2

Source: Solomon Smith Barney Research

## **GLOSSARY OF TERMS:**

**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.

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

**Air Transportation Safety and System Stabilization Act:** signed into law on September 22, 2001. Among other things, the Stabilization Act:

- provided \$5 billion in payments to compensate U.S. passenger and cargo airlines for losses incurred by the airline industry from September 11, 2001 through December 31, 2001 as a result of the September 11th terrorist attacks;
- subject to certain conditions and fees, authorized the issuance of up to \$10 billion in federal loan guarantees to airlines for which credit is not reasonably available;
- sought to ensure the continuity of air service to communities, including government subsidized essential air service to small communities;
- reimbursed airlines for certain increased costs of aviation insurance;
- extended the due date for payments on certain taxes by airlines;
- limited the liability of airlines for this event; and
- established a federal compensation fund for the victims of the September 11th terrorist attacks.
- Under the Stabilization Act, each airline is entitled to receive the lesser of (i) its direct and incremental pre-tax losses for the period of September 11, 2001 to December 31, 2001 or (ii) its available seat mile share of the \$5 billion compensation (\$4.5 billion for passenger airlines) available under the Stabilization Act.