Case 16

JetBlue Airways: Challenges Ahead

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Introduction

We're going to bring humanity back to air travel.
—**David Neeleman**
Founder and Chairperson

David Neeleman, JetBlue's founder and chairperson, sought to "bring the humanity back to air travel."[1] Since launching operations in February 2000, JetBlue distinguished itself from its competitors by providing superior customer service at low fares. The JetBlue experience included brand new airplanes, leather seats, and personal satellite TV service. The firm experienced rapid early growth. In a period when most U.S. airlines struggled in the aftermath of the September 11, 2001, terrorist attacks, JetBlue reported 18 consecutive quarterly profits.

Then in 2005, JetBlue announced its first net loss of $20 million. The disappointing results were attributed to spiraling fuel prices, aggressive competition, and increasing operating costs. Global events such as war, political turmoil, and natural disasters contributed to the rise in fuel prices. The average price for a barrel of oil in 2003 was $30, by the summer of 2005 prices had climbed above $60 per barrel. The legacy airlines were becoming more competitive after exiting bankruptcy and streamlining their operations to benefit from economies of scale.[2] Analysts speculated that JetBlue was experiencing growth pains:, their maintenance costs on aging planes were increasing, employees were becoming more senior, and new profitable routes were harder to obtain.[3] The company continued to lose money in 2006. While major competitors, such as AMR, the parent company for American Airlines, and Continental, reported higher than expected returns, JetBlue announced a narrow third-quarter loss of $500,000. Following its third-quarter loss, JetBlue announced plans to slow down growth by delaying deliveries of some aircraft, selling others, and eliminating some cross-country flights.[4] Despite these actions, in a recent interview Neeleman insisted, "We're still a growth airline."[5] It remains to be seen how JetBlue will continue to grow in the face of increasing strategic challenges.

History

Founding History of Jet Blue

David Neeleman founded JetBlue Airways Corporation in 1999, after raising $130 million in investment capital. Building on his past experiences, Neeleman hired talented executives, such as David Barger, previous vice president of the Newark, New Jersey, hub for Continental, and John Owen, previous vice president of Operations Planning and Analysis for Southwest.[6] JetBlue chose John F. Kennedy International Airport in New York as its hub and initially obtained 75 takeoff and landing slots.

Neeleman's vision was to provide "high-end customer service at low-end prices."[7] Although JetBlue imitated competitor Southwest Airlines with a single seat class, it did so with Airbus A-320 narrow-body jets instead of Boeing 737s. The A-320 provided wider cabins and wider seats for JetBlue passengers with more room for carry-on baggage.[8] JetBlue implemented innovative IT programs such as an Internet booking system that allowed customers to make reservations online or with a touch-tone phone, and a paperless cockpit to allow pilots to prepare for flight more quickly, helping planes to stay on schedule.[9] JetBlue also provided complementary, unlimited snacks and beverages, preassigned seating, and a selection of first-run movies available from Fox InFlight on flights longer than two hours. For further differentiation, JetBlue installed 36 channels of free DIRECTV programming.

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Early in 2000, the first JetBlue flights departed from New York to Fort Lauderdale, with a fleet of two planes. JetBlue gradually increased its destinations during the year to include 12 additional airports in California, Florida, New York, Utah, and Vermont. By December, Neeleman announced the landmark of JetBlue's millionth customer and reported $100 million in revenues.

Rapid Growth in 2000–2004

The September 11, 2001, terrorist attacks on America resulted in a widespread fear of air travel, negatively impacting most of the airline industry. While other airlines announced millions in lost revenue following 9/11, JetBlue made a profit and within eight weeks expanded its network to include six more destinations and resumed IT spending to further improve services offered.[10] In February 2002, JetBlue won the 2002 Air Transport World "Market Development Award" for its successful first two years of service, and also was named "Best Overall Airline" by *Onboard Service* magazine.[11] On April 11, 2002, JetBlue announced its initial public offering (IPO) of 5.86 million shares of common stock at a price of $27 per share.[12] JetBlue grew steadily between 2003 and 2004, with annual operating revenues growing from $998.4 million in 2003, to $1.27 billion in 2004. Exhibits 1 through 3 show JetBlue's financial statements for the years 2001 to 2005.

Slowed Growth in 2005–2007

In November 2005 JetBlue decided to add nine new Embraer E190s to its fleet. JetBlue ordered the aircraft with a 100-seat configuration, bigger television screens than the Airbus A-320, and 100 channels from XM Satellite Radio. Also, in late 2005, JetBlue decided to fund $80 million of an airport expansion project at John F. Kennedy Airport, which had a total budget of $875 million. The expansion would allow for more than double the number of flights at JetBlue's hub airport within three years.[13]

However, JetBlue's quarterly financial report started to show growth saturation. Quarterly growth records of operating revenue in 2005 were 29.5 percent, 34.5 percent,

Exhibit 1 Consolidated Statement of Income

JetBlue Airways Corporation
(in $ millions, year ended December 31)

	2006	2005	2004	2003	2002
Operating Revenues					
Passenger	$ 2223	$ 1620	$ 1220	$ 965	$ 615
Other	140	81	45	33	20
Total Operating Revenues	2363	1701	1265	998	635
Operating Expenses					
Salaries, wages, and benefits	553	428	337	267	162
Aircraft fuel	752	488	255	147	76
Landing fees and other rents	158	112	92	70	44
Depreciation and amortization	151	115	77	51	43
Aircraft rent	103	74	70	60	41
Sales and marketing	104	81	63	54	27
Maintenance materials and repairs	87	64	45	23	9
Other operating expenses	328	291	215	159	127
Total Operating Expenses	2236	1653	1154	831	530
Operating Income	$ 127	$ 48	$ 111	$ 167	$ 105
Other Income (Expenses)					
Interest expense	(173)	(107)	(53)	(29)	(21)
Capitalized interest	27	16	9	5	5
Interest income and other	28	19	8	8	5
government compensation				23	
Total other income (expense)	(118)	(72)	(36)	7	(10)
Income (Loss) before income taxes	9	(24)	75	174	95
Income tax expense (benefit)	10	(4)	29	71	40
Net Income (Loss)	$ (1)	$ (20)	$ 46	$ 103	$ 55

Source: JetBlue Airways Corporation 2006 Annual Report.

Exhibit 2 Consolidated Balance Sheet

JetBlue Airways Corporation
(in $ millions, except share data)

	December 31				
	2006	**2005**	**2004**	**2003**	**2002**
Assets					
Cash and short-term Investments	$ 699	$ 484	$ 450	$ 607.31	$ 257.85
Total receivables, net	77	94	37	16.72	11.93
Total inventory	27	21	10	8.3	4.84
Prepaid expenses	124	36	17	13.42	5.59
Other current assets, total	0	0	0	0	2.85
Total Current Assets	$ 927	$ 635	$ 514	$ 645.74	$ 283.06
Property/Plant/Equip, total	$ 3438	$ 2978	$ 2130	$ 1421	$ 997
Goodwill, net	0	0	0	0	0
Intangibles, net	32	43	54	62	68
Long-term investments	0	0	0	0	0
Note receivable long-term	0	0	0	0	0
Other long-term assets, total	446	236	99	57	30
Other assets, total	0	0	0	0	0
Total Assets	$ 4843	$ 3892	$ 2797	$ 2186	$ 1379

	December 31				
	2006	**2005**	**2004**	**2003**	**2002**
Liabilities and Shareholders' Equity					
Accounts payable	$ 136	$ 99	$ 71	$ 53	$ 46
Payable/Accrued	0	0	0	0	0
Accrued expenses	164	111	94	85	54
Notes payable/Short-term debt	39	64	44	30	22
Current port. of LT debt/capital	175	158	105	67	51
Leases					
Other current liabilities, total	340	243	174	135	98
Total Current Liabilities	$ 854	$ 676	$ 488	$ 370	$ 270
Long-term debt and leases	$ 2626	$ 2103	$ 1396	$ 1012	$ 640
Deferred income tax	136	116	121	99	39
Minority interest	0	0	0	0	0
Other liabilities, total	275	86	38	34	17
Total Liabilities	$ 3891	$ 2981	$ 2043	$ 1515	$ 964
Redeemable preferred stock	$ 0	$ 0	$ 0	$ 0	$ 0
Preferred stock-non	0	0	0	0	0
Common stock	2	2	1	1	1
Additional paid-in capital	813	764	581	552	407
Retained earnings	144	145	165	120	16
Other equity, total	(7)	0	7	(2)	(9)
Total Equity	952	911	754	671	415
Total Liabilities & Shareholders' Equity	$ 4843	$ 3892	$ 2797	$ 2186	$1,379

Source: JetBlue Airways Corporation 2006 Annual Report.

Exhibit 3 Consolidated Statement of Cash Flows

JetBlue Airways Corporation
(in $ millions)

	December 31				
	2006	2005	2004	2003	2002
Cash Flows from Operating Activities					
Net Income	$ (1)	$ (20)	$ 46	$ 103	$ 55
Operating Activities					
Deferred income taxes	10	(4)	29	69	40
Depreciation	136	101	67	45	25
Amortization	18	16	11	7	2
Stock-based compensation	21	9	2	2	
Changes in certain operating assets and liabilities					
Increase in receivables	(12)	(28)	(20)	(4)	7
Increase in inventories	(28)	(20)	(6)	(11)	(4)
Increase in air traffic liabilities	97	69	39	37	46
Increase in accounts payable and other accrued liabilities	33	54	21	38	35
Other, Net	0	(7)	10	1	11
Net Cash Provided by Operating Activities	274	170	199	287	216
Cash Flows from Investing Activities					
Capital expenditures	(996)	(941)	(617)	(573)	(544)
Predelivery deposits for flight equipment	(106)	(183)	(180)	(160)	(109)
Purchase of held-to-maturity investment	(23)	(5)	(19)	(26)	(11)
Proceeds from maturities of held-to-maturity investment	15	18	25	9	2
Purchase of available-for-sale securities	(1002)	(79)	76	(235)	(80)
Increase in restricted cash and other assets	(16)	(86)	(5)	(2)	(1)
Net Cash Used in Investing Activities	$ (1307)	$ (1276)	$ (720)	$ (987)	$ (744)
Cash Flows from Financing Activities					
Proceeds from:					
Issuance of common stock	28	178	20	136	174
Issuance of long-term debt	855	872	499	446	416
Aircraft sale and leaseback transactions	406	152		265	0.3
Short-term borrowings	45	68	44	33	150
Repayment of long-term debt	(390)	(117)	(77)	(57)	27
Repayment of short-term debt	(71)	(47)	(30)	(25)	(71)
Other, Net	–15	(13)	(19)	(9)	(34)
Net Cash Provided by Financing Activities	$ 1037	$ 1093	$ 437	$ 789	$ (5)
Increase in Cash and Cash Equivalents	$ 4	$ (13)	$ (84)	$ 89	$ 129
Cash and cash equivalent at beginning of period	$ 6	$ 19	$ 103	$ 14	$ 117
Cash and cash equivalent at end of period	$ 10	$ 6	$ 19	$ 103	$ 247

Source: JetBlue Airways Corporation 2006 Annual Report.

40.2 percent, and –5.2 percent, respectively. JetBlue announced a fourth quarter net loss of $42.4 million, representing a loss per share of $0.25. It was JetBlue's first quarterly net loss.[14]

In 2006, the firm announced unstable earnings, and reported a loss of $32 million, a profit of $14 million, and a loss of $0.5 million in the first three quarters, respectively.[15] Even though JetBlue served 47 destinations with up to 470 daily flights, it decided to reduce its rate of growth over the next three years by delaying the delivery of additional planes.[16] Data for destination and service commenced are listed in Exhibit 4. Effort to slow the growth rate was intended to preserve cash, enabling JetBlue to remain stable among competitors.

The first quarter of 2007 did not get off to a great start for JetBlue. Bad weather in February resulted in many

Exhibit 4 JetBlue's Destinations

Destination	Service Commenced
New York, New York	February 2000
Fort Lauderdale, Florida	February 2000
Buffalo, New York	February 2000
Tampa, Florida	March 2000
Orland, Florida	June 2000
Ontario, California	July 2000
Oakland, California	August 2000
Rochester, New York	August 2000
Burlington, Vermont	September 2000
West Palm Beach, Florida	October 2000
Salt Lake City, Utah	November 2000
Fort Myers, Florida	November 2000
Seattle, Washington	May 2001
Syracuse, New York	May 2001
Denver, Colorado	May 2001
New Orleans, Louisiana	July 2001
Long Beach, California	August 2001
Washington, D.C. (Dulles Airport)	November 2001
San Juan, Puerto Rico	May 2002
Las Vegas, Nevada	November 2002
San Diego, California	June 2003
Boston, Massachusetts	January 2004
Sacramento, California	March 2004
Aguadilla, Puerto Rico	May 2004
Santiago, Dominican Republic	June 2004
San Jose, California	June 2004
New York, New York (LGA Airport)	September 2004
Phoenix, Arizona	October 2004
Nassau, The Bahamas	November 2004
Burbank, California	May 2005
Portland, Oregon	May 2005
Ponce, Puerto Rico	June 2005
Newark, New Jersey	October 2005
Austin, Texas	January 2006
Richmond, Virginia	March 2006
Hamilton, Bermuda	May 2006
Sarasota-Bradenton, Florida	September 2006
Cancun, Mexico	November 2006
Island of Aruba	November 2006
Chicago, Illinois	January 2007
White Plains, New York	March 2007
San Francisco, California	May 2007

Source: JetBlue Airways Corporation Form 10-K, Fiscal year ending December 31, 2006.

cancelled flights and stranded passengers. The climax of the crisis occurred when nine airplanes full of angry passengers sat on the tarmac for six hours, because JetBlue leaders had expected the weather to clear and did not cancel flights. CEO David Neeleman received bad press for his management of the situation. Neeleman responded by humbly admitting "that his company's management was not strong enough. [It] was the result of a shoestring communications system that left pilots and flight attendants in the dark, and an undersize reservation system."[17] Rapid efforts were made to regain its brand image such that a JetBlue Customer Bill of Rights was created, a customer advisory council was formed, plans were made to cross-train crew members, and new communication strategies were put in place.[18] In addition JetBlue waived change fees and fare differences to assist customers who may be affected by additional storms throughout the winter of 2007. Despite his sincere efforts to bounce back from this predicament, Neeleman eventually had to step down as CEO in order to appease shareholders. David Barger, former COO succeeded Neeleman as CEO and needed to establish a strong position against JetBlue rivals.

Competitive Environment

In 1978, the Airline Deregulation Act eliminated government control over fares and routes, opening up the industry to increased competition. The airline industry is now highly competitive, consisting of 43 mainline carriers and 79 regional airlines. The U.S. Department of Transportation (DOT) classifies airlines into three categories based on annual revenue: major (revenue more than $1 billion), national (revenue between $100 million to $1 billion), and regional/commuter (revenue less than $100 million).[19] With annual revenue of $1.7 billion, JetBlue is one of the smaller major carriers and competes primarily on point-to-point routes. Its major competitors are low-cost carrier Southwest Airlines and traditional carriers, AMR Corp, United Airlines, US Airways, Continental Airlines, and Delta Air.[20]

Southwest is JetBlue's most obvious competitor, but the traditional airlines are becoming more aggressive in the low-fare market. Following recent bankruptcies, legacy airlines are emerging with clean balance sheets and lower cost structures. As the major airlines become more competitive and expand their domestic businesses, the low-cost airlines struggle to find new markets.[21]

Competition also comes from the regional carriers, which typically partner with the major airlines to share routes, risk, and costs. For example, Mesa partners with United Airlines and operates as United Express, with Delta Airlines as Delta Express, and with US Air as US Air Express. In exchange for an agreed proportion of revenue, Mesa operates flights on select local routes, while its partners handle reservations and marketing. In recent years, the regional airlines fared better than most, growing twice as fast as the national carriers.[22] However, as the competitive environment toughens, many of the large airlines are renegotiating the agreements, and in some cases—such as Atlantic Coast, a former partner of United Airlines—regional airlines are deciding to operate independently.[23]

The major airlines also form alliances—with each other and international carriers—to share marketing and scheduling capabilities. American Airlines partners with British Airways, Quantas, and various European airlines to form the One World Alliance, which serves 135 countries and operates a shared frequent flyer program. The Star Alliance, spearheaded by United Airlines, with Lufthansa, Scandinavian Air System, All Nippon Airways, and Air Canada, serves 157 countries.[24] Such alliances increase the market power of their members, and research has shown they increase passenger volume by an average of 9.4 percent.[25] Although the benefit is more significant for global carriers seeking to expand their network abroad, researchers observed an average improvement in number of tickets booked by 7.4 percent on short-haul flights.

Although JetBlue does not currently participate in any alliances, it has had discussions about forming one with international airlines in an effort to leverage its power at the hub in JFK. JetBlue does not want to enter a traditional agreement with other airlines, because many of these agreements include increased overhead costs. JetBlue is hoping to create an agreement that will increase traffic without increasing costs.[26]

Fare pricing is an important competitive factor within the industry. For many years excess capacity posed a significant problem, causing airlines to either leave planes on the ground or fly planes with empty seats. In order to avoid this dilemma, carriers try to increase market share by discounting tickets. Even the legacy airlines slash fares in order to compete on low-cost routes. Although low-cost airlines, like JetBlue, still offer the greatest number of discounted fares, some of the cheapest tickets are now available from traditional airlines, such as American, Delta, and United.[27]

Rumors of consolidation in the industry could change the competitive landscape. US Airways made a hostile bid for bankrupt Delta Airlines in fourth quarter 2006, but withdrew its offer in January 2007 due to the inability to reach financial agreement with Delta creditors.[28] The merger would have created the largest airline in a fragmented industry and would likely have triggered further consolidations.[29] Even though a wave of consolidation may create a more efficient airline industry with fewer major players, consolidations affect ticket prices, usually leading to higher ticket prices, and complicate the flight paths offered by airlines. Therefore, consolidations affect all competitors within the industry.

Key Competitors

Southwest Airlines

Southwest is the leading low-fare, no-frills, U.S. carrier. The company was founded in 1967 as a Texas-based airline to serve Dallas, Houston, and San Antonio. The airline now flies to more than 63 cities across the United States. In 2006, Southwest reported a $499 million profit and net sales of $9.86 billion.[30] Exhibit 5 compares key financial data for the major airlines. In 2005, America West's CEO, Douglas Parker, described Southwest as follows: "They really were at one point the scrawny kid who was lifting weights in his basement. Now they come out and they're bigger than anybody else and stronger than anybody else."[31]

Southwest's strategy emphasizes low costs; the firm was the first to sell tickets online and to introduce unassigned seating. It operates a single aircraft fleet of 481 Boeing 737s. The company is also lauded for its unique and friendly culture and its high level of customer service.[32] However, evidence now indicates a shift in its strategy—from serving underserved routes, to competing in major markets such as Denver and Philadelphia. Southwest is now the largest U.S. airline in terms of number of passengers (Exhibit 6), and in order to continue to grow, Southwest is competing against United in its Denver hub, and US Airways, on routes out of Philadelphia.[33]

Exhibit 5 U.S. Major Airlines' Select Financials for Year Ended 2006 (in $millions)

	JetBlue	UAL	SWA	Delta	Continental	US Airways	AMR Corp.
Total revenues	$2,363	$ 19,340	$ 9,086	$ 17,171	$13,128	$11,557	$ 22,563
Cost of revenues	1,653	14,114	6,311	14,430	11,007	9,049	17,659
Gross profit	570	5,226	2,573	1,694	1,453	1,814	4,904
Profit as % of revenue	24%	27%	28%	10%	11%	16%	22%
Operating income (loss)	127	23,381	934	(6,148)	468	558	1,060
Net income (loss)	$ (1)	$ 22,386	$ 499	$ (6,203)	$ 343	$ 304	$ 231
Total assets	$4,843	25,369	$13,460	$ 19,622	$11,308	$ 7,576	$ 29,145
Current assets	927	6,273	2,601	5,385	4,129	3,354	6,902
Total liabilities	$3,891	$ 23,221	$ 7,011	$ 33,215	$10,961	$ 6,606	$ 29,751
Current liabilities	854	7,945	2,887	5,769	3,955	2,712	8,505
Total owner equity	$ 952	$ 2,148	$ 6,449	$ (13,593)	$ 347	$ 970	$ (606)

Source: 2007, MSN Money Central, http://moneycentral.msn.com/investor/research/welcome.asp, July 24.

Exhibit 6 Top 10 U.S. Airlines, Ranked by August 2006 Domestic Scheduled Enplanements

Passenger numbers in millions

August 2006 Rank	Carrier	August 2006 Enplanements	August 2005 Rank	August 2005 Enplanements
1	Southwest	8.7	1	8.1
2	American	6.5	3	6.8
3	Delta	5.4	2	7.0
4	United	5.1	4	5.0
5	Northwest	4.1	5	4.2
6	Continental	3.1	7	2.9
7	US Airways	2.6	6	3.1
8	America West	1.8	8	1.9
9	AirTran	1.8	9	1.5
10	JetBlue	1.7	13	1.3

Note: Percentage changes based on numbers prior to rounding.

Source: Bureau of Transportation Statistics, T-100 Domestic Market.

AMR Corp.

As the world's largest airline, American Airlines (AMR's main subsidiary) offers flights to 150 destinations throughout North America, Latin America, the Caribbean, Europe, and Asia. It has had its share of success and failures; two of its planes were hijacked during the September 11, 2001, terrorist attacks and the firm barely avoided bankruptcy in 2003.[34] In 2006, AMR Corp. reported net earnings of $231 million, an improvement over its net loss of $861 million in 2005 and other significant losses in preceding years.[35] In order to return to profitability, the firm streamlined costs and expanded its routes in Asia.

United Airlines

United also lost two planes on September 11, 2001, and after several years of financial difficulties, UAL eventually filed for Chapter 11 bankruptcy in 2002.[36] UAL emerged from bankruptcy as a more competitive firm. In February 2004, United launched its own low-cost off-shoot, Ted. The firm is now looking for new ways to expand and improve profitability. Global expansion is central to UAL's strategy; in July 2006, the firm announced plans to expand its Asia/Pacific routes.[37] Recent rumors report that UAL hired Goldman Sachs to assess possible merger options.[38]

US Airways

US Airways Group is the product of a merger between US Airways and America West. CEO Parker believes this acquisition strategy is successful; when comparing the firm's post-bankruptcy performance to United, he stated, "The big difference is we were able to generate synergies that United was not able to."[39] Shareholders experienced a 45 percent increase in stock price during the first full year after the merger.[40]

Delta Air

With an 11.8% domestic market share, Delta places third among traditional airline icons.[41] Delta is strongly focused on international expansion, adding 50 new international routes in 2005–2006. Delta now serves over 450 destinations in 95 countries. Delta filed for bankruptcy and was a target acquisition by US Airways just before it emerged from bankruptcy in April 2007.

Continental Airlines

Continental targets the business traveler by serving diverse U.S. and international routes.[42] Continental has a strong balance sheet, having recently retired $100 million in debt.[43] In the third quarter of 2006, Continental followed in the path of the other legacy airlines by reporting stronger than expected results. The positive results were attributed to greatly increased number of passengers, especially on Continental's regional and Latin American routes.[44]

As well as domestic competitors, the international airline market conditions are a factor that JetBlue must consider.

International Market Conditions

The demand for international travel has increased significantly over the past decade (see Exhibit 7). The international travel growth rate is more than double the domestic travel growth rate in the United States.[45] Travel to Southeast Asia and China increases every year by about 7.3 percent and 8.0 percent. Looking forward, the number of transatlantic plane tickets purchased is expected to grow by 4.6 percent annually. Global business transactions have contributed, as well as more discretionary income for consumers, and lower airfare resulting from greater efficiencies in international travel.

The international market is attractive to many airlines because they can include fuel surcharges in the ticket price and recover some of the costs associated with higher-priced fuel.

However, the airline industry is monitored more scrupulously by the government than any other industry conducting business internationally. The government has many regulations on when, where, and how airlines can fly, how much they can charge, and how they can market international travel.[46] Many lobbyist firms and politicians in the United States have been fighting for deregulation and less restrictions on international air travel so that the United States might be more of a force in the international market. The European airline industry, more specifically AirFrance/KLM, has taken the lead in revenues for international aviation.[47]

Not only is it important for JetBlue to consider its competitive environment, but it is also important to understand the companies/industries that supply the provisions necessary to remain competitive.

Key Suppliers

Fuel

Fuel is usually the second-highest expense for an airline next to labor.[48] Therefore, fuel price increases are a major contributor to rising operating costs in the airline industry. A Merrill Lynch analyst indicated that for every $1 increase in price for a barrel of fuel, the airline industry experiences a $450 million loss in pretax profits.[49] According to the FAA, jet fuel costs rose by 20.1 percent in 2004, 40.5 percent in 2005, and 30.4 percent in 2006.[50] In 2006, fuel costs became JetBlue's largest operating expense at 33.65 percent.[51] The FAA forecasts fuel costs will remain high for the next several years. Neeleman seriously considers fuel costs and is investigating alternative sources of energy, such as liquid coal. Because the

Exhibit 7 U.S. Commercial Air Carriers Total U.S. Passenger Traffic

	Revenue Passenger Enplanements (millions)			Revenue Passenger Miles (billions)		
Fiscal Year	Domestic	International	System	Domestic	International	System
Historical*						
2000	641.2	56.4	697.6	512.8	181.8	694.6
2001	626.8	56.7	683.4	508.1	183.3	691.4
2002	574.5	51.2	625.8	473.0	158.2	631.3
2003	587.8	54.2	642.0	492.7	155.9	648.6
2004	628.5	61.4	689.9	540.2	177.4	717.7
2005	661	86.2	747.2	573.7	221.5	795.1
Forecast						
2006	660.9	89.7	750.6	577.6	232.5	810.1
2007	693.3	75.8	769.1	603.3	221.5	824.7
2008	713.8	79.8	793.6	624.6	234.5	859.0
2009	735.7	84.0	819.7	647.7	247.9	895.6
2010	758.9	88.3	847.2	671.9	262.1	934.1
2011	782.6	92.9	875.5	697.6	276.9	974.5
2012	807.7	97.6	905.2	724.5	291.9	1,016.4
2013	833.4	102.3	935.7	752.6	307.4	1,059.9
2014	860.5	107.2	967.7	782.2	323.5	1,105.7
2015	888.4	112.3	1,000.7	813.3	340.2	1,153.5
2016	917.7	117.6	1,035.3	846.1	357.5	1,203.6
2017	848.4	123.1	1,071.6	880.6	375.2	1,255.8
Average Annual Growth 2005–2017	2.9%	5.0%	3.1%	3.6%	5.5%	4.1%

Source: Forms 41 and 298-C, U.S. Department of Transportation.

United States has an abundant supply of coal, Neeleman is urging his customers to support a new bill to fund additional coal-to-liquid plants.[52]

Airlines engage in fuel hedging in order to manage unpredictable costs. However, the jet fuel commodities market is illiquid, and it is especially difficult for the large airlines to hedge sufficient quantities of fuel.[53] JetBlue is increasing its efforts to systematically hedge against future fuel needs. JetBlue also seeks more efficient fuel usage through the planes purchased and improved flight planning.[54]

Aircraft Manufacturers

The aircraft industry is dominated by two companies, Airbus and Boeing. Due to the weak economy following September 11, 2001, their orders for new commercial planes fell sharply. However, as commercial business improved, the large manufacturers profited from the buoyant space and defense markets. Embraer, the number four aircraft manufacturer, has seen lackluster commercial sales, but is benefiting from increased sales in the military sector.

Typically, the low-cost airlines operate few aircraft types, reducing their maintenance, scheduling, and training costs. JetBlue currently owns two airplane models, and its growth plans include the addition of 96 Airbus A-320s and 92 Embraer E190s.[55] Cost efficiencies would be lost if JetBlue switched suppliers, exposing the firm to any problems related to either of its aircraft suppliers. But currently more pressing for JetBlue are the challenges associated with the airline industry.

General Environment

A number of new trends are emerging in air travel. After September 11, 2001, the industry saw a drop in the number of corporate travelers, but five years later this trend appeared to be reversing. According to a survey by the National Business Travel Association, 65 percent of businesses expect employees to take more flights in 2007, and 75 percent predict an increase in the amount of business travel.[56]

Another factor in the environment of air travel is the characteristics of the airport and FAA density regulations. JetBlue experiences general performance setbacks by operating in high traffic areas such as the northeastern United States, and the airport congestion hampers performance statistics.[57] The FAA regulates airport slot (a slot is a time frame allotted for takeoff and landing)[58] allocations with the intent to ease congestion problems and enhance airport capacity. For example, recent measures at New York La Guardia airport include growth limitations, regulations encouraging use of larger aircraft, and a proposal for 10-year slot reallocation.[59]

Natural disasters and annual weather patterns also affect the performance statistics for air travel. Florida is quite popular during the winter months and the western states during summer months. Air travel is also affected by winter weather in the Northeast and tropical storms along the Atlantic and Gulf coasts.[60]

In the airline industry, more than 60 percent of employees are unionized.[61] Although JetBlue is nonunionized, it can be affected by the industry environment. In June 2006, the International Association of Machinists and Aerospace Workers campaigned to represent JetBlue's ramp service workers. The bid was unsuccessful; however JetBlue's management commented, "We can expect ongoing attempts by unions to organize groups of JetBlue crewmembers."[62]

As can be expected from the general environment, JetBlue is exposed to the widespread attraction of media coverage and negative press. One recent major incident appearing in headlines is the mechanical failure of Flight 292 landing in Los Angeles.[63] On September 21, 2005, JetBlue Flight 292 left Burbank, California, bound for JFK in New York City. Soon after takeoff, the pilot acknowledged problems with the landing gear. The decision was made to have an emergency landing at Los Angeles International Airport and after circling Orange County for three hours, to burn off fuel, Flight 292 landed safely. None of the 139 passengers or six crew members was injured during the landing. Upon landing it became certain that the nose gear had rotated 90 degrees and was locked in the down position[64] (see Exhibit 8). Although the outcome was ultimately favorable, had Flight 292 crashed or lives been lost, JetBlue's image would have suffered drastically. The perceived safety of air travel is important for all airlines.

Airlines also face a heightened sense of consumer information privacy. In 2002, JetBlue offered extensive passenger data to a data mining company, Torch, who in conjunction with the U.S. Army, tested a customer profiling system to identify high risk passengers that might threaten military installations.[65] According to the District Court,

Exhibit 8 JetBlue Airbus A-320 Flight 292 with Its Nose Landing Gear Jammed

Source: JetScott, 2005, http://www.aerospaceweb.org/question/planes/q0245a.shtml, October 2.

Eastern New York, Memorandum & Order 04-MD-1587, JetBlue was responsible for the release of "each passenger's name, address, gender, home ownership or rental status, economic status, social security number, occupation, and the number of adults and children in the passenger's family as well as the number of vehicles owned or leased."[66] With increased online purchases, all airlines are publicly pressured to protect passengers' identity.

JetBlue must make a conscious effort to rise above all of the setbacks associated with the general environment and ensure that all actions are in alignment with its corporate and business strategies.

JetBlue Strategies

Because many of the other airlines play a significant role in the low-cost carrier segment within the airline industry, JetBlue competes by differentiation. The goal is to achieve an image of far superior customer service.

Superior Customer Service

JetBlue delivers this service by offering additional preflight and on-board conveniences that other low-cost carriers do not provide as a whole package. Before traveling, customers benefit from JetBlue's simple-to-use reservation system, ticketless travel, and preassigned seating. The cabin features leather seats and an additional two inches of leg room than most carriers. As previously mentioned, on board JetBlue passengers receive free DIRECTV service, and its Embraer E190 planes have XM Satellite Radio.[67] To improve the customer experience, JetBlue added healthier snacks and, as of November 2006, offers a 100 percent transfat-free selection. All snacks are complementary and unlimited.

All passengers on "shut eye" flights receive a comfort kit from Bliss, which includes earplugs, lip balm, an eye mask, and hand lotion. Crewmembers wake customers with the smell of Dunkin' Donuts coffee and offer a hot towel service.[68]

It is valuable to customers to have their flight depart as planned. To provide customers with confidence, JetBlue focuses on its completion rate, even at the expense of its on-time rate. At the end of third quarter 2006, JetBlue had a 99.6 percent completion rate. In addition, customers want to be confident that they will have their bags at the end of the flight. At 2006 year-end, JetBlue was ranked number 1 out of the 15 busiest airlines in regard to the least number of lost or mishandled bags.[69]

A critical factor in achieving superior service is employee moral. As Neeleman has stated, the crewmembers are the "real secret weapon."[70] His philosophy is that if crew members are treated well, they will in turn treat the customers well.

Culture

Currently, David Neeleman, chairperson, and Dave Barger, CEO, are hands-on people who like to interact with employees and customers. Each week members of top management fly with 8 to 12 crew members and almost always attend new hire training to teach new crewmembers about JetBlue's brand, how the company makes money, and how crewmembers contribute to the bottom line. Whenever they fly, they help the crew clean the plane after the flight to ensure a quick turnaround time. In addition they have informal meetings with crewmembers to learn about issues and problems as crewmembers see them.[71] This management style continues to attract motivated new hires; JetBlue has a reputation as a great place to work, company profit sharing, high productivity of planes and people, and rapid advancements. In 2004 alone, JetBlue hired 1,700–1,800 people.[72]

The combined effort to provide exceptional service and instill a valued-employee culture will fulfill Neeleman's hope that JetBlue can "keep our folks fresh and keep our customers coming back."[73]

However, as proven by Delta's Song and the installation of leather seats in its planes, the "superior service" attributes can be imitated by competitors. What has also allowed JetBlue to remain one step ahead in its competitive environment is cost management.

Cost Management

JetBlue's cost-saving initiative includes electronic ticketing, paperless cockpits, and online check-in.[74] In order to achieve paperless cockpits, JetBlue supplied pilots and first officers with laptops to retrieve electronic flight manuals and make preflight load and balance calculations.[75] In the year following implementation of paperless cockpits, the company saved approximately 4,800 hours of labor.[76] One of JetBlue's more original strategies to cut costs is its telephone reservation system. Reservation agents work from their homes in Salt Lake City, using personal computers equipped with VoIP technology. VoIP stands for Voice over Internet Protocol and utilizes the Internet to make free phone calls.[77] This system gives JetBlue flexibility to handle varying call volumes without needing a costly call center.[78]

JetBlue also uses technology to manage its marketing costs. JetBlue employs Omniture software to increase efficiency of Internet searches, decreasing associated search conversion costs by 94 percent.[79] By using animation in its television ads with its advertising agency, JetBlue produced eight ads for the standard price of one.[80]

Another value-adding initiative is BlueTurn, the name for JetBlue's ground operations. In an effort to improve the overall on-time performance statistics, BlueTurn allows crewmembers to minimize ground time and decrease the turnaround time for aircraft.[81]

JetBlue operates two aircraft types and a single travel class. This simplicity reduces training, maintenance, and operating costs relative to competitors that operate multiple aircraft types.

These cost-cutting strategies follow the standard low-cost, low-fare business model, without sacrificing the ultimate strategy of providing superior customer service with happy employees.

In order to best market its services, JetBlue has carefully considered its marketing approach.

Marketing Strategy

Neeleman believes that marketing is best accomplished by word of mouth; therefore top management aims to make sure that customers are treated well and employees feel valued.[82] Yet, they have made concerted efforts to market in other ways. To establish a media campaign, JetBlue hired J. Walter Thompson (JWT) as its advertising agency.[83] To create a fresh identity, JWT found candid statements by customers on JetBlue service. Online sources were consulted such as Craigslist and Epinions. The statements, written as short stories, were used to create eight different animated ads as testimonials to JetBlue's customer service. Other forms of direct marketing were used such as leather benches and snack bins in serviced airports. JetBlue also created comical postcards and distributed to customers to mail back their comments.[84]

In order to record customers' opinions on JetBlue service, an interactive video installation called the "JetBlue Story Booth" was set up in Rockefeller Center, and is traveling around the country to other cities served by JetBlue.[85] In the one-week New York exhibit, an estimated 20,000 people participated in the installation.[86] A vehicle called Blue Betty was created to simulate an airplane cabin and showcase in-flight amenities. As it traveled to various events across the country, visitors could enter a contest (or lottery) for ticket giveaways. JetBlue also used direct marketing to target college students with a public relations team called CrewBlue. This group used unconventional methods of posters, flyers, and chalk art to educate students about various aspects of the airline's services. Other marketing efforts include "Blue Days," where students were encouraged to wear blue and were rewarded with airline tickets through drawings. A 2005 survey indicated this marketing campaign was successful and increased JetBlue awareness by 41 percent.[87]

In addition to marketing initiatives, JetBlue on a consistent basis updates its business strategy to increase growth and revenue.

Current Strategies

In the first quarter of 2006, due to operating losses, JetBlue executives announced a turnaround plan called "Return to Profitability." Items included in this initiative were revisions to fare structures, corrections to flight capacity, and reprioritizing of flight segments (short, medium, and long haul).[88]

The growth rate has been slowed. The company expects to grow between 14 and 17 percent over the next year versus the 18 to 20 percent originally forecasted.[89]

JetBlue plans to fuel this growth by adding a number of flights on existing routes, connecting new city pairs among the destinations already served, and entering new markets usually served by higher-cost, higher-fare airlines. To determine which cities JetBlue should include in its flight pattern, executives study information made available from the Department of Transportation, which outlines the historical number of passengers, capacity, and average fares over time in all city-pair markets within North America.[90] This information along with JetBlue's historical data allows them to predict how a market will react to the introduction of JetBlue's service and lower prices.

JetBlue expects to use the new Embraer fleet to create demand in many midsized markets that could benefit from its point-to-point service.[91]

In addition, as mentioned previously, JetBlue is in the midst of some discussions about creating a partnership to enter the international market. Due to the limited type of aircraft in JetBlue's fleet, an alliance is the only way for JetBlue to capitalize on the international market opportunities, because its aircraft are not large enough to fly overseas.

The firm is also optimistic that recent moves to expand distribution channels will increase revenue. In August of 2006, the company signed a five-year agreement with Sabre Holdings and Galileo International. This arrangement will allow more than 52,000 travel agencies to purchase tickets for JetBlue travelers with a single connection. These deals are an attempt to reach a broader customer base, especially business travelers.[92]

Moreover, JetBlue is constantly striving to introduce new methods of providing superior customer service. As of March 2007 the first 11 rows in the cabin feature four inches of legroom between each row rather than the previous two inches.[93] To augment its flight services, JetBlue has established complementary products and services.

Associated Products and Services

In addition to air travel, JetBlue sells combined flight and hotel packages, which it terms "JetBlue Getaways." When JetBlue Getaways launched in November 2005, Tim Claydon, vice president of Sales and Marketing, commented, "By working with the hotels directly, rather than through an intermediary, we are able to offer our customers only the finest properties at great prices. Using the latest technology to combine the lowest JetBlue airfare with the best hotel or resort rate, we are able to offer our customers a new level of value with vacations beginning and ending on JetBlue Airways—something not available on any other online travel site."[94]

An American Express card was issued in 2005 called the "JetBlue Card," which earns TrueBlue points for members.[95] Customers earn TrueBlue points when purchasing flights, movie tickets, sporting event tickets, and gym memberships. When a customer amasses 100 TrueBlue points (equivalent to approximately five medium-length round trips), the customer earns a free round-trip valid for one year. In 2006, award travel accounted for only 2 percent of JetBlue's total revenue passenger miles.[96]

In order to sustain its business and corporate strategies, JetBlue monitors its financial situation regularly.

Financial Condition

JetBlue's current financial situation is highlighted by its short-term liquidity, long-term stability, and company profitability. Stockholder profitability signals whether JetBlue is meeting its stockholders' expectations.[97]

Short-Term Liquidity

JetBlue's balance sheet over the past five years is shown in Exhibit 2. JetBlue has struggled with financial performance since 2005. The growth of current liabilities from 2003 to 2006 is significant, compared to the growth of current assets. However, the payables turnover ratio has been increasing, which indicates that JetBlue has been able to pay its suppliers at a faster rate even though it has not been as efficient in collecting receivables as in years past. (Liquidity ratios are shown in Exhibit 9 and turnover ratios are shown in Exhibit 10.)

Long-Term Stability

Long-term financial stability will be an issue as JetBlue toils to consistently turn a profit. JetBlue has maintained

Exhibit 9 Liquidity Ratios

	2006	2005	2004	2003	2002
Current ratio	1.1	0.94	1.05	1.75	1.05
Quick ratio	1.05	0.91	1.03	1.72	1.03

Source: JetBlue Airways Corporation 2006 Annual Report.

Exhibit 10 Receivables and Payables

Receivables	2006	2005	2004	2003	2002
Receivable turnover	30.6	26	47.1	69.7	38.8
Days to collect	11.9	14.1	7.8	5.2	9.4
Payables	**2006**	**2005**	**2004**	**2003**	**2002**
Payable turnover	16.4	13.8	12.9	11.5	9.5
Days to pay		26.4	28.3	31.7	38.5

Source: JetBlue Airways Corporation 2006 Annual Report.

Exhibit 11 Stability Ratios

	2006	2005	2004	2003	2002
Debt/Asset ratio	0.8	0.8	0.7	0.7	0.7
Asset/Equity ratio	5.1	4	3.5	3.3	3.5
Debt/Equity (financial leverage)	4.1	3.3	2.7	2.3	2.3
Interest coverage ratio	0.7	0.7	2.7	8.4	7.1

Source: JetBlue Airways Corporation 2006 Annual Report.

Exhibit 12 Fuel Expenses

	2006	2005	2004	2003	2002
Operating revenue	$2363	$1701	$1265	$998	$635
Aircraft fuel	752	488	255	147	76
Aircraft fuel %	31	29	20	15	12
Other Costs % Revenue					
Salaries and benefits %	23	25	27	27	26
Aircraft rent %	4	4	6	6	6
Sales and Marketing %	4	5	5	5	7
Maintenance %	4	4	4	2	1

Source: JetBlue Airways Corporation 2006 Annual Report.

a fairly consistent debt-to-asset mix as most of the cash received from issuances has been invested in capital assets. The majority of JetBlue's issuances are floating rate bonds, exposing the firm to increases in the Federal Reserve's prime rate.[98] JetBlue's first quarter 2007 assets/equity ratio stood at 5.4 compared to the industry average of 3.[99] (See Exhibits 3 and 11 for details.)

Company Profitability

JetBlue's gross margins continued to decline in recent years, which can be mainly attributed to increasing fuel charges as shown in Exhibit 12. Salaries, landing fees, and other expenses remain fairly stable as a percent of revenues (most have actually decreased, see Exhibit 1). For 2006, gross margins remained 23 percent (see Exhibit 13). As stated earlier, interest expense has a negative effect on profitability.

Exhibit 13 Profitability

	2006	2005	2004	2003	2002
Gross margins	20%	27%	33%	40%	45%
Operating margins	5.4%	3%	9%	17%	17%
Net profit margins	0.4%	–1%	4%	10%	9%
Return on equity	0.97%	–2%	6%	19%	19%
Return on assets	2%	2%	3%	6%	6%

Source: JetBlue Airways Corporation 2006 Annual Report; 2007; http://www.finance.yahoo.com.

Stockholder Profitability

In July 2007, the stock was trading at $11.01 versus $14.90[100] at the end of April 2002. In addition to the lackluster stock movement, JetBlue has never paid dividends, so the overall return for the past four years is 5.5 percent. According to moneycentral.com and Yahoo! Finance, the average analyst recommendation is "Hold" for JetBlue. The declining return on equity and inconsistency of net income appears to be having negative implications for JetBlue.

Strategic Challenges

JetBlue faces many challenges as it continues to operate in the highly competitive airline industry. The main challenges are maintaining JetBlue's culture as it grows, dealing with the surfacing complexities of two fleet types, managing maintenance expenses as airplanes and engines begin to age, and dealing with an increasingly senior labor pool. Although fuel prices are a concern, they affect the industry in the same way, and airlines have opportunities to mitigate these risks. Southwest hedged its fuel position more effectively than other airlines, but these hedges will expire and everyone will have a more level playing field when it comes to fuel prices.[101]

Maintaining the JetBlue culture will be difficult to do as the airline grows. The explosive increase in employees may hinder the ability to sustain high utilization and maintain a positive work environment. The time that top management has to interact with individual crewmembers will decrease. Neeleman stated that he would no longer be able to respond to every crewmember's e-mail.[102] This change will hinder a popular cultural component because the chairperson and CEO may no longer be seen as accessible.[103]

Multiple Aircraft Types

JetBlue will have a challenge as it continues to integrate two different types of aircraft. The firm suffered a setback when it incorporated the Embraer E190 into its fleet. JetBlue wanted to fly the new planes 14 hours a day, similar to its A-320s. However, the airplane characteristics were different from the Airbus.[104] Both pilots and mechanics needed additional time and training to understand the new plane. These factors caused flight delays and cancellations throughout the JetBlue system.[105] JetBlue had to reevaluate its plans.

Another issue associated with two types of aircraft is that JetBlue must staff two groups of pilots and flight attendants. The different aircraft require unique training and integration procedures. JetBlue will need separate inventories, training programs, and facilities to accommodate two fleet types.[106] In addition, the pay scales are different, which requires additional support from corporate employees.

Increased Maintenance Expenses

Maintenance expense will be a significant concern for JetBlue in coming years. As with a new car, new airplanes rarely need maintenance and when they do, they are covered under warranty. In 2004, JetBlue experienced a 94 percent increase in maintenance costs.[107] The increase in maintenance costs was not as significant in 2005 and 2006 at 36 percent and 42 percent, respectively (see Exhibit 1); however, as the large fleet of new planes comes due for heavy maintenance at the same time, JetBlue will experience a significant increase in maintenance costs.

Airplane operators have A, C, and D levels of scheduled maintenance and inspection intervals. A-checks occur every 400–500 hours and are similar to an oil change on a vehicle. C- and D-checks are more extensive, more expensive, and longer. The C-check schedule is every 18 months/6,000 hours/3,000 cycles.[108] Additionally, the fourth C-check consists of more inspections, and takes 10 days, compared to just 4 days for regular C-checks.[109] Furthermore, JetBlue decided to outsource maintenance to Air Canada Technical Services in Winnipeg, and Aeroman in El Salvador. Because these operations are not co-located with any of its scheduled service, JetBlue has to spend additional money ferrying planes and paying employees to work in these facilities. JetBlue spends "seven figures" each year in ferrying planes and as much as $700 per day extra for people to monitor the quality of work.[110] As JetBlue's planes enter more extensive service, the amount of time to ferry airplanes and actual maintenance will increase.

Engine expense is another huge maintenance cost for JetBlue. In July 2005, JetBlue signed a 10-year service agreement with a German company, MTU. It covers all scheduled and unscheduled repair for all A-320 engines.[111] At year-end 2006, JetBlue had more than 90 A-320 aircraft, and with two engines per plane and a healthy spares inventory, JetBlue has a significant number of engines to maintain (including its 23 E190 airplanes and engines).[112] Typical charges for a comparable engine overhaul range from $1 million to $1.5 million per heavy visit.

In addition to engines and airframes, airplane operators have additional equipment they must maintain and arrange for contract maintenance support. They have auxiliary power units, landing gear systems, environmental systems, avionics, and flight controls.

As the number of aircraft increases, the cost to maintain will increase. JetBlue may lose economies of scale because multiple aircraft types require multiple repair facilities, and they will have to employ and house multiple sets of inventory and people.

Increased Payroll Expenses

Payroll costs will multiply at JetBlue as the company ages. During 2006 salaries, wages, and benefits increased 29 percent, or $125 million, due primarily to an increased workforce (refer to Exhibit 1).[113] According to the Bureau of Transportation (see Exhibit 14), JetBlue experienced a 212 percent staff growth and ranks third among low-cost carriers for total number of employees in the United States.

Currently, all of the crewmembers are near the bottom of the pay scales, and JetBlue enjoys a relatively low-cost labor pool. However, as these people attain seniority with the company their pay level will increase.[114] Not only will salaried employees get annual pay raises, but crewmembers are paid for each hour flown, according to type of aircraft and depending on the number of years with the company (see Exhibit 15). A more senior staff means the company will start paying higher wages.

Because JetBlue desires to remain nonunionized, it will have to pay its employees well to ensure they do not become disgruntled and demand representation. Unions have not gained a foothold in JetBlue, but the Air Lines Pilot Association has JetBlue as a target. In addition to pilots, flight attendants, mechanics, ground crews, and gate agents will also receive pressure from other national unions for representation. If by chance the employees of JetBlue succumb to union pressure, union negotiators will then push for increased wages and other amenities—such as hotel requirements, time off, minimum number of flight hours per month, and so on—resulting in higher costs.

Exhibit 14 Low-Cost Carrier Full-Time Equivalent Employees, August 2002–2006

(Numbers in thousands)

Rank		2002	2003*	2004*	2005*	2006	Percent Change 2002–2006
1	Southwest	34	33	31	31	32	–4.5
2	America West	12	11	11	12	13	7.0
3	JetBlue	3	5	6	8	10	212.4
4	AirTran	5	5	6	6	7	56.9
5	Frontier	3	3	4	4	5	70.6
6	ATA	7	7	7	4	3	–61.5
7	Spirit	2	2	2	2	2	–14.4
8	Independence	N/A	4	4	3	N/A	N/A
	Total****	65	71	72	71	71	9.3

*Employment numbers in 2003, 2004, and 2005 for Independence Air, which changed its business model from a regional to low-cost carrier in mid-2004, are included with low-cost carriers. The carrier did not meet the standard for filing in previous years. The airline discontinued flights on January 5, 2006.

N/A = Not applicable because carriers did not meet the standard for filing.

Source: Bureau of Transportation Statistics.

Exhibit 15 Pay Scale Table

2004 Year	A-320 Captain	EMB190 Captain	A-320 FO	EMB190 FO
12	$126	$89	$76	$53
11	$126	$87	$76	$52
10	$126	$85	$76	$51
9	$125	$84	$75	$50
8	$124	$82	$74	$49
7	$123	$80	$74	$48
6	$122	$79	$73	$47
5	$121	$77	$72	$46
4	$118	$76	$67	$44
3	$116	$74	$61	$42
2	$113	$72	$56	$40
1	$110	$71	$51	$37

Note: Guarantee of 70 hrs/month; above 70 hours paid at 150%.

Source: 2006, Will fly for food, http://www.willflyforfood.cc/Payscales/PayScales.htm.

JetBlue's Challenge in Coming Years

David Neeleman started an airline based on previous experience and an entrepreneurial spirit. He knew what people wanted and how much they would pay for it. JetBlue attracted high-quality employees because of the unique culture that stressed customer service and differentiated offerings. Allowing at-home reservations agents, paperless cockpits, and crewmembers' easy access to executives has created an environment with which people want to associate. In addition, by purchasing brand new Airbus airplanes and having a junior staff, JetBlue has minimized labor and maintenance costs, both major operating expenses, for several years. As growth slows in the domestic market, its aircraft begin to age, and the workforce becomes more senior, the number of challenges will increase. Barger and Neeleman are faced with persistent questions about how to continue to grow the airline profitably. Does JetBlue attack Southwest, United, Delta, American, or Continental strongholds in the Midwest and/or smaller airports? Does it form an alliance in order to expand into international markets such as Europe and Asia? To minimize expenses related to airplanes, should JetBlue return to one airplane type? Finally, while unions are prevalent at every other airline, how can JetBlue maintain an environment where employees remain committed, dedicated, and satisfied?

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