JETBLUE AIRWAYS CORP
Form 10-Q/A
February 07, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A

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

For the quarterly period ended June 30, 2010

or

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

For the transition period from to

Commission file number: 000-49728

JETBLUE AIRWAYS CORPORATION
(Exact name of registrant as specified in its charter)

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

(718) 286-7900
(Registrant s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes o No

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of June 30, 2010, there were 293,601,212 shares outstanding of the registrant s common stock, par value $.01.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A to the Quarterly Report on Form 10-Q of JetBlue Airways Corporation for the quarter ended June 30, 2010 originally filed with the Securities and Exchange Commission on July 27, 2010, is being filed to restate our condensed consolidated financial statements and other financial information to properly account for the expiration of points and awards in the Company s customer loyalty program, TrueBlue. Management determined certain financial amounts reflected in Items 1 and 2 as well as Exhibit 12.1 to our originally filed Form 10-Q needed to be restated to reflect this adjustment. The amended items have been amended and restated in their entirety. Other than as described below, no other changes have been made to the original Form 10-Q.

As more fully described in Note 11 to our condensed consolidated financial statements, in connection with our fourth quarter of 2010 analysis of the winding down of the liability for TrueBlue points and awards outstanding when our original TrueBlue program was replaced, management concluded in January 2011, that there was an error in accounting for certain points and awards that had previously expired. As a result of this accounting error, revenue, net income, earnings per share and retained earnings were all understated in previously reported consolidated financial statements for the years ended 2007, 2008, and 2009 as well as for the three and six months ended June 30, 2010. The impact on our consolidated balance sheets was primarily an understatement to retained earnings offset by an overstatement of air traffic liability. There was no impact to previously reported total cash flows from operations, investing or financing activities. We also corrected smaller errors related to the calculation of interest expense, and have included these corrections in our condensed consolidated financial results in this Form 10-Q/A.

As a result of this restatement, we have revised Item 4, Controls and Procedures, and have included new certifications pursuant to Section 302 and 906 of the Sarbanes-Oxley Act of 2002 as reflected in Exhibits 31.1, 31.2, and 32.1.

Except as set forth above, this Form 10-Q/A does not modify or update other disclosures in the original Form 10-Q, including the nature and character of such disclosure to reflect events occurring after the filing date of the original Form 10-Q. While we are amending only certain portions of our Form 10-Q, for convenience and ease of reference, we are filing the entire Form 10-Q, except for certain exhibits. The disclosures in this amendment do not reflect events occurring after the filing of the original Form 10-Q. Accordingly, this amendment should be read in conjunction with our other filings made with the Securities and Exchange Commission subsequent to the filing of the originally filed Form 10-Q, including any amendments to those filings, as information in such filings may update or supersede certain information contained in those filings as well as in this amendment.

JetBlue Airways Corporation
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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

JETBLUE AIRWAYS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except share data)
(as Restated, see Note 11)

	June 30, 2010 (unaudited)	December 31, 2009 (as adjusted, Note 1)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 477	$ 896
Investment securities	513	240
Receivables, less allowance	95	81
Restricted cash	9	13
Prepaid expenses and other	260	304
Total current assets	1,354	1,534
PROPERTY AND EQUIPMENT		
Flight equipment	4,244	4,170
Predelivery deposits for flight equipment	155	139
	4,399	4,309
Less accumulated depreciation	608	540
	3,791	3,769
Other property and equipment	500	515
Less accumulated depreciation	164	169
	336	346
Assets constructed for others	554	549
Less accumulated amortization	38	26
	516	523
Total property and equipment	4,643	4,638
OTHER ASSETS		
Investment securities	169	6
Restricted cash	61	64
Other	354	307

Total other assets		584		377
TOTAL ASSETS	$	6,581	$	6,549

See accompanying notes to condensed consolidated financial statements.

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JETBLUE AIRWAYS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share data)
(as Restated, see Note 11)

	June 30, 2010 (unaudited)	December 31, 2009 (as adjusted, Note 1)
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 115	$ 93
Air traffic liability	579	443
Accrued salaries, wages and benefits	122	121
Other accrued liabilities	140	116
Current maturities of long-term debt and capital leases	220	384
Total current liabilities	1,176	1,157
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	2,896	2,920
CONSTRUCTION OBLIGATION	530	529
DEFERRED TAXES AND OTHER LIABILITIES		
Deferred income taxes	279	259
Other	138	138
	417	397
STOCKHOLDERS EQUITY		
Preferred stock, $.01 par value; 25,000,000 shares authorized, none issued		
Common stock, $.01 par value; 900,000,000 and 500,000,000 shares authorized, 321,146,446 and 318,592,283 shares issued and 293,601,212 and 291,490,758 shares outstanding in 2010 and 2009, respectively	3	3
Treasury stock, at cost; 27,545,845 and 27,102,136 shares in 2010 and 2009, respectively	(4)	(2)
Additional paid-in capital	1,434	1,422
Retained earnings	152	122
Accumulated other comprehensive income (loss)	(23)	1
Total stockholders equity	1,562	1,546
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 6,581	$ 6,549

See accompanying notes to condensed consolidated financial statements.

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JETBLUE AIRWAYS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in millions, except per share amounts)
(as Restated, see Note 11)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009 (as adjusted, Note 1)	2010	2009 (as adjusted, Note 1)
OPERATING REVENUES				
Passenger	$ 851	$ 722	$ 1,637	$ 1,430
Other	89	86	174	173
Total operating revenues	940	808	1,811	1,603
OPERATING EXPENSES				
Aircraft fuel and related taxes	279	236	533	458
Salaries, wages and benefits	218	192	437	377
Landing fees and other rents	58	54	112	104
Depreciation and amortization	54	56	111	111
Aircraft rent	31	32	62	64
Sales and marketing	43	38	83	75
Maintenance materials and repairs	41	34	80	71
Other operating expenses	121	89	255	191
Total operating expenses	845	731	1,673	1,451
OPERATING INCOME	95	77	138	152
OTHER INCOME (EXPENSE)				
Interest expense	(43)	(49)	(90)	(98)
Capitalized interest	1	2	2	4
Interest income and other	(1)	7	1	1
Total other income (expense)	(43)	(40)	(87)	(93)
INCOME BEFORE INCOME TAXES	52	37	51	59
Income tax expense	21	16	21	25
NET INCOME	$ 31	$ 21	$ 30	$ 34
INCOME PER COMMON SHARE:				

Basic	$ 0.11	$ 0.08	$ 0.11	$ 0.14
Diluted	$ 0.10	$ 0.07	$ 0.11	$ 0.11

See accompanying notes to condensed consolidated financial statements.

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JETBLUE AIRWAYS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in millions)
(as Restated, see Note 11)

	Six months ended June 30, 2010	Six months ended June 30, 2009 (as adjusted, Note 1)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 30	$ 34
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	20	25
Depreciation	96	90
Amortization	20	24
Stock-based compensation	8	8
Collateral returned (paid) for derivative instruments	(5)	109
Changes in certain operating assets and liabilities	172	(58)
Other, net	15	(7)
Net cash provided by operating activities	356	225
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(131)	(342)
Predelivery deposits for flight equipment	(20)	(15)
Proceeds from the sale of flight equipment		58
Assets constructed for others	(8)	(22)
Sale of auction rate securities	36	29
Purchase of available-for-sale securities	(722)	
Sale of available-for-sale securities	761	
Purchase of held-to-maturity investments	(584)	
Proceeds from the maturities of held-to-maturity investments	72	
Other, net		(4)
Net cash used in investing activities	(596)	(296)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Issuance of common stock	5	116
Issuance of long-term debt	66	446
Short-term borrowings and lines of credit	20	13
Construction obligation	9	25
Repayment of long-term debt and capital lease obligations	(239)	(77)
Repayment of short-term borrowings and lines of credit	(37)	(120)
Other, net	(3)	(13)
Net cash provided by (used in) financing activities	(179)	390

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(419)	319
Cash and cash equivalents at beginning of period	896	561
Cash and cash equivalents at end of period	$ 477	$ 880

See accompanying notes to condensed consolidated financial statements.

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JETBLUE AIRWAYS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

Note 1 Summary of Significant Accounting Policies

Basis of Presentation: Our condensed consolidated financial statements include the accounts of JetBlue Airways Corporation and our subsidiaries, collectively we or the Company , with all intercompany transactions and balances having been eliminated. These condensed consolidated financial statements and related notes should be read in conjunction with our 2009 audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009, or our 2009 Form 10-K.

These condensed consolidated financial statements are unaudited and have been prepared by us following the rules and regulations of the Securities and Exchange Commission, or the SEC, and, in our opinion, reflect all adjustments including normal recurring items which are necessary to present fairly the results for interim periods. Our revenues are recorded net of excise and other related taxes in our condensed consolidated statements of operations.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted as permitted by such rules and regulations; however, we believe that the disclosures are adequate to make the information presented not misleading. Operating results for the periods presented herein are not necessarily indicative of the results that may be expected for the entire year.

Loyalty Program: During the six months ended June 30, 2010, we recognized approximately $5 million of other revenue related to the minimum point sales guarantee associated with our co-branded credit card, leaving $11 million deferred and included in our air traffic liability.

***New Accounting Pronouncements*:** Effective January 1, 2010, we adopted the guidance for *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance*, under the debt topic of the Financial Accounting Standard Board s Codification, or Codification, which changes the accounting for equity share lending arrangements on an entity s own shares when executed in contemplation of a convertible debt offering. This new guidance requires share lending arrangements be measured at fair value and recognized as an issuance cost. These issuance costs are then amortized and recognized as interest expense over the life of the financing arrangement. Shares loaned under these arrangements are excluded from computation of earnings per share. Retrospective application is required for all arrangements outstanding as of the beginning of the fiscal year. As described more fully in our 2009 Form 10-K, we lent 44.9 million shares of our common stock in conjunction with our 2008 $201 million convertible debt issuance, which is subject to this new guidance. Our share lending agreement requires that the shares borrowed be returned upon the maturity of the related debt, October 2038, or earlier, if the debentures are no longer outstanding.

We determined the fair value of the share lending arrangement was approximately $5 million at the date of the issuance based on the value of the estimated fees the shares loaned would have generated over the term of the share lending arrangement. We have retrospectively applied this change in accounting to affected accounts for all periods presented. The $5 million fair value was recognized as a debt issuance cost and is being amortized to interest expense through the earliest put date of the related debt, October 2013 and October 2015 for Series A and Series B, respectively. For 2008, adoption of this new accounting treatment resulted in approximately $2 million of additional interest expense, an increase in net loss of approximately $1 million and had no impact on earnings (loss) per share. For 2009, this adoption resulted in an insignificant increase in interest expense and had no overall impact on net income or earnings per share. As of June 30, 2010, approximately $2 million of net debt issuance costs remain outstanding related to the share lending arrangement and will continue to be amortized through the earliest put date of the related debt. We estimate that the $2 million value of the shares remaining outstanding under the share lending arrangement approximates their fair value as of June 30, 2010.

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Effective January 1, 2010, we adopted the latest provisions in the Codification related to the accounting for an entity s involvement with variable interest entities, or VIEs. Under these rules, the quantitative based method of determining if an entity is the primary beneficiary was replaced with the entity s assessment on an ongoing basis of which entity has the power to direct activities of the VIE and the obligation to absorb the losses or the right to receive the benefits from the VIE. Adoption of these new rules had no impact on our consolidated financial statements.

In September 2009, the EITF reached final consensus on updates to the Codification s *Revenue Recognition* rules, which changes the accounting for certain revenue arrangements. The new requirements change the allocation methods used in determining how to account for multiple element arrangements and will result in the ability to separately account for more deliverables, and potentially less revenue deferrals. Additionally, this new accounting treatment will require enhanced disclosures in financial statements. The new rule is effective for revenue arrangements entered into or materially modified in fiscal years beginning after June 15, 2010 on a prospective basis, with early application permitted. We are currently evaluating the impact this will have on our financial statements.

Note 2 Stock-Based Compensation

During the six months ended June 30, 2010, we granted approximately 1.9 million restricted stock units under our Amended and Restated 2002 Stock Incentive Plan, at a weighted average grant date fair value of $5.28 per share. We issued approximately 1.1 million shares of our common stock in connection with the vesting of restricted stock units during the six months ended June 30, 2010. At June 30, 2010, 4.0 million restricted stock units were unvested with a weighted average grant date fair value of $5.14 per share.

Note 3 Long-term Debt, Short-term Borrowings, and Capital Lease Obligations

$250 million 3.75% Convertible Debentures due 2035

In March 2010, on the first repurchase date, holders of the $156 million outstanding of our 3.75% convertible debentures due 2035 required us to repurchase approximately $155 million aggregate principal amount of debentures at par, plus accrued interest.

UBS Line of Credit

In March 2010, our line of credit with UBS Securities LLC and UBS Financial Services Inc, or UBS, was increased to $63 million. During the six months ended June 30, 2010, certain auction rate securities, or ARS, securing this line of credit were redeemed by their issuers and the proceeds were used to reduce the line of credit to $40 million as of June 30, 2010. In July 2010, we sold at par value the remaining $49 million of ARS securing this line of credit and used the proceeds to pay off the outstanding balance on this line of credit.

Other Indebtedness

During the six months ended June 30, 2010, we issued $47 million in fixed rate equipment notes due through 2025 and $19 million in non-public floating rate equipment notes due through 2015, which are secured by two new EMBRAER 190 aircraft and four previously unfinanced spare engines.

Aircraft, engines and other equipment and facilities having a net book value of $3.60 billion at June 30, 2010 were pledged as security under various loan agreements.

Our outstanding debt and capital lease obligations were reduced by $274 million as a result of principal payments made during the six months ended June 30, 2010. At June 30, 2010, the weighted average interest rate of all of our long-term debt was 4.43% and scheduled maturities were $131 million for the remainder of 2010, $181 million in 2011, $182 million in 2012, $380 million in 2013, $600 million in 2014 and $1.64 billion thereafter.

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The carrying amounts and estimated fair values of our long-term debt at June 30, 2010 were as follows (in millions):

	Carrying Value	Estimated Fair Value
Public Debt		
Floating rate enhanced equipment notes		
Class G-1, due through 2016	$ 252	$ 208
Class G-2, due 2014 and 2016	373	291
Class B-1, due 2014	49	41
Fixed rate special facility bonds, due through 2036	84	72
6 3/4% convertible debentures due in 2039	201	244
5 1/2% convertible debentures due in 2038	123	162
Other	2	2
Non-Public Debt		
Floating rate equipment notes, due through 2020	681	642
Fixed rate equipment notes, due through 2025	1,178	1,197
Total	**$ 2,943**	**$ 2,859**

The estimated fair values of our publicly held long-term debt were based on quoted market prices or other observable market inputs when instruments are not actively traded. The fair value of our non-public debt was estimated using discounted cash flow analysis based on our borrowing rates for instruments with similar terms. The fair values of our other financial instruments approximate their carrying values.

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.).

Note 4 Comprehensive Income / (Loss)

Comprehensive income (loss) includes changes in fair value of our aircraft fuel derivatives and interest rate swap agreements, which qualify for hedge accounting. The differences between net income (loss) and comprehensive income (loss) for each of these periods are as follows (dollars are in millions):

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	Three Months Ended June 30,	
	2010	2009
Net income	$ 31	$ 21
Gain (loss) on derivative instruments (net of $11 and $23 of taxes)	(16)	36
Total other comprehensive income (loss)	(16)	36
Comprehensive income	$ 15	$ 57

	Six Months Ended June 30,	
	2010	2009
Net income	$ 30	$ 34
Gain (loss) on derivative instruments (net of $16 and $42 of taxes)	(24)	65
Total other comprehensive income (loss)	(24)	65
Comprehensive income	$ 6	$ 99

A rollforward of the amounts included in accumulated other comprehensive income (loss), net of taxes, for the three and six months ended June 30, 2010 is as follows (in millions):

	Aircraft Fuel Derivatives	Interest Rate Swaps	Total
Beginning accumulated gains (losses), at March 31, 2010	$ 2	$ (9)	$ (7)
Reclassifications into earnings	2	2	4
Change in fair value	(14)	(6)	(20)
Ending accumulated gains (losses), at June 30, 2010	$ (10)	$ (13)	$ (23)

	Aircraft Fuel Derivatives	Interest Rate Swaps	Total
Beginning accumulated gains (losses), at December 31, 2009	$ 7	$ (6)	$ 1
Reclassifications into earnings	1	3	4
Change in fair value	(18)	(10)	(28)
Ending accumulated gains (losses), at June 30, 2010	$ (10)	$ (13)	$ (23)