

JETBLUE AIRWAYS CORP  
Form 10-Q  
October 28, 2016  
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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 September 30, 2016  
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

87-0617894

(State of Other Jurisdiction of Incorporation)

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

27-01 Queens Plaza North, Long Island City, New York 11101

(Address of principal executive offices)

(Zip Code)

(718) 286-7900

(Registrant's telephone number, including area 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

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As of September 30, 2016, there were 323,732,696 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

(unaudited, in millions, except per share data)

|  | September 30,<br>2016 | December 31,<br>2015 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>  |                       |                      |
| <b>CURRENT ASSETS</b>                                  |                       |                      |
| Cash and cash equivalents                              | \$ 873                | \$ 318               |
| Investment securities                                  | 581                   | 558                  |
| Receivables, less allowance (2016-\$6; 2015-\$6)       | 145                   | 136                  |
| Prepaid expenses and other                             | 409                   | 361                  |
| Total current assets                                   | 2,008                 | 1,373                |
| <b>PROPERTY AND EQUIPMENT</b>                          |                       |                      |
| Flight equipment                                       | 7,522                 | 7,079                |
| Predelivery deposits for flight equipment              | 212                   | 171                  |
| Total flight equipment and predelivery deposits, gross | 7,734                 | 7,250                |
| Less accumulated depreciation                          | 1,768                 | 1,573                |
| Total flight equipment and predelivery deposits, net   | 5,966                 | 5,677                |
| Other property and equipment                           | 940                   | 868                  |
| Less accumulated depreciation                          | 335                   | 293                  |
| Total other property and equipment, net                | 605                   | 575                  |
| Assets constructed for others                          | 561                   | 561                  |
| Less accumulated depreciation                          | 179                   | 161                  |
| Total assets constructed for others, net               | 382                   | 400                  |
| Total property and equipment                           | 6,953                 | 6,652                |
| <b>OTHER ASSETS</b>                                    |                       |                      |
| Investment securities                                  | 55                    | 49                   |
| Restricted cash  | 68                    | 63                   |
| Other  | 495                   | 507                  |
| Total other assets                                     | 618                   | 619                  |
| <b>TOTAL ASSETS</b>                                    | <b>\$ 9,579</b>       | <b>\$ 8,644</b>      |

See accompanying notes to condensed consolidated financial statements.

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

|   | September 30,<br>2016 | December 31,<br>2015 |
|---|-----------------------|----------------------|
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                       |                      |
| <b>CURRENT LIABILITIES</b>  |                       |                      |
| Accounts payable  | \$ 267                | \$ 205               |
| Air traffic liability   | 1,141                 | 1,053                |
| Accrued salaries, wages and benefits  | 349                   | 302                  |
| Other accrued liabilities   | 309                   | 267                  |
| Current maturities of long-term debt and capital leases   | 439                   | 448                  |
| Total current liabilities   | 2,505                 | 2,275                |
| <b>LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS</b>   |                       |                      |
| CONSTRUCTION OBLIGATION   | 461                   | 472                  |
| <b>DEFERRED TAXES AND OTHER LIABILITIES</b>   |                       |                      |
| Deferred income taxes   | 1,423                 | 1,218                |
| Other   | 94                    | 90                   |
| Total deferred taxes and other liabilities  | 1,517                 | 1,308                |
| <b>STOCKHOLDERS' EQUITY</b>   |                       |                      |
| Preferred stock, \$0.01 par value; 25 shares authorized, none issued  | —                     | —                    |
| Common stock, \$0.01 par value; 900 shares authorized, 395 and 392 shares issued and 324 and 322 shares outstanding at September 30, 2016 and December 31, 2015, respectively | 4                     | 4                    |
| Treasury stock, at cost; 71 and 70 shares at September 30, 2016 and December 31, 2015, respectively   | (380)                 | (366)                |
| Additional paid-in capital  | 1,955                 | 1,896                |
| Retained earnings   | 2,257                 | 1,679                |
| Accumulated other comprehensive income (loss)   | 10                    | (3)                  |
| Total stockholders' equity  | 3,846                 | 3,210                |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>   | <b>\$ 9,579</b>       | <b>\$ 8,644</b>      |

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<br>Ended<br>September 30,<br>2016 |              | Nine Months<br>Ended<br>September 30,<br>2015 |              |
|-----------------------------------|--|--------------|---|--------------|
| <b>OPERATING REVENUES</b>         |  |              |   |              |
| Passenger                         | \$1,571  | \$1,551      | \$4,536                                       | \$4,455      |
| Other                             | 161  | 136          | 455   | 367          |
| Total operating revenues          | 1,732  | 1,687        | 4,991   | 4,822        |
| <b>OPERATING EXPENSES</b>         |  |              |   |              |
| Aircraft fuel and related taxes   | 293  | 342          | 782   | 1,048        |
| Salaries, wages and benefits      | 421  | 389          | 1,270   | 1,139        |
| Landing fees and other rents      | 98   | 91           | 276   | 264          |
| Depreciation and amortization     | 102  | 84           | 289   | 252          |
| Aircraft rent                     | 28   | 30           | 84  | 92           |
| Sales and marketing               | 60   | 69           | 197   | 199          |
| Maintenance materials and repairs | 153  | 132          | 427   | 371          |
| Other operating expenses          | 223  | 199          | 650   | 571          |
| Total operating expenses          | 1,378  | 1,336        | 3,975   | 3,936        |
| <b>OPERATING INCOME</b>           | <b>354</b>                                     | <b>351</b>   | <b>1,016</b>                                  | <b>886</b>   |
| <b>OTHER INCOME (EXPENSE)</b>     |  |              |   |              |
| Interest expense                  | (28 )  | (32 )        | (85 )   | (98 )        |
| Capitalized interest              | 2  | 2            | 6   | 6            |
| Interest income and other         | 2  | 1            | 5   | —            |
| Total other income (expense)      | (24 )  | (29 )        | (74 )   | (92 )        |
| <b>INCOME BEFORE TAXES</b>        | <b>330</b>                                     | <b>322</b>   | <b>942</b>                                    | <b>794</b>   |
| Income tax expense                | 131  | 124          | 363   | 307          |
| <b>NET INCOME</b>                 | <b>\$199</b>                                   | <b>\$198</b> | <b>\$579</b>                                  | <b>\$487</b> |
| <b>EARNINGS PER COMMON SHARE:</b> |  |              |   |              |
| Basic                             | \$0.61   | \$0.63       | \$1.79  | \$1.55       |
| Diluted                           | \$0.58   | \$0.58       | \$1.70  | \$1.42       |

See accompanying notes to condensed consolidated financial statements.

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

|  | Three<br>Months<br>Ended<br>September<br>30, |       |
|--|--|-------|
|  | 2016   | 2015  |
| NET INCOME   | \$199  | \$198 |
| Changes in fair value of derivative instruments, net of reclassifications into earnings (net of \$(4) and \$3 of taxes in 2016 and 2015, respectively) | (6)  | 6     |
| Total other comprehensive income   | (6)  | 6     |
| COMPREHENSIVE INCOME   | \$193  | \$204 |
|  | Nine<br>Months<br>Ended<br>September<br>30,  |       |
|  | 2016   | 2015  |
| NET INCOME   | \$579  | \$487 |
| Changes in fair value of derivative instruments, net of reclassifications into earnings (net of \$8 and \$28 of taxes in 2016 and 2015, respectively)  | 13   | 45    |
| Total other comprehensive income   | 13   | 45    |
| COMPREHENSIVE INCOME   | \$592  | \$532 |

See accompanying notes to condensed consolidated financial statements.

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

|   | Nine Months<br>Ended<br>September<br>30, |            |
|---|--|------------|
|   | 2016                                     | 2015       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |  |            |
| Net income  | \$579                                    | \$487      |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |            |
| Deferred income taxes   | 204                                      | 201        |
| Depreciation  | 248                                      | 210        |
| Amortization  | 41                                       | 42         |
| Stock-based compensation  | 18                                       | 15         |
| Gains on sale of assets and debt extinguishment                                   | (4 )                                     | (7 )       |
| Collateral returned for derivative instruments                                    | —  | 44         |
| Changes in certain operating assets and liabilities                               | 243                                      | 300        |
| Other, net  | (12 )                                    | 2          |
| Net cash provided by operating activities   | 1,317                                    | 1,294      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |  |            |
| Capital expenditures  | (480 )                                   | (493 )     |
| Predelivery deposits for flight equipment   | (118 )                                   | (59 )      |
| Purchase of held-to-maturity investments  | (151 )                                   | (340 )     |
| Proceeds from the maturities of held-to-maturity investments                      | 282                                      | 224        |
| Purchase of available-for-sale securities   | (507 )                                   | (237 )     |
| Proceeds from the sale of available-for-sale securities                           | 345                                      | 140        |
| Other, net  | (1 )                                     | 2          |
| Net cash used in investing activities   | (630 )                                   | (763 )     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |  |            |
| Proceeds from issuance of common stock  | 26                                       | 68         |
| Repayment of long-term debt and capital lease obligations                         | (148 )                                   | (232 )     |
| Acquisition of Treasury Stock   | (14 )                                    | (164 )     |
| Other, net  | 4  | —          |
| Net cash used in financing activities   | (132 )                                   | (328 )     |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>                                      | <b>555</b>                               | <b>203</b> |
| Cash and cash equivalents at beginning of period                                  | 318                                      | 341        |
| Cash and cash equivalents at end of period  | \$873                                    | \$544      |

See accompanying notes to condensed consolidated financial statements.

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## JETBLUE AIRWAYS CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## Note 1—Summary of Significant Accounting Policies

## Basis of Presentation

JetBlue Airways Corporation, or JetBlue, provides air transportation services across the United States, the Caribbean and Latin America. Our condensed consolidated financial statements include the accounts of JetBlue and our subsidiaries which are collectively referred to as “we” or the “Company”. All majority-owned subsidiaries are consolidated on a line by line basis, with all intercompany transactions and balances being eliminated. These condensed consolidated financial statements and related notes should be read in conjunction with our 2015 audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015, or our 2015 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. In our opinion they reflect all adjustments, including normal recurring items, that are necessary to present fairly the results for interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the U.S., or GAAP, 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 other interim periods or the entire fiscal year.

## Investment securities

Investment securities consist of available-for-sale investment securities and held-to-maturity investment securities.

We use a specific identification method to determine the cost of the securities when they are sold.

Held-to-maturity investment securities. The contractual maturities of the corporate bonds we held as of September 30, 2016 were not greater than 24 months. We did not record any significant gains or losses on these securities during the three and nine months ended September 30, 2016 or 2015. The estimated fair value of these investments approximated their carrying value as of September 30, 2016 and December 31, 2015, respectively.

The carrying values of investment securities consisted of the following at September 30, 2016 and December 31, 2015 (in millions):

|                                     | September 30,<br>2016 | December 31,<br>2015 |
|-------------------------------------|-----------------------|----------------------|
| Available-for-sale securities       |                       |                      |
| Time deposits                       | \$ 145                | \$ 125               |
| Commercial paper                    | 20                    | 55                   |
| Treasury bills                      | 252                   | 75                   |
| Total available-for-sale securities | 417                   | 255                  |
| Held-to-maturity securities         |                       |                      |
| Corporate bonds                     | \$ 38                 | \$ 322               |
| Treasury notes                      | 181                   | 30                   |
| Total held-to-maturity securities   | 219                   | 352                  |
| Total investment securities         | \$ 636                | \$ 607               |

## Loyalty Program

In 2015, we announced a co-branded credit card partnership with Barclaycard®, which commenced in March 2016. The agreement is a new multiple-element arrangement subject to Accounting Standards Update, or ASU, 2009-13, Multiple Deliverable Revenue Arrangements. ASU 2009-13 requires the allocation of the overall consideration received to each deliverable using the estimated selling price. We identified the following deliverables: air transportation; use of the JetBlue brand name and access to our frequent flyer customer lists; advertising; and other

airline benefits. In determining the estimated selling price, JetBlue considered multiple inputs, methods and assumptions, including: discounted cash flows; estimated equivalent ticket value, net of fulfillment discount; points expected to be awarded and redeemed; estimated annual spending by cardholder; estimated annual royalty for use of JetBlue's frequent flyer customer lists; and estimated utilization of other airline benefits. The overall consideration received is allocated to each deliverable based on their relative selling prices. The air transportation element will be deferred and recognized as passenger revenue when the points are utilized. The other elements will generally be recognized as other revenue when earned.

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JETBLUE AIRWAYS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Recent Accounting Pronouncements

During the first quarter of 2016, we adopted ASU 2015-03, Interest - Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs topic of the FASB Codification, or Codification. ASU 2015-03 provides a simplified presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Upon adoption, ASU 2015-03 requires retrospective application to all prior periods presented in the financial statements. Our condensed consolidated balance sheet as of December 31, 2015 reflects retrospective application and includes our unamortized debt issuance costs of \$16 million within long-term debt and capital lease obligations. Prior to adoption this amount was included within other long-term assets.

Also during the first quarter of 2016, we adopted ASU 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40), Customer's Accounting for Fees Paid in a Cloud Computing Arrangement topic of the Codification, which provides guidance to clarify customers' accounting for fees paid in a cloud computing arrangement. Customers' cloud computing arrangements which include a software license should account for the software license consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. We adopted ASU 2015-05 prospectively and do not expect the amendments to have a significant impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under ASU 2016-02, a lessee will recognize liabilities for lease payments and right-of-use assets representing its right to use the underlying asset for the lease term. While we are still evaluating the full impact of adopting the amendments on our consolidated financial statements and disclosures, we have determined that it will impact our accounting for leased aircraft and other leasing agreements. The amendments are effective for fiscal years beginning after December 15, 2018 and includes interim periods within those fiscal years. Early adoption is permitted, and companies are required to use a modified retrospective approach at the earliest period presented.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The amendments apply to several aspects of accounting for stock-based compensation including the recognition of excess tax benefits and deficiencies and their related presentation in the statement of cash flows as well as accounting for forfeitures. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods and allows for prospective, retrospective or modified retrospective adoption, depending on the area covered in the update, with early adoption permitted. We are currently determining the transition method and assessing the impact the amendments may have on our financial condition, results of operations and cash flows.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers topic of the Codification, which supersedes existing revenue recognition guidance. Under the ASU 2014-09, a company will recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled to in exchange for those goods or services. The amendments allow for either full retrospective or modified retrospective adoption. In July 2015, the FASB voted to defer the effective date of ASU 2014-09 by one year to interim and annual reporting periods beginning after December 15, 2017 and permitted early adoption, but not prior to December 15, 2016. While we are still evaluating the full impact of adopting the amendments on our consolidated financial statements and disclosures, we have determined that it will impact our loyalty program accounting. The amendments will no longer allow us to use the incremental cost method when recording the financial impact of TrueBlue® points earned on qualifying JetBlue purchases and will require us to re-value our liability with a relative fair value approach.

Note 2—Long Term Debt, Short Term Borrowings, and Capital Lease Obligations

During the nine months ended September 30, 2016, we made scheduled principal payments of \$148 million on our outstanding long-term debt and capital lease obligations. As a result of scheduled principal payments, two aircraft became unencumbered.

Aircraft, engines, other equipment and facilities with a net book value of \$2.8 billion at September 30, 2016 have been pledged as security under various loan agreements. As of September 30, 2016, we owned, free of encumbrance, 46 Airbus A320 aircraft, 24 Airbus A321 aircraft and 32 spare engines. At September 30, 2016, scheduled maturities of all of our long-term debt and capital lease obligations were \$306 million for the remainder of 2016, \$185 million in 2017, \$193 million in 2018, \$215 million in 2019, \$179 million in 2020 and \$611 million thereafter.

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## JETBLUE AIRWAYS CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

The carrying amounts and estimated fair values of our long-term debt at September 30, 2016 and December 31, 2015 were as follows (in millions):

|   | September 30,<br>2016 |                            | December 31,<br>2015 |                            |
|---|-----------------------|----------------------------|----------------------|----------------------------|
|   | Carrying<br>Value     | Estimated<br>Fair<br>Value | Carrying<br>Value    | Estimated<br>Fair<br>Value |
| <b>Public Debt</b>                                      |                       |                            |                      |                            |
| Floating rate enhanced equipment notes                  |                       |                            |                      |                            |
| Class G-1, due 2016                                     | \$—                   | \$ —                       | \$16                 | \$ 16                      |
| Class G-2, due 2016                                     | 185                   | 185                        | 185                  | 184                        |
| Fixed rate special facility bonds, due through 2036     | 43                    | 47                         | 43                   | 45                         |
| 6.75% convertible debentures due in 2039 <sup>(1)</sup> | 86                    | 304                        | 86                   | 405                        |
| <b>Non-Public Debt</b>                                  |                       |                            |                      |                            |
| Fixed rate enhanced equipment notes, due through 2023   | \$189                 | \$ 204                     | \$201                | \$ 209                     |
| Floating rate equipment notes, due through 2025         | 177                   | 180                        | 193                  | 195                        |
| Fixed rate equipment notes, due through 2026            | 879                   | 980                        | 964                  | 1,042                      |
| Total <sup>(2)</sup>                                    | \$1,559               | \$ 1,900                   | \$1,688              | \$ 2,096                   |

(1) On September 16, 2016, we made a mandatory offer to repurchase the remaining holdings of approximately \$86 million in principal amount which closed on October 17, 2016.

(2) Total excludes capital lease obligations of \$142 million for September 30, 2016 and \$155 million for December 31, 2015, and deferred financing costs of 12 million for September 30, 2016 and \$16 million for December 31, 2015

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 with low trading volumes. The fair value of our convertible debentures was based on 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. The fair values of our other financial instruments approximate their carrying values. Refer to Note 7 for an explanation of the fair value hierarchy structure.

We have financed certain aircraft with Enhanced Equipment Trust Certificates (EETCs) as one of the benefits of this structure is being able to finance several aircraft at one time, rather than individually. The structure of EETC financing is that we create pass-through trusts in order to issue pass-through certificates. The proceeds from the issuance of these certificates are then used to purchase equipment notes which are issued by us and are secured by our aircraft. These trusts meet the definition of a variable interest entity, or VIE, as defined in the Consolidations topic of the Codification, and must be considered for consolidation in our condensed consolidated financial statements. Our assessment of our EETCs considers both quantitative and qualitative factors including the purpose for which these trusts were established and the nature of the risks in each. The main purpose of the trust structure is to enhance the credit worthiness of our debt obligation through certain bankruptcy protection provisions, liquidity facilities and lower our total borrowing cost. We concluded that we are not the primary beneficiary in these trusts because our involvement in them is limited to principal and interest payments on the related notes, the trusts were not set up to pass along variability created by credit risk to us and the likelihood of our defaulting on the notes. Therefore, we have not consolidated these trusts in our condensed consolidated financial statements.



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## JETBLUE AIRWAYS CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## Note 3—Earnings Per Share

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

|   | Three<br>Months<br>Ended<br>September<br>30,<br>2016 |       | Nine<br>Months<br>Ended<br>September<br>30,<br>2015 |       |
|---|--|-------|---|-------|
| Numerator:  |  |       |   |       |
| Net Income  | \$199  | \$198 | \$579   | \$487 |
| Effect of dilutive securities:  |  |       |   |       |
| Interest on convertible debt, net of income taxes and profit sharing                                  | 1  | 1     | 2   | 4     |
| Net income applicable to common stockholders after assumed conversions for diluted earnings per share | \$200  | \$199 | \$581   | \$491 |
| Denominator:  |  |       |   |       |
| Weighted average shares outstanding   | 323.7  | 313.8 | 322.8   | 313.6 |
| Effect of dilutive securities:  |  |       |   |       |
| Employee stock options, restricted stock units and stock purchase plan                                | 1.8  | 2.6   | 2.0   | 2.9   |
| Convertible debt  | 17.6   | 27.1  | 17.6  | 29.3  |
| Adjusted weighted average shares outstanding and assumed conversions for diluted earnings per share   | 343.1  | 343.5 | 342.4   | 345.8 |

During the three and nine months ended September 30, 2016 and 2015 there were no shares excluded from earnings per share upon assumed conversion of our convertible debt.

## Note 4—Crewmember Retirement Plan and Profit Sharing

We sponsor a retirement savings 401(k) defined contribution plan, or the Plan, covering all of our U.S. and Puerto Rico employees, who we refer to as Crewmembers, where we match 100% of our Crewmembers' contributions up to 5% of their eligible wages. The matching contributions vest over five years and are measured from a Crewmember's hire date. Crewmembers are immediately vested in their voluntary contributions.

Another component of the Plan is a Company discretionary contribution of 5% of eligible non-management Crewmember compensation, which we refer to as Retirement Plus. Retirement Plus contributions vest over three years and are measured from a Crewmember's hire date.

For years prior to 2017, our non-management Crewmembers are also eligible to receive profit sharing, calculated as 15% of adjusted pre-tax income before profit sharing and special items with the result reduced by Retirement Plus contributions. Eligible non-management Crewmembers may elect to have their profit sharing contributed directly to the Plan. Beginning with 2017 adjusted pre-tax income, non-management Crewmembers will be eligible to receive profit sharing, calculated as 10% of adjusted pre-tax income before profit sharing and special items up to a pre-tax margin of 18% with the result reduced by Retirement Plus contributions. If JetBlue's resulting pre-tax margin exceeds 18%, non-management Crewmembers will receive 20% profit sharing above an 18% pre-tax margin.

Certain Federal Aviation Administration, or FAA-licensed Crewmembers, receive an additional contribution of 3% of eligible compensation, which we refer to as Retirement Advantage. Total 401(k) company match, Retirement Plus, profit sharing and Retirement Advantage expensed for the three months ended September 30, 2016 and 2015 was \$74 million and \$72 million, respectively, while the total amount expensed for the nine months ended September 30, 2016 and 2015 was \$221 million and \$184 million, respectively.



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JETBLUE AIRWAYS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 5—Commitments and Contingencies

Flight Equipment Commitments

As of September 30, 2016, our firm aircraft orders consisted of 25 Airbus A320 new engine option (neo) aircraft, 31 Airbus A321 aircraft, 60 Airbus A321neo aircraft, 24 EMBRAER 190 aircraft and 10 spare engines scheduled for delivery through 2023. Committed expenditures for these aircraft and related flight equipment, including estimated amounts for contractual price escalations and predelivery deposits, will be approximately \$252 million for the remainder of 2016, \$1.1 billion in 2017, \$897 million in 2018, \$1.3 billion in 2019, \$1.6 billion in 2020 and \$3.2 billion thereafter. In July 2016 we finalized two lease agreements to receive two additional Airbus A321 aircraft which we expect to be delivered during the fourth quarter of 2016. We are scheduled to receive five new Airbus A321 aircraft during the remainder of 2016.

We amended our purchase agreement with Airbus during July 2016 to add 30 incremental Airbus A321 aircraft with deliveries beginning in 2017. We currently expect 15 of the incremental aircraft to be delivered with the current engine option beginning in 2017, with the remaining 15 aircraft to be Airbus A321neo, scheduled to be delivered beginning in 2020.

Other Commitments

As part of the 2014 sale of LiveTV, LLC, or LiveTV, formerly a wholly owned subsidiary of JetBlue, to Thales Holding Corporation a \$3 million liability relating to Airfone, a former subsidiary of LiveTV, was assigned to JetBlue under the purchase agreement with Thales. Separately, prior to the sale of LiveTV, JetBlue had an agreement with ViaSat Inc. through 2020 relating to in-flight broadband connectivity technology on our aircraft. That agreement stipulated a \$20 million minimum commitment for the connectivity service and a \$25 million minimum commitment for the related hardware and software purchase. As part of the sale of LiveTV, these commitments to ViaSat Inc. were assigned to LiveTV and JetBlue entered into two new service agreements with LiveTV pursuant to which LiveTV will provide in-flight entertainment and connectivity services to JetBlue for a minimum of seven years.

As of September 30, 2016, we had approximately \$34 million in assets serving as collateral for letters of credit relating to a certain number of our leases. These are included in restricted cash and expire at the end of the related lease terms. Additionally, we had approximately \$26 million pledged related to our workers compensation insurance policies and other business partner agreements which will expire according to the terms of the related policies or agreements.

Legal Matters

Occasionally we are involved in various claims, lawsuits, regulatory examinations, investigations and other legal matters arising, for the most part, in the ordinary course of business. The outcome of litigation and other legal matters is always uncertain. The Company believes it has valid defenses to the legal matters currently pending against it, is defending itself vigorously and has recorded accruals determined in accordance with GAAP, where appropriate. In making a determination regarding accruals, using available information, we evaluate the likelihood of an unfavorable outcome in legal or regulatory proceedings to which we are a party and record a loss contingency when it is probable a liability has been incurred and the amount of the loss can be reasonably estimated. These subjective determinations are based on the status of such legal or regulatory proceedings, the merits of our defenses and consultation with legal counsel. Actual outcomes of these legal and regulatory proceedings may materially differ from our current estimates. It is possible that resolution of one or more of the legal matters currently pending or threatened could result in losses material to our consolidated results of operations, liquidity or financial condition.

To date, none of these types of litigation matters, most of which are typically covered by insurance, has had a material impact on our operations or financial condition. We have insured and continue to insure against most of these types of claims. A judgment on any claim not covered by, or in excess of, our insurance coverage could materially adversely affect our financial condition or results of operations.



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## JETBLUE AIRWAYS CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## Note 6—Financial Derivative Instruments and Risk Management

As part of our risk management techniques, we periodically purchase over the counter energy derivative instruments and enter into fixed forward price agreements, or FFPs, to manage our exposure to the effect of changes in the price of aircraft fuel. Prices for the underlying commodities have historically been highly correlated to aircraft fuel, making derivatives of them effective at providing short-term protection against sharp increases in average fuel prices. We also periodically enter into jet fuel basis swaps for the differential between heating oil and jet fuel, to further limit the variability in fuel prices at various locations.

To manage the variability of the cash flows associated with our variable rate debt, we have also entered into interest rate swaps. We do not hold or issue any derivative financial instruments for trading purposes.

## Aircraft fuel derivatives

We attempt to obtain cash flow hedge accounting treatment for each fuel derivative that we enter into. This treatment is provided for under the Derivatives and Hedging topic of the Codification which allows for gains and losses on the effective portion of qualifying hedges to be deferred until the underlying planned jet fuel consumption occurs, rather than recognizing the gains and losses on these instruments into earnings during each period they are outstanding. The effective portion of realized fuel hedging derivative gains and losses is recognized in aircraft fuel expense in the period during which the underlying fuel is consumed.

Ineffectiveness occurs, in certain circumstances, when the change in the total fair value of the derivative instrument differs from the change in the value of our expected future cash outlays for the purchase of aircraft fuel.

Ineffectiveness is recognized immediately in interest income and other. If a hedge does not qualify for hedge accounting, the periodic changes in its fair value are also recognized in interest income and other. When aircraft fuel is consumed and the related derivative contract settles, any gain or loss previously recorded in other comprehensive income is recognized in aircraft fuel expense. All cash flows related to our fuel hedging derivatives are classified as operating cash flows.

Our current approach to fuel hedging is to enter into hedges on a discretionary basis without a specific target of hedge percentage needs. We view our hedge portfolio as a form of insurance to help mitigate the impact of price volatility and protect us against severe spikes in oil prices, when possible.

The following table illustrates the approximate hedged percentages of our projected fuel usage by quarter as of September 30, 2016 related to our outstanding fuel hedging contracts that were designated as cash flow hedges for accounting purposes.

|                     | Jet fuel<br>swap<br>agreements | Jet fuel<br>collar<br>agreements | Heating oil<br>collar<br>agreements | Total |
|---------------------|--------------------------------|----------------------------------|-------------------------------------|-------|
| Fourth Quarter 2016 | 25 %                           | —%                               | —%                                  | 25 %  |
| First Quarter 2017  | 11 %                           | —%                               | —%                                  | 11 %  |
| Second Quarter 2017 | 10 %                           | —%                               | —%                                  | 10 %  |
| Third Quarter 2017  | 10 %                           | —%                               | —%                                  | 10 %  |
| Fourth Quarter 2017 | 10 %                           | —%                               | —%                                  | 10 %  |

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## JETBLUE AIRWAYS CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## Interest rate swaps

The final interest payment relating to our interest rate hedge took place in August 2016. As such, as of September 30, 2016, we did not have any notional debt outstanding related to these swaps. These interest rate hedges effectively swapped floating rate debt for fixed rate debt. They took advantage of lower borrowing rates in existence at the time of the hedge transaction as compared to the date our original debt instruments were executed. The notional amount decreased over time to match scheduled repayments of the related debt.

All of our previously outstanding interest rate swap contracts qualified as cash flow hedges in accordance with the Derivatives and Hedging topic of the Codification. Since all of the critical terms of our swap agreements match the debt to which they pertain, there was no ineffectiveness relating to these interest rate swaps in 2016 or 2015. All related unrealized losses were deferred in accumulated other comprehensive loss. We recognized a \$1 million gain in interest expense in the nine months ended September 30, 2016. We did not recognize any material additional interest expense in the nine months ended September 30, 2015. We did not recognize any material interest rate hedge gains or losses in other comprehensive income in the nine months ended September 30, 2016 or 2015. As of September 30, 2016 and December 31, 2015, we did not recognize any material interest rate hedge assets, liabilities or associated collateral.

The table below reflects quantitative information related to our derivative instruments and where these amounts are recorded in our financial statements (dollar amounts in millions):

|   | September 30, 2016                    | December 31, 2015                    |
|---|---------------------------------------|--------------------------------------|
| Fuel derivatives  |                                       |                                      |
| Asset fair value recorded in prepaid expense and other <sup>(1)</sup>                                       | \$ 14                                 | \$ —                                 |
| Asset fair value recorded in other long term assets <sup>(1)</sup>  | \$ 3                                  | \$ —                                 |
| Liability fair value recorded in other accrued liabilities <sup>(1)</sup>                                   | \$ —                                  | \$ 5                                 |
| Longest remaining term (months)   | 15                                    | 12                                   |
| Hedged volume (barrels, in thousands)   | 3,045                                 | 900                                  |
| Estimated amount of existing gains (losses) expected to be reclassified into earnings in the next 12 months | \$ 16                                 | \$ (4 )                              |
|   | Three Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 |
| Fuel derivatives  | 2016                                  | 2015                                 |
| Hedge effectiveness gains (losses) recognized in aircraft fuel expense                                      | \$1                                   | \$(27)                               |
| Gains on derivatives not qualifying for hedge accounting recognized in other expense                        | —                                     | —                                    |
| Hedge (losses) gains on derivatives recognized in comprehensive income                                      | (8 )                                  | (18 )                                |
| Percentage of actual consumption economically hedged  | 24 %                                  | 14 %                                 |
|   | 2016                                  | 2015                                 |
|   | 8 %                                   | 18 %                                 |

(1) Gross asset or liability of each contract prior to consideration of offsetting positions with each counterparty and prior to the impact of collateral paid

Any outstanding derivative instrument exposes us to credit loss in connection with our fuel contracts in the event of nonperformance by the counterparties to our agreements, but we do not expect that any of our counterparties will fail to meet their obligations. The amount of such credit exposure is generally the fair value of our outstanding contracts for which we are in a receivable position. To manage credit risks we select counterparties based on credit assessments, limit our overall exposure to any single counterparty and monitor the market position with each counterparty. Some of our agreements require cash deposits from either JetBlue or our counterparty if market risk exposure exceeds a

specified threshold amount.

We have master netting arrangements with our counterparties allowing us the right of offset to mitigate credit risk in derivative transactions. The financial derivative instrument agreements we have with our counterparties may require us to fund all, or a portion of, outstanding loss positions related to these contracts prior to their scheduled maturities. The amount of collateral posted, if any, is periodically adjusted based on the fair value of the hedge contracts. Our policy is to offset the liabilities represented by these contracts with any cash collateral paid to the counterparties.

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## JETBLUE AIRWAYS CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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The impact of offsetting derivative instruments is depicted below (in millions):

|                          | Gross Amount of Recognized |             | Gross Amount of Cash Collateral | Net Amount Presented on Balance Sheet |             |
|--------------------------|----------------------------|-------------|---------------------------------|---------------------------------------|-------------|
|                          | Assets                     | Liabilities | Offset                          | Assets                                | Liabilities |
| Fuel derivatives         |                            |             |                                 |                                       |             |
| As of September 30, 2016 | \$ 17                      | \$ —        | —\$                             | —\$ 17                                | \$ —        |
| As of December 31, 2015  | —                          | 5           | —                               | \$ —                                  | 5           |

## Note 7—Fair Value

Under the Fair Value Measurements and Disclosures topic of the Codification, disclosures are required about how fair value is determined for assets and liabilities and a hierarchy for which these assets and liabilities must be grouped is established, based on significant levels of inputs as follows:

Level 1 quoted prices in active markets for identical assets or liabilities;

Level 2 quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or

Level 3 unobservable inputs for the asset or liability, such as discounted cash flow models or valuations.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following is a listing of our assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the fair value hierarchy as of September 30, 2016 and December 31, 2015 (in millions):

|  | September 30, 2016 |         |         |          |
|--|--------------------|---------|---------|----------|
|  | Level 1            | Level 2 | Level 3 | Total    |
| Assets                                   |                    |         |         |          |
| Cash equivalents                         | \$736              | \$—     | \$—     | —\$736   |
| Available-for-sale investment securities | 252                | 165     | —       | 417      |
| Aircraft fuel derivatives                | —                  | 17      | —       | 17       |
|  | \$988              | \$182   | \$—     | —\$1,170 |
| December 31, 2015                        |                    |         |         |          |
|  | Level 1            | Level 2 | Level 3 | Total    |
| Assets                                   |                    |         |         |          |
| Cash equivalents                         | \$147              | \$—     | \$—     | —\$147   |
| Available-for-sale investment securities | 75                 | 180     | —       | 255      |
|  | \$222              | \$180   | \$—     | —\$402   |
| Liabilities                              |                    |         |         |          |
| Aircraft fuel derivatives                | \$—                | \$5     | \$—     | —\$5     |
|  | \$—                | \$5     | \$—     | —\$5     |

Refer to Note 2 for fair value information related to our outstanding debt obligations as of September 30, 2016 and December 31, 2015.



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JETBLUE AIRWAYS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Cash equivalents

Our cash equivalents include money market securities and commercial paper which are readily convertible into cash, have maturities of 90 days or less when purchased and are considered to be highly liquid and easily tradable. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within our fair value hierarchy.

Available-for-sale investment securities

Included in our available-for-sale investment securities are U.S. treasury bills, time deposits and commercial paper with maturities of greater than 90 days but less than one year. The U.S. treasury bills are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within our fair value hierarchy. The fair values of our time deposits and commercial paper instruments are based on observable inputs in non-active markets and are therefore classified as Level 2 in the hierarchy. We did not record any significant gains or losses on these securities during the three and nine months ended September 30, 2016 and 2015.

Aircraft fuel derivatives

Our aircraft fuel derivatives include swaps, collars, and basis swaps which are not traded on public exchanges. Heating oil and jet fuel are the products underlying these hedge contracts as they are highly correlated with the price of jet fuel. Their fair values are determined using a market approach based on inputs that are readily available from public markets for commodities and energy trading activities. Therefore, they are classified as Level 2 in the hierarchy. The data inputs are combined into quantitative models and processes to generate forward curves and volatilities related to the specific terms of the underlying hedge contracts.

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## JETBLUE AIRWAYS CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## Note 8—Accumulated Other 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. A rollforward of the amounts included in the accumulated other comprehensive income (loss), net of taxes for the three months ended September 30, 2016 and September 30, 2015 are as follows (in millions):

|  | Aircraft Fuel<br>Derivatives <sup>(1)</sup> | Interest<br>Rate<br>Swaps <sup>(2)</sup> | Total  |
|--|---|--|--------|
| Balance of accumulated gains (losses) at June 30, 2016 | \$ 15                                       | \$ 1                                     | \$ 16  |
| Reclassifications into earnings (net of \$0 of taxes)  | (1 )  | (1 )                                     | (2 )   |
| Change in fair value (net of \$(4) of taxes)           | (4 )  | —  | (4 )   |
| Balance of accumulated gains at September 30, 2016     | \$ 10                                       | \$ —                                     | \$ 10  |
| Balance of accumulated losses at June 30, 2015         | \$ (24 )                                    | \$ —                                     | \$(24) |
| Reclassifications into earnings (net of \$10 of taxes) | 17  | —  | 17     |
| Change in fair value (net of \$(7) of taxes)           | (11 )                                       | —  | (11 )  |
| Balance of accumulated losses at September 30, 2015    | \$ (18 )                                    | \$ —                                     | \$(18) |

(1) Reclassified to aircraft fuel expense

(2) Reclassified to interest expense

A rollforward of the amounts included in the accumulated other comprehensive income (loss), net of taxes for the nine months ended September 30, 2016 and September 30, 2015 are as follows (in millions):

|  | Aircraft Fuel<br>Derivatives <sup>(1)</sup> | Interest<br>Rate<br>Swaps <sup>(2)</sup> | Total  |
|--|---|--|--------|
| Balance of accumulated (losses) gains at December 31, 2015 | \$ (4 )                                     | \$ 1                                     | \$(3 ) |
| Reclassifications into earnings (net of \$0 of taxes)      | (1 )  | (1 )                                     | (2 )   |
| Change in fair value (net of \$8 of taxes)                 | 15  | —  | 15     |
| Balance of accumulated gains at September 30, 2016         | \$ 10                                       | \$ —                                     | \$ 10  |
| Balance of accumulated losses at December 31, 2014         | \$ (63 )                                    | \$ —                                     | \$(63) |
| Reclassifications into earnings (net of \$36 of taxes)     | 57  | —  | 57     |
| Change in fair value (net of \$(8) of taxes)               | (12 )                                       | —  | (12 )  |
| Balance of accumulated losses at September 30, 2015        | \$ (18 )                                    | \$ —                                     | \$(18) |

(1) Reclassified to aircraft fuel expense

(2) Reclassified to interest expense

## Note 9—Subsequent Event

During October 2016, we entered agreements to buy out four of our aircraft leases for over \$70 million. We anticipate completing these transactions during the fourth quarter of 2016.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Third Quarter 2016 Highlights

We had a \$45 million increase in operating revenue compared to the third quarter of 2015 due primarily to a 6.3% increase in capacity, partially offset by a 5.9% decrease in yield per passenger mile.

We generated \$1.3 billion in cash from operations for the nine months ended September 30, 2016.

Operating expense per available seat mile decreased by 3.1% to 9.99 cents, primarily due to a significant decline in aircraft fuel expenses and an increase in available seat miles. Excluding fuel, profit sharing and related taxes, our cost per available seat mile<sup>(1)</sup> increased by 3.1%.

Operating income was \$354 million, an increase of \$3 million over the comparable period in 2015. This increase was principally driven by a reduction in aircraft fuel expenses and higher revenue, partially offset by increases in most other expense categories.

Balance Sheet

We ended the third quarter of 2016 with unrestricted cash, cash equivalents and short-term investments of \$1.5 billion and undrawn lines of credit of approximately \$600 million. Our unrestricted cash, cash equivalents and short-term investments are approximately 22% of trailing twelve months revenue. We increased the number of unencumbered aircraft by three during the quarter by using cash on hand to pay for our deliveries. We had 70 unencumbered aircraft and 32 unencumbered spare engines as of September 30, 2016.

Fleet

In conjunction with our intention to expand our Mint experience, we amended our purchase agreement with Airbus during July 2016 to add 30 incremental Airbus A321 aircraft scheduled to be delivered between 2017 and 2023. We believe these incremental aircraft will allow us to continue to grow profitably, particularly in the transcontinental market.

In support of our long-term transcontinental plans we currently expect 15 of the incremental 30 Airbus A321 aircraft to be delivered with the current engine option beginning in 2017. Our amendment includes flexibility to take these deliveries in our Mint or all-core configuration. We anticipate the remaining 15 aircraft to be Airbus A321 new engine option (A321neo), scheduled to be delivered beginning in 2020. Starting after June 2019, we would have the option to take any or all of our A321neo deliveries with the Long Range configuration, the A321-LR.

Network

Over the last decade, JetBlue has steadily built a presence in both Boston and Fort Lauderdale-Hollywood to complement our hometown market of New York City. Recently, We announced routes to add to our Focus Cities to include more leisure markets such as Fort Lauderdale-Hollywood to Aruba, more transcontinental markets such as Orlando to Los Angeles, more Mint markets such as JFK to Grenada, and business markets like Boston to Atlanta. Mint service continues to contribute to improved revenue per available seat mile and operating margin. We expect to launch Mint service from Boston to Los Angeles during the fourth quarter of 2016 and Fort Lauderdale-Hollywood to Los Angeles and San Francisco during the first half of 2017.

During the third quarter of 2016, we operated the first commercial US flight to Cuba in 50 years with our inaugural flight from Fort Lauderdale-Hollywood to Santa Clara of which we are immensely proud. We expect to launch scheduled service to three new BlueCities in Cuba: Havana, Camagüey, and Holguín during the fourth quarter of 2016.

We believe JetBlue is uniquely situated to be the carrier of choice to provide scheduled service to Cuba based on our strong presence in Florida, long standing Cuban charter experience and our success in similar destinations such as the Dominican Republic.

Investment in Our Crewmembers

Effective January 1, 2017, profit sharing eligible Crewmembers will receive an 8% raise and a modified profit sharing plan. Beginning with 2017 adjusted pre-tax income, non-management Crewmembers are expected to be eligible to receive profit sharing, calculated as 10% of adjusted pre-tax income before profit sharing and special items up to

pre-tax margin of 18% with the result reduced by Retirement Plus contributions. If JetBlue's pre-tax margin exceeds 18%, non-management Crewmembers will receive 20% profit sharing above the 18% margin. We believe these changes reflect industry trends and ensure our Crewmember rewards are fair and competitive.

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<sup>(1)</sup> Refer to our "Regulation G Reconciliation" note below for more information on this non-GAAP measure.

Outlook for 2016

For the fourth quarter of 2016, cost per available seat mile, excluding fuel and profit sharing<sup>(1)</sup> is expected to increase between 4.5% and 6.5% over the comparable 2015 period, including a negative impact from hurricane Matthew of approximately half a point. In addition, we expect operating capacity to increase between 3.0% and 5.0% over the comparable 2015 period, including a negative impact from hurricane Matthew of approximately half a point.

For the full year 2016, we expect our operating capacity to increase between 8.5% and 9.0% over full year 2015 with the addition of five Airbus A321 aircraft to our operating fleet during the remainder of the year. We expect our cost per available seat mile, excluding fuel and profit sharing<sup>(1)</sup>, for full year 2016 to increase between 0.0% and 1.5% over full year 2015.

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## RESULTS OF OPERATIONS

Three Months Ended September 30, 2016 vs. 2015

## Overview

We reported net income of \$199 million, an operating income of \$354 million and an operating margin of 20.5% for the three months ended September 30, 2016. This compares to net income of \$198 million, an operating income of \$351 million and an operating margin of 20.8% for the three months ended September 30, 2015. Diluted earnings per share were \$0.58 for the third quarter of 2016 compared to \$0.58 for the same period in 2015.

On-time performance, as defined by the Department of Transportation, or DOT, is arrival within 14 minutes of scheduled arrival time. In the third quarter of 2016, our systemwide on-time performance was 73.9% compared to 77.8% for the same period in 2015. Our on-time performance remains challenged by our concentration of operations in the northeast of the U.S., one of the world's most congested airspaces. Our completion factor was 98.9% in the third quarter of 2016 and 99.3% in the same period in 2015.

## Operating Revenues

| (Revenues in millions; percent changes based on unrounded numbers) | Three months ended |          | Year-over-Year |          |
|--|--------------------|----------|----------------|----------|
|  | September 30,      |          | Change         |          |
|  | 2016               | 2015     | \$             | %        |
| Passenger revenue  | \$1,571            | \$1,551  | \$20           | 1.3      |
| Other revenue  | 161                | 136      | 25             | 17.9     |
| Total operating revenues   | \$1,732            | \$1,687  | \$45           | 2.6      |
| Average Fare   | \$157.87           | \$167.96 | \$(10.09)      | (6.0)    |
| Yield per passenger mile (cents)                                   | 13.20              | 14.02    | (0.82)         | (5.9)    |
| Passenger revenue per ASM (cents)                                  | 11.39              | 11.96    | (0.57)         | (4.7)    |
| Operating revenue per ASM (cents)                                  | 12.55              | 13.01    | (0.46)         | (3.5)    |
| Average stage length (miles)                                       | 1,091              | 1,094    | (3)            | (0.3)    |
| Revenue passengers (thousands)                                     | 9,953              | 9,237    | 716            | 7.7      |
| Revenue passenger miles (millions)                                 | 11,905             | 11,063   | 842            | 7.6      |
| Available Seat Miles (ASMs) (millions)                             | 13,796             | 12,976   | 820            | 6.3      |
| Load Factor  | 86.3               | % 85.3   | %              | 1.0 pts. |

Passenger revenue is our primary source of revenue, which includes seat revenue as well as revenue from our ancillary product offerings such as EvenMore™ Space. The increase in passenger revenue of \$20 million, or 1.3%, for the three months ended September 30, 2016, compared to the same period in 2015, was primarily attributable to a 7.7% increase in revenue passengers, partially offset by a 6.0% decrease in average fare. The increase in other revenue of \$25 million, or 17.9%, for the three months ended September 30, 2016, compared to the same period in 2015, was primarily attributable to the initial performance of the new co-branded credit card.

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## Operating Expenses

In detail, our operating costs per available seat mile, or ASM, were as follows:

| (in millions; per ASM data in cents; percent changes based on unrounded numbers) | Three Months Ended |         | Year-over-Year Change |         | Cents per ASM |       |         |
|--|--------------------|---------|-----------------------|---------|---------------|-------|---------|
|  | September 30,      |         |                       |         | 2016          | 2015  | %       |
|  | 2016               | 2015    | \$                    | %       | 2016          | 2015  | Change  |
| Aircraft fuel and related taxes  | \$293              | \$342   | \$(49)                | (14.4)% | 2.13          | 2.63  | (19.4)% |
| Salaries, wages and benefits   | 421                | 389     | 32                    | 8.0     | 3.05          | 3.00  | 1.6     |
| Landing fees and other rents   | 98                 | 91      | 7                     | 8.2     | 0.71          | 0.70  | 1.7     |
| Depreciation and amortization  | 102                | 84      | 18                    | 21.0    | 0.73          | 0.65  | 13.8    |
| Aircraft rent  | 28                 | 30      | (2)                   | (8.5)   | 0.20          | 0.23  | (13.9)  |
| Sales and marketing  | 60                 | 69      | (9)                   | (12.1)  | 0.44          | 0.53  | (17.3)  |
| Maintenance materials and repairs  | 153                | 132     | 21                    | 15.9    | 1.11          | 1.02  | 9.0     |
| Other operating expenses   | 223                | 199     | 24                    | 11.7    | 1.62          | 1.54  | 5.1     |
| Total operating expenses   | \$1,378            | \$1,336 | \$42                  | 3.0     | 9.99          | 10.30 | (3.1)%  |

## Aircraft Fuel and Related Taxes

Aircraft fuel and related taxes decreased by \$49 million, or 14.4%, for the three months ended September 30, 2016 compared to the same period in 2015. The average fuel price for the third quarter 2016 decreased by 20.0% to \$1.48 per gallon. This was partially offset by an increase of 7.0%, or 13 million gallons, in our fuel consumption and a 5.1% increase in the average number of aircraft operating during the third quarter 2016 as compared to the same period in 2015. Settlement of effective fuel hedges included in Aircraft fuel and related taxes during the third quarter of 2016 were gains of \$1 million compared to losses of \$27 million in the same period of 2015.

## Salaries, Wages and Benefits

Salaries, wages and benefits increased \$32 million, or 8.0%, for the three months ended September 30, 2016 compared to the same period in 2015, primarily driven by additional headcount. It was our largest expense for the quarter, representing approximately 31% of our total operating expenses.

## Depreciation and Amortization

Depreciation and amortization increased \$18 million, or 21.0%, for the three months ended September 30, 2016 compared to the same period in 2015, primarily driven by a 5.1% increase in the average number of aircraft operating during third quarter of 2016 as compared to the same period in 2015.

## Maintenance Materials and Repairs

Maintenance materials and repairs increased \$21 million, or 15.9%, for the three months ended September 30, 2016 compared to the same period in 2015, primarily driven by increased flight hours on our engine flight-hour based maintenance repair agreements.

## Other Operating Expenses

Other operating expenses increased \$24 million, or 11.7%, for the three months ended September 30, 2016 compared to the same period in 2015, primarily due to an increase in airport and technology services and passenger on-board supplies resulting from an increased number of passengers flown.

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## Nine Months Ended September 30, 2016 vs. 2015

## Overview

We reported net income of \$579 million, an operating income of \$1 billion and an operating margin of 20.4% for the nine months ended September 30, 2016. This compares to net income of \$487 million, an operating income of \$886 million and an operating margin of 18.4% for the nine months ended September 30, 2015. Diluted earnings per share were \$1.70 for the nine months ended September 30, 2016 compared to \$1.42 for the same period in 2015.

Approximately 80% of our operations reside in the heavily populated northeast corridor of the U.S., which includes the New York and Boston metropolitan areas. During the first three months of 2015, a series of winter storms impacted this area, with Boston's Logan Airport experiencing record breaking snowfall totals. We estimate that winter storms reduced our operating income by approximately \$10 million in the first quarter of 2015.

## Operating Revenues

| (Revenues in millions; percent changes based on unrounded numbers) | Nine Months Ended  |                    | Year-over-Year |          |
|--|--------------------|--------------------|----------------|----------|
|  | September 30, 2016 | September 30, 2015 | Change         | %        |
| Passenger revenue  | \$4,536            | \$4,455            | \$81           | 1.8      |
| Other revenue  | 455                | 367                | 88             | 24.0     |
| Total operating revenues   | \$4,991            | \$4,822            | \$169          | 3.5      |
| Average Fare   | \$157.88           | \$170.12           | \$(12.24)      | (7.2)    |
| Yield per passenger mile (cents)                                   | 13.17              | 14.30              | (1.13)         | (7.9)    |
| Passenger revenue per ASM (cents)                                  | 11.22              | 12.16              | (0.94)         | (7.7)    |
| Operating revenue per ASM (cents)                                  | 12.35              | 13.16              | (0.81)         | (6.2)    |
| Average stage length (miles)                                       | 1,099              | 1,092              | 7              | 0.6      |
| Revenue passengers (thousands)                                     | 28,731             | 26,190             | 2,541          | 9.7      |
| Revenue passenger miles (millions)                                 | 34,434             | 31,157             | 3,277          | 10.5     |
| Available Seat Miles (ASMs) (millions)                             | 40,421             | 36,632             | 3,789          | 10.3     |
| Load Factor  | 85.2               | % 85.1             | %              | 0.1 pts. |

The increase in passenger revenue of \$81 million, or 1.8% for the nine months ended September 30, 2016, compared to the same period in 2015, was primarily attributable to a 9.7% increase in revenue passengers, partially offset by a 7.2% decrease in average fare. The increase in other revenue of \$88 million, or 24.0%, for the nine months ended September 30, 2016, compared to the same period in 2015, was primarily attributable to Fare Options bag fees which started at the end of the second quarter of 2015.

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## Operating Expenses

In detail, our operating costs per available seat mile, or ASM, were as follows:

| (in millions; per ASM data in cents; percent changes based on unrounded numbers) | Nine Months Ended September 30, |         | Year-over-Year Change |         | Cents per ASM |       |          |
|--|---------------------------------|---------|-----------------------|---------|---------------|-------|----------|
|  | 2016                            | 2015    | \$                    | %       | 2016          | 2015  | % Change |
|  | Aircraft fuel and related taxes | \$782   | \$1,048               | \$(266) | (25.4)%       | 1.94  | 2.87     |
| Salaries, wages and benefits   | 1,270                           | 1,139   | 131                   | 11.5    | 3.14          | 3.11  | 1.0      |
| Landing fees and other rents   | 276                             | 264     | 12                    | 4.5     | 0.68          | 0.72  | (5.3 )   |
| Depreciation and amortization  | 289                             | 252     | 37                    | 14.4    | 0.71          | 0.69  | 3.7      |
| Aircraft rent  | 84                              | 92      | (8 )                  | (9.3 )  | 0.21          | 0.25  | (17.8)   |
| Sales and marketing  | 197                             | 199     | (2 )                  | (0.9 )  | 0.49          | 0.54  | (10.2)   |
| Maintenance materials and repairs  | 427                             | 371     | 56                    | 15.1    | 1.05          | 1.01  | 4.3      |
| Other operating expenses   | 650                             | 571     | 79                    | 14.0    | 1.61          | 1.56  | 3.3      |
| Total operating expenses   | \$3,975                         | \$3,936 | \$39                  | 1.0     | % 9.83        | 10.75 | (8.5 )%  |

## Aircraft Fuel and Related Taxes

Aircraft fuel and related taxes decreased by \$266 million, or 25.4%, for the nine months ended September 30, 2016 compared to the same period in 2015, and represented approximately 19.7% of our total operating expenses. The decrease was primarily driven by a decline in average fuel cost per gallon from \$2.01 in 2015 to \$1.37 in 2016.

Settlement of effective fuel hedges included in Aircraft fuel and related taxes during the nine months ended September 30, 2016 were gains of \$1 million compared to losses of \$93 million during the same period of 2015 also contributed to the decline in average fuel cost per gallon. The decrease in average fuel cost per gallon was partially offset by an increase in fuel consumption of 51 million gallons or 9.8% mainly due to a 5.6% increase in the average number of operating aircraft in 2016 compared to 2015 as well as a 7.2% increase in departures.

## Salaries, Wages and Benefits

Salaries, wages and benefits increased \$131 million, or 11.5%, for the nine months ended September 30, 2016 compared to the same period in 2015. The primary drivers were an increase in profit sharing which is based on adjusted pre-tax income as well as additional headcount. Our average number of full-time equivalent employees in the nine months ended September 30, 2016 increased by 7.7% compared to the same period in 2015.

## Depreciation and Amortization

Depreciation and amortization increased \$37 million, or 14.4%, for the nine months ended September 30, 2016 compared to the same period in 2015, primarily driven by a 5.6% increase in the average number of aircraft operating during the nine months ended September 30, 2016 compared to the same period 2015.

## Maintenance Materials and Repairs

Maintenance materials and repairs increased \$56 million, or 15.1%, for the nine months ended September 30, 2016 compared to the same period in 2015, primarily driven by increased flight hours on our engine flight-hour based maintenance repair agreements and by the number of airframe heavy maintenance repairs.

## Other Operating Expenses

Other operating expenses increased \$79 million, or 14.0%, for the nine months ended September 30, 2016 compared to the same period in 2015, primarily due to an increase in airport services and passenger on-board supplies resulting from an increased number of passengers flown. Other operating expenses for the nine months ended September 30, 2016 and 2015 include a \$4 million gain related to the sale of an engine and a \$9 million gain related to an insurance recovery for a damaged engine, respectively.



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The following table sets forth our operating statistics for the three and nine months ended September 30, 2016 and 2015:

| (percent changes based on unrounded numbers)   | Three Months Ended |          | Year-over-Year |     | Nine Months Ended |          | Year-over-Year |     |
|--|--------------------|----------|----------------|-----|-------------------|----------|----------------|-----|
|  | September 30,      |          | Change         |     | September 30,     |          | Change         |     |
|  | 2016               | 2015     | %              |     | 2016              | 2015     | %              |     |
| <b>Operational Statistics</b>  |                    |          |                |     |                   |          |                |     |
| Revenue passengers (thousands)   | 9,953              | 9,237    | 7.7            |     | 28,731            | 26,190   | 9.7            |     |
| Revenue passenger miles (RPMs) (millions)  | 11,905             | 11,063   | 7.6            |     | 34,434            | 31,157   | 10.5           |     |
| Available seat miles (ASMs) (millions)   | 13,796             | 12,976   | 6.3            |     | 40,421            | 36,632   | 10.3           |     |
| Load factor  | 86.3               | % 85.3   | % 1.0          | pts | 85.2              | % 85.1   | % 0.1          | pts |
| Aircraft utilization (hours per day)   | 12.2               | 12.2     | —              |     | 12.2              | 12.0     | 1.7            |     |
| Average fare   | \$157.87           | \$167.96 | (6.0)          | )   | \$157.88          | \$170.12 | (7.2)          | )   |
| Yield per passenger mile (cents)   | 13.20              | 14.02    | (5.9)          | )   | 13.17             | 14.30    | (7.9)          | )   |
| Passenger revenue per ASM (cents)  | 11.39              | 11.96    | (4.7)          | )   | 11.22             | 12.16    | (7.7)          | )   |
| Operating revenue per ASM (cents)  | 12.55              | 13.01    | (3.5)          | )   | 12.35             | 13.16    | (6.2)          | )   |
| Operating expense per ASM (cents)  | 9.99               | 10.30    | (3.1)          | )   | 9.83              | 10.75    | (8.5)          | )   |
| Operating expense per ASM, excluding fuel and related taxes (cents)                                | 7.86               | 7.67     | 2.5            |     | 7.89              | 7.88     | 0.2            |     |
| Operating expense per ASM, excluding fuel, profit sharing and related taxes (cents) <sup>(1)</sup> | 7.53               | 7.31     | 3.1            |     | 7.55              | 7.59     | (0.4)          | )   |
| Departures   | 86,801             | 82,989   | 4.6            |     | 253,325           | 236,370  | 7.2            |     |
| Average stage length (miles)   | 1,091              | 1,094    | (0.3)          | )   | 1,099             | 1,092    | 0.6            |     |
| Average number of operating aircraft during period   | 219.6              | 209.0    | 5.1            |     | 217.8             | 206.3    | 5.6            |     |
| Average fuel cost per gallon, including fuel taxes   | \$1.48             | \$1.85   | (20.0)         | )   | \$1.37            | \$2.01   | (32.0)         | )   |
| Fuel gallons consumed (millions)   | 198                | 185      | 7.0            |     | 573               | 522      | 9.8            |     |
| Average number of full-time equivalent crewmembers   |                    |          |                |     | 15,521            | 14,418   | 7.7            |     |

(1) Refer to our “Regulation G Reconciliation” note below for more information on this non-GAAP measure.

Although we experienced revenue growth throughout 2015 as well as in the first nine months of 2016, this trend may not continue. Except for the uncertainty related to the direction of fuel prices, we expect our expenses to continue to increase as we acquire additional aircraft, as our fleet ages and as we expand the frequency of flights in existing markets as well as enter into new markets. In addition, we expect our operating results to significantly fluctuate from quarter-to-quarter in the future as a result of various factors, many of which are outside of our control. Consequently, we believe quarter-to-quarter comparisons of our operating results may not necessarily be meaningful; you should not rely on our results for any one quarter as an indication of our future performance.

**LIQUIDITY AND CAPITAL RESOURCES**

The airline business is capital intensive. Our ability to successfully execute our growth plans is largely dependent on the continued availability of capital on attractive terms. In addition, our ability to successfully operate our business depends on maintaining sufficient liquidity. We believe we have adequate resources from a combination of cash and cash equivalents, investment securities on hand and two available lines of credit. Additionally, as of September 30, 2016, we had 70 unencumbered aircraft and 32 unencumbered spare engines which we believe could be an additional

source of liquidity, if necessary.

We believe a healthy liquidity position is crucial to our ability to weather any part of the economic cycle while continuing to execute on our plans for profitable growth and increased returns. Our goal is to continue to be diligent with our liquidity, maintaining financial flexibility and allowing for prudent capital spending.

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At September 30, 2016, we had unrestricted cash and cash equivalents of \$873 million and short-term investments of \$581 million. We believe our current level of unrestricted cash, cash equivalents and short-term investments of approximately 22% of trailing twelve months revenue, combined with our available lines of credit and portfolio of unencumbered assets provides us with a strong liquidity position and the potential for higher returns on cash deployment.

Analysis of Cash Flows

Operating Activities

We rely primarily on operating cash flows to provide working capital for current and future operations. Cash flows from operating activities were \$1.3 billion for the nine months ended September 30, 2016 and 2015. Higher earnings, principally driven by a reduction in aircraft fuel expenses and higher passenger revenue, partially offset by higher profit sharing, contributed to our growth in operating cash flows.

Investing Activities

During the nine months ended September 30, 2016, capital expenditures related to our purchase of flight equipment included \$296 million related to the purchase of seven Airbus A321 aircraft, \$67 million in work-in-progress relating to flight equipment, \$118 million for flight equipment deposits, and \$12 million for spare part purchases. Other property and equipment capital expenditures also included ground equipment purchases and facilities improvements for \$105 million.

During the nine months ended September 30, 2015, capital expenditures related to our purchase of flight equipment included \$325 million related to the purchase of eight Airbus A321 aircraft, \$59 million for flight equipment deposits, \$53 million in work-in-progress relating to flight equipment, and \$24 million for spare part purchases. Other property and equipment capital expenditures also included ground equipment purchases and facilities improvements for \$91 million. Investing activities also included the net purchase of \$213 million of investment securities.

Financing Activities

Financing activities for the nine months ended September 30, 2016 primarily consisted of the scheduled maturities of \$148 million relating to debt and capital lease obligations.

Financing activities for the nine months ended September 30, 2015 consisted of the scheduled maturities of \$148 million relating to debt and capital lease obligations, prepayment of \$52 million of outstanding principal relating to seven Airbus A320 aircraft as well as the outstanding balance of \$32 million on a special facility revenue bond for JFK that was issued by the New York City Industrial Development Agency in December 2006. In addition, we acquired \$164 million in treasury shares of which \$150 million related to our accelerated share repurchase, or ASR, in June 2015. During the period, we realized \$68 million in proceeds from the issuance of stock related to employee share-based compensation.

Working Capital

We had a working capital deficit of \$497 million and \$902 million at September 30, 2016 and December 31, 2015, respectively. Working capital deficits can be customary in the airline industry because air traffic liability is classified as a current liability. Our working capital deficit decreased by \$405 million due to several factors, primarily due to an overall increase in our cash balances.

We expect to meet our obligations as they become due through available cash, investment securities and internally generated funds, supplemented as necessary by financing activities which may be available to us. 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 in which we operate or from events beyond our control, such as volatile fuel prices, economic conditions, weather-related disruptions, airport infrastructure challenges, the spread of infectious diseases, the impact of other airline bankruptcies, restructurings or consolidations, U.S. military actions or acts of terrorism. We believe the working capital available to us will be sufficient to meet our cash requirements for at least the next 12 months.

Our scheduled debt maturities are expected to peak at \$444 million for the full year 2016. As part of our efforts to effectively manage our balance sheet and improve Return on Invested Capital, or ROIC, we expect to continue to actively manage our debt balances. Our approach to debt management includes managing the mix of fixed and

floating rate debt, annual maturities of debt and the weighted average cost of debt. We intend to continue to opportunistically pre-pay outstanding debt when market conditions and terms are favorable as well as when excess liquidity is available. Additionally, our unencumbered assets allow some flexibility in managing our cost of debt and capital requirements.

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## Contractual Obligations

Our noncancelable contractual obligations at September 30, 2016, include the following (in millions):

|   | Payments due in |         |         |         |         |         |            |
|---|-----------------|---------|---------|---------|---------|---------|------------|
|   | Total           | 2016    | 2017    | 2018    | 2019    | 2020    | Thereafter |
| Debt and capital lease obligations <sup>(1)</sup> | \$1,960         | \$323   | \$245   | \$243   | \$254   | \$208   | \$ 687     |
| Lease commitments                                 | 1,381           | 47      | 181     | 174     | 146     | 123     | 710        |
| Flight equipment purchase obligations             | 8,321           | 252     | 1,066   | 897     | 1,345   | 1,571   | 3,190      |
| Other obligations <sup>(2)</sup>                  | 3,931           | 598     | 607     | 609     | 637     | 461     | 1,019      |
| Total   | \$15,593        | \$1,220 | \$2,099 | \$1,923 | \$2,382 | \$2,363 | \$ 5,606   |

(1) Includes actual interest and estimated interest for floating-rate debt based on September 30, 2016 rates

(2) Amounts include noncancelable commitments for the purchase of goods and services

As of September 30, 2016, we are in compliance with the covenants of our debt and lease agreements. We have approximately \$34 million of restricted cash pledged under standby letters of credit related to certain leases that will expire at the end of the related lease terms.

As of September 30, 2016, we operated a fleet of 32 Airbus A321 aircraft, 130 Airbus A320 aircraft and 60 EMBRAER 190 aircraft. Of our fleet, 162 are owned by us, of which 70 are unencumbered, 54 are leased under operating leases and six are leased under capital leases. As of September 30, 2016, the average age of our operating fleet was 8.8 years and our firm aircraft order was as follows:

| Year  | Airbus A320neo | Airbus A321 | Airbus A321neo | Embraer 190 | Total |
|-------|----------------|-------------|----------------|-------------|-------|
| 2016  | —              | 5           | —              | —           | 5     |
| 2017  | —              | 15          | —              | —           | 15    |
| 2018  | —              | 8           | 3              | —           | 11    |
| 2019  | —              | 3           | 18             | —           | 21    |
| 2020  | 6              | —           | 12             | 10          | 28    |
| 2021  | 16             | —           | 4              | 7           | 27    |
| 2022  | 3              | —           | 17             | 7           | 27    |
| 2023  | —              | —           | 6              | —           | 6     |
| Total | 25             | 31          | 60             | 24          | 140   |

In July 2016 we finalized two lease agreements to receive two additional Airbus A321 aircraft which we expect to be delivered during the fourth quarter of 2016.

Committed expenditures for our firm aircraft and spare engines include estimated amounts for contractual price escalations and predelivery deposits. We expect to 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. Dependent on market conditions, we anticipate paying cash for the remainder of our firm aircraft deliveries in 2016. For deliveries after 2016, although we believe debt and/or lease financing should be available to us, we cannot give any assurance that we will be able to secure financing on attractive terms, 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 regardless of the financing method ultimately chosen. To the extent we cannot secure financing on terms we deem attractive, we may be required to pay in cash, further modify our aircraft acquisition plans or incur higher than anticipated financing costs. Capital expenditures for non-aircraft such as facility improvements, spare parts and aircraft improvements are expected to be between approximately \$150 million and \$200 million for the full year 2016.

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Off-Balance Sheet Arrangements

None of our operating lease obligations are reflected on our balance sheet. Although some of our aircraft lease arrangements are with variable interest entities, as defined by the Consolidations topic of the Codification, none of them require consolidation in our financial statements. Our 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 financing alternative and a consideration of liquidity implications. 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. The beneficiaries of these pass-through trusts are the purchasers of equipment notes issued by us to finance the acquisition of aircraft. They 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.

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.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies and Estimates included in our 2015 Form 10-K.

Forward-Looking Information

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, 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 herein by reference, the words "expects," "plans," "anticipates," "indicates," "believes," "forecast," "guidance," "may," "will," "should," "seeks," "targets" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements involve risks, uncertainties and assumptions, and are based on information currently available to us. Actual results may differ materially from those expressed in the forward-looking statements due to many factors, including, without limitation, our extremely competitive industry; volatility in financial and credit markets which could affect our ability to obtain debt and/or lease financing or to raise funds through debt or equity issuances; volatility in fuel prices, maintenance costs and interest rates; our ability to implement our growth strategy; our significant fixed obligations and substantial indebtedness; our ability to attract and retain qualified personnel and maintain our culture as we grow; our reliance on high daily aircraft utilization; our dependence on the New York and Boston metropolitan markets and the effect of increased congestion in these markets; our reliance on automated systems and technology; our being subject to potential unionization, work stoppages, slowdowns or increased labor costs; our reliance on a limited number of suppliers; our presence in some international emerging markets that may experience political or economic instability or may subject us to legal risk; reputational and business risk from information security breaches or cyber-attacks; changes in or additional government regulation; changes in our industry due to other airlines' financial condition; acts of war or terrorist attacks; global economic conditions or an economic downturn leading to a continuing or accelerated decrease in demand for domestic and business air travel; the spread of infectious diseases; adverse weather conditions or natural disasters; and external geopolitical events and conditions. 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.

Given the risks and uncertainties surrounding forward-looking statements, you should not place undue reliance on these statements. 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 our 2015 Form 10-K under "Risks Related to JetBlue" and "Risks Associated with the Airline Industry" and our other filings with the SEC. In light of these risks and uncertainties, the forward-looking events discussed in this Report might not occur.

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Where You Can Find Other Information

Our website is [www.jetblue.com](http://www.jetblue.com). Information contained on our website is not incorporated into this Report. Information we furnish or file with the SEC, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to or exhibits included in these reports are available for download, free of charge, on our website soon after such reports are filed with or furnished to the SEC. Our SEC filings, including exhibits filed therewith, are also available at the SEC's website at [www.sec.gov](http://www.sec.gov). You may obtain and copy any document we furnish or file with the SEC at the SEC's public reference room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the SEC's public reference facilities by calling the SEC at 1-800-SEC-0330. You may request copies of these documents, upon payment of a duplicating fee, by writing to the SEC at its principal office at 100 F Street, NE, Room 1580, Washington, D.C. 20549.

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## REGULATION G RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

We sometimes use non-GAAP measures that are derived from the consolidated financial statements, but that are not presented in accordance with generally accepted accounting principles in the U.S., or GAAP. We believe these non-GAAP measures provide a meaningful comparison of our results to others in the airline industry and our prior year results. Investors should consider these non-GAAP financial measures in addition to, and not as a substitute for, our financial performance measures prepared in accordance with GAAP. Further, our non-GAAP information may be different from the non-GAAP information provided by other companies.

Operating Expenses per Available Seat Mile, excluding fuel, profit sharing and related taxes

Operating expenses per available seat mile, or CASM, is a common metric used in the airline industry. Our CASM for the periods are summarized in the table below. We exclude aircraft fuel, profit sharing, and related taxes from operating expenses to determine CASM ex-fuel and profit sharing. We believe that CASM ex-fuel and profit sharing provides investors the ability to measure financial performance excluding items beyond our control, such as (i) fuel costs, which are subject to many economic and political factors beyond our control, and (ii) profit sharing, which is sensitive to volatility in earnings. We believe this non-GAAP measure is more indicative of our ability to manage costs and is more comparable to measures reported by other major airlines. We are unable to reconcile such projected CASM ex-fuel and profit sharing as the nature or amount of excluded items are only estimated at this time.

Reconciliation of Operating Expense per ASM, excluding fuel, profit sharing and related taxes

| (in millions; per ASM data in cents; percentages based on unrounded numbers) | Three Months Ended |         | September 30, |         | September 30, |         | September 30, |         |
|--|--------------------|---------|---------------|---------|---------------|---------|---------------|---------|
|  | 2016               | 2015    | 2016          | 2015    | 2016          | 2015    | 2016          | 2015    |
|  | \$                 | per ASM | \$            | per ASM | \$            | per ASM | \$            | per ASM |
| Total operating expenses   | \$1,378            | 9.99    | \$1,336       | 10.30   | 3,975         | 9.83    | 3,936         | 10.75   |
| Less: Aircraft fuel and related taxes  | 293                | 2.13    | 342           | 2.63    | 782           | 1.94    | 1,048         | 2.87    |
| Operating expenses, excluding fuel and related taxes                         | 1,085              | 7.86    | 994           | 7.67    | 3,193         | 7.89    | 2,888         | 7.88    |
| Less: Profit sharing and related taxes                                       | 46                 | 0.33    | 47            | 0.36    | 137           | 0.34    | 107           | 0.29    |
| Operating expenses, excluding fuel, profit sharing and related taxes         | \$1,039            | 7.53    | \$947         | 7.31    | 3,056         | 7.55    | 2,781         | 7.59    |

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in market risks from the information provided in Item 7A. Quantitative and Qualitative Disclosures About Market Risk included in our 2015 Form 10-K, except as follows:

**Aircraft Fuel**

Our results of operations are affected by changes in the price and availability of aircraft fuel. Market risk is estimated as a hypothetical 10% increase in the September 30, 2016 cost per gallon of fuel. Based on projected fuel consumption for the next 12 months, including the impact of our hedging position, such an increase would result in an increase to aircraft fuel expense of approximately \$120 million. As of September 30, 2016 we had hedged approximately 12% and 10% of our projected 2016 and 2017 fuel requirements, respectively. All fuel hedge contracts existing at September 30, 2016 settle by December 31, 2017. The financial derivative instrument agreements we have with our counterparties may require us to fund all, or a portion of, outstanding loss positions related to these contracts prior to their scheduled maturities. The amount of collateral posted, if any, is periodically adjusted based on the fair value of the hedge contracts. Refer to Note 8 in our unaudited condensed consolidated financial statements, included in Part I, Item 1 of this Report, for additional information.

**Interest**

Our earnings are affected by changes in interest rates due to the impact those changes have on interest expense from variable-rate debt instruments and on interest income generated from our cash and investment balances. The interest rate is fixed for \$1.3 billion of our debt and capital lease obligations, with the remaining \$0.4 billion having floating interest rates. As of September 30, 2016, if interest rates were on average 100 basis points higher in 2016 our annual interest expense would increase by approximately \$4 million. This is determined by considering the impact of the hypothetical change in interest rates on our variable rate debt and capital leases.

If interest rates were to average 10% lower in 2016 than they did during 2015, our interest income from cash and investment balances would remain relatively constant. These amounts are determined by considering the impact of the hypothetical interest rates on our cash equivalents and investment securities balances at September 30, 2016 and December 31, 2015.

**Convertible Debt**

As of September 30, 2016, our \$86 million aggregate principal amount of convertible debt had an estimated fair value of \$304 million, based on an assumed conversion of the debt and the quoted market price of our common stock. On September 16, 2016, we made a mandatory offer to repurchase the remaining holdings of approximately \$86 million in principal amount which closed on October 17, 2016.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer, or CEO, and our Chief Financial Officer, or CFO, to allow timely decisions regarding required disclosure. Management, with the participation of our CEO and CFO, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2016. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of September 30, 2016.

**Changes in Internal Control Over Financial Reporting**

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our controls performed during the fiscal quarter ended September 30, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



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PART II. OTHER INFORMATION

ITEM 1. 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. Refer to Note 5 in our unaudited condensed consolidated financial statements included in Part I, Item 1 of this Report for additional information.

Item 1A. RISK FACTORS

Item 1A Risk Factors contained in our 2015 Form 10-K, includes a discussion of our risk factors which are incorporated herein. There were no material changes from the risk factors associated with our business previously disclosed in Part I, Item 1A "Risk Factors" of our 2015 Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In September 2015, the Board of Directors authorized a three-year repurchase program starting January 1, 2016, of up to \$250 million worth of shares. No shares were repurchased during the third quarter of 2016.

ITEM 6. EXHIBITS

Exhibits: See accompanying Exhibit Index included after the signature page of this Report for a list of the exhibits filed or furnished with this Report.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JETBLUE AIRWAYS CORPORATION  
(Registrant)

Date: October 28, 2016 By: /s/ Alexander Chatkewitz  
Vice President, Controller, and Chief Accounting Officer (Principal Accounting  
Officer)

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EXHIBIT INDEX

| Exhibit<br>Number   | Exhibit   |
|---------------------|---|
| 10.1 <sup>(1)</sup> | Amendment No. 3 to Airbus A320 Family Purchase Agreement, dated as of July 26, 2016, between Airbus S.A.S. and JetBlue Airways Corporation  |
| 10.2 <sup>(1)</sup> | Amendment No. 4 to Airbus A320 Family Purchase Agreement, dated as of July 26, 2016, between Airbus S.A.S. and JetBlue Airways Corporation, including Amended and Restated Letter Agreements 1, 2, 3 and 6 and Letter Agreement 9, each dated as of the same date                     |
| 10.3 <sup>(1)</sup> | Amendment No. 5 to Airbus A320 Family Purchase Agreement, dated as of August 9, 2016, between Airbus S.A.S. and JetBlue Airways Corporation   |
| 10.4                | Senior Advisor Agreement, dated September 13, 2016, between JetBlue Airways Corporation and Mark D. Powers.   |
| 12.1                | Computation of Ratio of Earnings to Fixed Charges   |
| 31.1                | Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer   |
| 31.2                | Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer   |
| 32                  | Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith  |
| 101.INS             | XBRL Instance Document  |
| 101.SCH             | XBRL Taxonomy Extension Schema Document   |
| 101.CAL             | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF             | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB             | XBRL Taxonomy Extension Labels Linkbase Document  |
| 101.PRE             | XBRL Taxonomy Extension Presentation Linkbase Document  |
| (1)                 | In accordance with Rule 24b-2 of the Securities Exchange Act of 1934, as amended, portions of this agreement were omitted and a complete copy of this agreement has been provided to the Securities and Exchange Commission pursuant to the Company's Confidential Treatment Request. |