

JETBLUE AIRWAYS CORP

Form 10-Q

August 07, 2013

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

or

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

For the transition period from _____ to _____

Commission file number 000-49728

JETBLUE AIRWAYS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State of Other Jurisdiction of Incorporation)

87-0617894

(I.R.S. Employer Identification No.)

27-01 Queens Plaza North, Long Island City, New York

(Address of principal executive offices)

(718) 286-7900

(Registrant's telephone number, including area code)

11101

(Zip Code)

N/A

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

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

Indicate by check mark whether the registrant 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). ☐ Yes ☐ 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 ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☐

As of July 31, 2013, there were 282,326,947 shares outstanding of the registrant's common stock, par value \$.01.

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2013 (unaudited)	December 31, 2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$333	\$182
Investment securities	534	549
Receivables, less allowance	160	106
Prepaid expenses and other	298	263
Total current assets	1,325	1,100
PROPERTY AND EQUIPMENT		
Flight equipment	5,388	5,168
Predelivery deposits for flight equipment	335	338
	5,723	5,506
Less accumulated depreciation	1,086	995
	4,637	4,511
Other property and equipment	615	585
Less accumulated depreciation	234	221
	381	364
Assets constructed for others	561	561
Less accumulated depreciation	105	93
	456	468
Total property and equipment	5,474	5,343
OTHER ASSETS		
Investment securities	76	136
Restricted cash	50	51
Other	443	440
Total other assets	569	627
TOTAL ASSETS	\$7,368	\$7,070

See accompanying notes to condensed consolidated financial statements.

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

	June 30, 2013 (unaudited)	December 31, 2012
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 176	\$ 153
Air traffic liability	902	693
Accrued salaries, wages and benefits	146	172
Other accrued liabilities	251	196
Current maturities of long-term debt and capital leases	647	394
Total current liabilities	2,122	1,608
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	2,173	2,457
CONSTRUCTION OBLIGATION	508	514
DEFERRED TAXES AND OTHER LIABILITIES		
Deferred income taxes	512	481
Other	121	122
	633	603
STOCKHOLDERS' EQUITY		
Preferred stock, \$0.01 par value; 25,000,000 shares authorized, none issued	—	—
Common stock, \$0.01 par value; 900,000,000 shares authorized, 333,202,624 and 330,589,532 shares issued and 282,326,947 and 281,007,806 shares outstanding at June 30, 2013 and December 31, 2012, respectively		3
Treasury stock, at cost; 50,875,677 and 49,581,726 shares at June 30, 2013 and December 31, 2012, respectively	(42)	(35)
Additional paid-in capital	1,504	1,495
Retained earnings	483	433
Accumulated other comprehensive loss	(16)	(8)
Total stockholders' equity	1,932	1,888
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$7,368	\$7,070

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,		
	2013	2012	2013	2012	
OPERATING REVENUES					
Passenger	\$1,222	\$1,171	\$2,408	\$2,267	
Other	113	106	226	213	
Total operating revenues	1,335	1,277	2,634	2,480	
OPERATING EXPENSES					
Aircraft fuel and related taxes	465	450	932	883	
Salaries, wages and benefits	279	265	559	520	
Landing fees and other rents	80	72	150	138	
Depreciation and amortization	71	63	139	124	
Aircraft rent	33	33	65	66	
Sales and marketing	53	54	103	101	
Maintenance materials and repairs	111	85	225	173	
Other operating expenses	141	125	300	256	
Total operating expenses	1,233	1,147	2,473	2,261	
OPERATING INCOME	102	130	161	219	
OTHER INCOME (EXPENSE)					
Interest expense	(42) (44) (83) (89)
Capitalized interest	4	2	7	4	
Interest income and other	(4) (2) (2) 1	
Total other expense	(42) (44) (78) (84)
INCOME BEFORE INCOME TAXES	60	86	83	135	
Income tax expense	24	34	33	53	
NET INCOME	\$36	\$52	\$50	\$82	
EARNINGS PER COMMON SHARE:					
Basic	\$0.13	\$0.19	\$0.18	\$0.29	
Diluted	\$0.11	\$0.16	\$0.16	\$0.25	

See accompanying notes to condensed consolidated financial statements.

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JETBLUE AIRWAYS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited, in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
NET INCOME	\$36	\$52	\$50	\$82
Changes in fair value of derivative instruments, net of reclassifications into earnings	(13) (32) (13) (12
Tax effect	5	12	5	4
Total other comprehensive loss	(8) (20) (8) (8
COMPREHENSIVE INCOME	\$28	\$32	\$42	\$74

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$50	\$82
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	31	50
Depreciation	123	112
Amortization	23	18
Stock-based compensation	6	7
(Gain) loss on sale of assets, debt extinguishment, and customer contract termination	4	(20)
Collateral (paid) returned for derivative instruments	2	(9)
Changes in certain operating assets and liabilities	164	239
Other, net	(1)	11
Net cash provided by operating activities	402	490
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(267)	(314)
Predelivery deposits for flight equipment	(10)	(32)
Proceeds from the sale and disposition of assets	8	46
Purchase of available-for-sale securities	(290)	(210)
Sale of available-for-sale securities	309	243
Purchase of held-to-maturity investments	(110)	(207)
Proceeds from the maturities of held-to-maturity investments	162	200
Other, net	(3)	11
Net cash used in investing activities	(201)	(263)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Issuance of common stock	4	6
Issuance of long-term debt	163	108
Short-term borrowings and lines of credit	190	—
Repayment of long-term debt and capital lease obligations	(199)	(266)
Repayment of short-term borrowings and lines of credit	(190)	(88)
Other, net	(18)	(8)
Net cash used in financing activities	(50)	(248)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	151	(21)
Cash and cash equivalents at beginning of period	182	673
Cash and cash equivalents at end of period	\$333	\$652

See accompanying notes to condensed consolidated financial statements.

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JETBLUE AIRWAYS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Our condensed consolidated financial statements include the accounts of JetBlue Airways Corporation, or JetBlue, 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 2012 audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012, or our 2012 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 (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. During the six months ended June 30, 2013, we recorded \$4 million of maintenance expense and \$2 million in other operating expenses that should have been recorded in prior years. Operating results for the periods presented herein are not necessarily indicative of the results that may be expected for the entire year.

Investment securities

Investment securities consist of available-for-sale investment securities and held-to-maturity investment securities. When sold, we use a specific identification method to determine the cost of the securities.

Held-to-maturity investment securities. The contractual maturities of the corporate bonds we held as of June 30, 2013 were no greater than 24 months. We did not record any significant gains or losses on these securities during the three or six months ended June 30, 2013 and 2012. The estimated fair value of these investments approximated their carrying value as of June 30, 2013 and December 31, 2012.

The carrying values of investment securities consisted of the following at June 30, 2013 and December 31, 2012 (in millions):

	June 30, 2013	December 31, 2012
Available-for-sale securities		
Time deposits	\$70	\$65
Treasury bills	—	68
Commercial paper	186	142
	256	275
Held-to-maturity securities		
Corporate bonds	257	313
Government bonds	40	40
Time deposits	57	57
	354	410
Total	\$610	\$685

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Loyalty Program

In June 2013, we modified our loyalty program, TrueBlue, so points earned by members never expire. Our estimate for points breakage, or the points we expect will go unused, has been reduced resulting in a \$5 million reduction in revenue and corresponding increase in air traffic liability.

New Accounting Pronouncements

In December 2011, the FASB issued ASU 2011-11, amending the Balance Sheet topic of the Codification. This update enhances the disclosure requirements regarding offsetting assets and liabilities. ASU 2011-11 requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. These amendments are effective for annual and interim reporting periods beginning on or after January 1, 2013. Adoption of this standard did not have a material impact on our condensed consolidated financial statements or notes thereto.

In February 2013, the FASB issued ASU 2013-02, amending the Comprehensive Income topic of the Codification. This update amends the requirement to present either on the face of the statement of operations or in the notes, the effects of significant net income line items reclassified out of accumulated other comprehensive income or loss, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, the Company is required to cross-reference to other disclosures that provide additional detail about those amounts. ASU 2013-02 became effective for our annual and interim periods beginning January 1, 2013. The required disclosures are included in Note 4.

NOTE 2 — SHARE-BASED COMPENSATION

During the six months ended June 30, 2013, 2.0 million restricted stock units vested under the 2011 Incentive Compensation Plan and the Amended and Restated 2002 Stock Incentive Plan.

NOTE 3 — LONG TERM DEBT, SHORT TERM BORROWINGS, AND CAPITAL LEASE OBLIGATIONS

Short Term Borrowings

CitiBank Line of Credit. On April 23, 2013, we entered into a Credit and Guaranty Agreement that consists of a \$350 million revolving credit and letter of credit facility with Citibank, N.A. as the administrative agent which terminates in 2016. Borrowings under the Credit Facility bear interest at a variable rate equal to LIBOR, plus a margin. The Credit Facility is secured by take-off and landing slots at John F. Kennedy International Airport, or JFK, Newark Liberty International Airport, LaGuardia Airport and Ronald Reagan Washington National Airport and certain other assets. As of June 30, 2013, we did not have an outstanding balance under any of our credit facilities.

GOAA Bonds. In April 2013, the Greater Orlando Aviation Authority issued \$42 million special purpose airport facility revenue bonds to refund bonds issued in 2005. The proceeds from the refunded bonds were loaned to us and we recorded the issuance of \$43 million, net of \$1 million premium, as long term debt on our consolidated balance sheet.

Other Indebtedness

During the six months ended June 30, 2013, we issued \$120 million, net of discount, in fixed rate equipment notes due through 2025, which are secured by five aircraft.

Aircraft, engines and other equipment and facilities having a net book value of \$3.59 billion at June 30, 2013 have been pledged as security under various loan agreements. As of June 30, 2013, we owned 15 unencumbered Airbus A320 aircraft, one E190 aircraft, and nine spare engines.

Our outstanding long-term debt and capital lease obligations were reduced by \$152 million as a result of scheduled principal payments made during the six months ended June 30, 2013.

At June 30, 2013, the weighted average interest rate of all of our long-term debt was 4.5% and scheduled maturities were \$251 million for the remainder of 2013, \$578 million in 2014, \$267 million in 2015, \$464 million in 2016, \$191 million in 2017 and \$1.07 billion thereafter.

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The carrying amounts and estimated fair values of our long-term debt at June 30, 2013 and December 31, 2012 were as follows (in millions):

	June 30, 2013		December 31, 2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Public Debt				
Floating rate enhanced equipment notes				
Class G-1, due through 2016	\$155	\$150	\$173	\$164
Class G-2, due 2014 and 2016	373	354	373	351
Class B-1, due 2014	49	48	49	48
Fixed rate special facility bonds, due through 2036	78	73	82	82
6.75% convertible debentures due in 2039	162	237	162	225
5.5% convertible debentures due in 2038	123	186	123	173
Non-Public Debt				
Floating rate equipment notes, due through 2025	752	750	816	776
Fixed rate equipment notes, due through 2026	1,018	1,109	960	1,050
Total	\$2,710	\$2,907	\$2,738	\$2,869

The estimated fair values of our publicly held long-term debt are classified as Level 2 in the fair value hierarchy. The fair values of our enhanced equipment notes and our special facility bonds were based on quoted market prices in markets that are traded with low volumes. The fair value of our convertible debentures was based upon other observable market inputs since they are not actively traded. The fair value of our non-public debt was estimated using a discounted cash flow analysis based on our borrowing rates for instruments with similar terms and therefore classified as Level 3 in the fair value hierarchy.

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 — ACCUMULATED OTHER COMPREHENSIVE LOSS

Comprehensive income includes changes in fair value of our aircraft fuel derivatives and interest rate swap agreements, which qualify for hedge accounting. A rollforward of the amounts included in accumulated other comprehensive loss, net of taxes, for the three and six months ended June 30, 2013 is as follows (in millions):

	Aircraft Fuel Derivatives (1)	Interest Rate Swaps (2)	Total
Beginning accumulated losses, at March 31, 2013	\$(3)) \$(5)) \$(8)
Reclassifications into earnings (net of \$2 of taxes)	2	1	3
Change in fair value (net of \$7 of taxes)	(11)) —	(11)
Ending accumulated losses, at June 30, 2013	\$(12)) \$(4)) \$(16)

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	Aircraft Fuel Derivatives (1)	Interest Rate Swaps (2)	Total
Beginning accumulated losses, at December 31, 2012	\$(1)	\$(7)	\$(8)
Reclassifications into earnings (net of \$3 of taxes)	2	3	5
Change in fair value (net of \$8 of taxes)	(13)	—	(13)
Ending accumulated losses, at June 30, 2013	\$(12)	\$(4)	\$(16)

(1) Reclassified to aircraft fuel expense

(2) Reclassified to interest expense

NOTE 5 — EARNINGS PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Numerator				
Net income	\$36	\$52	\$ 50	\$82
Effect of dilutive securities:				
Interest on convertible debt, net of income taxes and profit sharing	3	3	5	5
Net income applicable to common stockholders after assumed conversions for diluted earnings per share	\$39	\$55	nt-size:10pt">	(Principal Financial Officer)