CASE 45

Jetblue Airways IPO Valuation

My neighbor called me the other day and she said, "You have an interesting little boy." Turns out, the other day she asked my son Daniel what he wanted for Christmas. And he said, "I want some stock." "Stock?" she said. "Don't you want video games or anything?" "Nope," he said. "I just want stock. JetBlue stock."

—David Neeleman
CEO and Founder, JetBlue Airways

It was April 11, 2002, barely two years since the first freshly painted JetBlue plane had been rolled out at the company's home base at New York City's John F. Kennedy Airport (JFK). JetBlue's first years had been good ones. Despite the challenges facing the U.S. airline industry following the terrorist attacks of September 2001, the company remained profitable and was growing aggressively. To support JetBlue's growth trajectory and offset portfolio losses by its venture-capital investors, management was ready to raise additional capital through a public equity offering. **Exhibits 1** through **4** provide selections from JetBlue's initial public offering (IPO) prospectus, required by the SEC to inform investors about the details of the equity offering.

After nearly two weeks of road-show meetings with the investment community, the JetBlue management team had just finished its final investor presentation and was heading for Chicago's Midway Airport. With representatives of co-lead manager Morgan Stanley and the JetBlue board patched in on a conference call, it was time for the group to come to an agreement on the offering price of the new shares. The initial price range for JetBlue shares, communicated to potential investors, was $22 to $24. Facing sizable excess demand for the 5.5 million shares planned for the IPO, management had recently filed an increase in the offering's price range ($25 to $26). But even at that price range, most of the group thought the stock faced "blow-out" demand.

This case was prepared by Professor Michael J. Schill with the assistance and cooperation of John Owen (JetBlue), Garth Monroe (MBA '05), and Cheng Cui (MBA '04). It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation.

After months of preparation, it was time to set the price. The underwriters were anxious to distribute the shares that evening, and NASDAQ was prepared for JBLU (the company's ticker symbol) to begin trading on the exchange in the morning.

JetBlue Airways

In July 1999, David Neeleman, 39, announced his plan to launch a new airline that would bring "humanity back to air travel." Despite the fact that the U.S. airline industry had witnessed 87 new-airline failures over the previous 20 years, Neeleman was convinced that his commitment to innovation in people, policies, and technology could keep his planes full and moving.[1] His vision was shared by an impressive new management team and a growing group of investors. David Barger, a former vice president of Continental Airlines, had agreed to become JetBlue's president and COO. John Owen had left his position as executive vice president and former treasurer of Southwest Airlines to become JetBlue's CFO. Neeleman had received strong support for his business plan from the venture-capital community. He had quickly raised $130 million in funding from such high-profile firms as Weston Presidio Capital, Chase Capital Partners, and Quantum Industrial Partners (George Soros's private-equity firm).

In seven months, JetBlue had secured a small fleet of Airbus A320 aircraft and initiated service from JFK to Fort Lauderdale, Florida, and Buffalo, New York. By late summer of 2000, routes had been added to two other Florida cities (Orlando and Tampa), two other northeastern cities (Rochester, New York, and Burlington, Vermont), and two California cities (Oakland and Ontario). The company continued to grow rapidly through early 2002, and was operating 24 aircraft flying 108 flights per day to 17 destinations.

JetBlue's early success was often attributed to Neeleman's extensive experience with airline start-ups. As a University of Utah student in his early 20s, Neeleman began managing low-fare flights between Salt Lake City and Hawaii. His company, Morris Air, became a pioneer in ticketless travel, and was later acquired by low-fare leader Southwest Airlines. Neeleman stayed only briefly at Southwest, leaving to assist in the launching of Canadian low-fare carrier WestJet while waiting out the term of his "noncompete" agreement with Southwest. Simultaneously, Neeleman also developed the e-ticketing system Open Skies, which was acquired by Hewlett-Packard in 1999.

Neeleman acknowledged that JetBlue's strategy was built on the goal of fixing everything that "sucked" about airline travel. He offered passengers a unique flying experience by providing new aircraft, simple and low fares, leather seats, free LiveTV at every seat, preassigned seating, reliable performance, and high-quality customer service. JetBlue focused on point-to-point service to large metropolitan areas with high average fares or highly traveled markets that were underserved. JetBlue's operating strategy had produced the lowest cost per available-seat-mile of any major U.S. airline in 2001—6.98 cents versus an industry average of 10.08 cents.

With its strong capital base, JetBlue had acquired a fleet of new Airbus A320 aircraft. JetBlue's fleet not only was more reliable and fuel-efficient than other airline

[1] Jeff Sweat, "Generation Dot-Com Gets Its Wings," *Information Week* (January 1, 2001).

fleets, but also afforded greater economies of scale because the airline had only one model of aircraft. JetBlue's management believed in leveraging advanced technology. For instance, all its pilots used laptop computers in the cockpit to calculate the weight and balance of the aircraft and to access their manuals in electronic format during the flight. JetBlue was the first U.S. airline to equip cockpits with bulletproof Kevlar doors and security cameras in response to the September 11 hijackings.

JetBlue had made significant progress in establishing a strong brand by seeking to be identified as a safe, reliable, low-fare airline that was highly focused on customer service and by providing an enjoyable flying experience. JetBlue was well positioned in New York, the nation's largest travel market, with approximately 21 million potential customers in the metropolitan area. Much of JetBlue's customer-service strategy relied on building strong employee morale through generous compensation and passionately communicating the company's vision to employees.

The Low-Fare Airlines

In 2002, the low-fare business model was gaining momentum in the U.S. airline industry. Southwest Airlines, the pioneer in low-fare air travel, was the dominant player among low-fare airlines. Southwest had successfully followed a strategy of high-frequency, short-haul, point-to-point, low-cost service. Southwest flew more than 64 million passengers a year to 58 cities, making it the fourth-largest carrier in America and in the world. Financially, Southwest had also been extremely successful—in April 2002, Southwest's market capitalization was larger than all other U.S. airlines combined (**Exhibits 5** and **6** provide financial data on Southwest Airlines).

Following the success of Southwest, a number of new low-fare airlines emerged. These airlines adopted much of Southwest's low-cost model, including flying to secondary airports adjacent to major metropolitan areas and focusing on only a few types of aircraft to minimize maintenance complexity. In addition to JetBlue, current low-fare U.S. airlines included AirTran, America West, ATA, and Frontier. Alaska Air, an established regional airline, was adopting a low-fare strategy. Many of the low-fare airlines had been resilient in the aftermath of the September 11 attacks. (**Exhibit 7** shows current market-multiple calculations for U.S. airlines.) Low-fare airlines had also appeared in markets outside the United States, with Ryanair and easyJet in Europe and WestJet in Canada. (**Exhibit 8** provides historical growth rates of revenue and equipment for low-fare airlines.)

The most recent IPOs among low-fare airlines were of non-U.S. carriers. Ryanair, WestJet, and easyJet had gone public with trailing EBIT multiples of 8.5×, 11.6×, and 13.4×, respectively, and first-day returns of 62%, 25%, and 11%, respectively.[2]

[2]The "first-day return" was the realized return based on the difference between the IPO share price and the market share price at the close of the first day of exchange-based trading. The term "trailing EBIT (earnings before interest and taxes) multiple" was defined as (Book debt + IPO price × Post-IPO shares outstanding)/(Most recent year's EBIT). The term "leading EBIT multiple" referred to an EBIT multiple based on a future year's forecast EBIT.

The IPO Process

The process of "going public" (selling publicly traded equity for the first time) was an arduous undertaking that usually required about three months. **Exhibit 9** provides a timeline for the typical IPO.[3] A comment on the IPO process by JetBlue CFO John Owen can be found at http://it.darden.virginia.edu/JetBlue/streaming_links.htm.

Private firms needed to fulfill a number of prerequisites before initiating the equity-issuance process. Firms had to generate a credible business plan; gather a qualified management team; create an outside board of directors; prepare audited financial statements, performance measures, and projections; and develop relationships with investment bankers, lawyers, and accountants. Frequently, firms held "bake-off" meetings to discuss the equity-issuance process with various investment banks before selecting a lead underwriter. Important characteristics of an underwriter included the proposed compensation package, track record, analyst research support, distribution capabilities, and aftermarket market-making support.

After the firm satisfied the prerequisites, the equity-issuance process began with an organizational or "all-hands" meeting, which was attended by all the key participants, including management, underwriters, accountants, and legal counsel for both the underwriters and the issuing firm. The meeting was designed for planning the process and reaching agreement on the specific terms. Throughout the process, additional meetings could be called to discuss problems and review progress. Following the initiation of the equity-issuance process, the Securities and Exchange Commission (SEC) prohibited the company from publishing information outside the prospectus. The company could continue established, normal advertising activities, but any increased publicity designed to raise awareness of the company's name, products, or geographical presence in order to create a favorable attitude toward the company's securities could be considered illegal. This requirement was known as the "quiet period."

The underwriter's counsel generally prepared a "letter of intent," which provided most of the terms of the underwriting agreement but was not legally binding. The underwriting agreement described the securities to be sold, set forth the rights and obligations of the various parties, and established the underwriter's compensation. Because the underwriting agreement was not signed until the offering price was determined (just before distribution began), both the firm and the underwriter were free to pull out of the agreement anytime before the offering date. If the firm did withdraw the offer, the letter of intent generally required the firm to reimburse the underwriter for direct expenses.

The SEC required that firms selling equity in public markets solicit its approval. The filing process called for preparation of the prospectus (Part I of the registration statement), answers to specific questions, copies of the underwriting contract, company charter and bylaws, and a specimen of the security (all included in Part II

[3]This section draws from Michael C. Bernstein and Lester Wolosoff, *Raising Capital: The Grant Thornton LLP Guide for Entrepreneurs;* Frederick Lipman, *Going Public:* Coopers and Lybrand, *A Guide to Going Public;* and Craig G. Dunbar, "The Effect of Information Asymmetries on the Choice of Underwriter Compensation Contracts in IPOs" (PhD diss., University of Rochester, n.d.).

of the registration statement), all of which required the full attention of all parties on the offering firm's team. One of the important features of the registration process was the performance of "due-diligence" procedures. Due diligence referred to the process of providing reasonable grounds that there was nothing in the registration statement that was significantly untrue or misleading, and was motivated by the liability of all parties to the registration statement for any material misstatements or omissions. Due-diligence procedures involved such things as reviewing company documents, contracts, and tax returns; visiting company offices and facilities; soliciting "comfort letters" from company auditors; and interviewing company and industry personnel.

During this period, the lead underwriter began to form the underwriting "syndicate," which comprised a number of investment banks that agreed to buy portions of the offering at the offer price less the underwriting discount. In addition to the syndicate members, dealers were enlisted to sell a certain number of shares on a "best-efforts" basis. The dealers received a fixed reallowance, or concession, for each share sold. The selling agreement provided the contract among members of the syndicate. The agreement granted power of attorney to the lead underwriter, and stipulated the management fee that each syndicate member was required to pay the lead underwriter, the share allocations, and the dealer reallowances or concessions. Because the exact terms of the agreement were not specified until approximately 48 hours before selling began, the agreement did not become binding until just before the offering. The original contract specified a range of expected compensation levels. The selling agreement was structured so that the contract became binding when it was orally approved via telephone by the syndicate members after the effective date.

The SEC review process started when the registration statement was filed and the statement was assigned to a branch chief of the Division of Corporate Finance. As part of the SEC review, the statement was given to accountants, attorneys, analysts, and industry specialists. The SEC review process was laid out in the Securities Act of 1933, which aspired to "provide full and fair disclosure of the character of securities sold in interstate commerce."[4] Under the Securities Act, the registration statement became effective 20 days after the filing date. If, however, the SEC found anything in the registration statement that was regarded as materially untrue, incomplete, or misleading, the branch chief sent the registrant a "letter of comment" detailing the deficiencies. Following a letter of comment, the issuing firm was required to correct and return the amended statement to the SEC. Unless an acceleration was granted by the SEC, the amended statement restarted the 20-day waiting period.

While the SEC was reviewing the registration statement, the underwriter was engaged in "book-building" activities, which involved surveying potential investors to construct a schedule of investor demand for the new issue. To generate investor interest, the preliminary offering prospectus, or "red herring" (so called because the prospectus was required to have "Preliminary Prospectus" on the cover in red ink), was printed and offered to potential investors. Underwriters generally organized a one- or two-week "road-show" tour during this period. The road shows allowed managers

[4]Preamble, Securities Act of 1933.

to discuss their investment plans, display their management potential, and answer questions from financial analysts, brokers, and institutional investors in locations across the country or abroad. Finally, companies could place "tombstone ads" in various financial periodicals announcing the offering and listing the members of the underwriting syndicate.

By the time the registration statement was ready to become effective, the underwriter and the offering firm's management negotiated the final offering price and the underwriting discount. The negotiated price depended on perceived investor demand and current market conditions (e.g., price multiples of comparable companies, previous offering experience of industry peers). Once the underwriter and the management agreed on the offering price and discount, the underwriting agreement was signed, and the final registration amendment was filed with the SEC. The company and the underwriter generally asked the SEC to accelerate the final pricing amendment, which was usually granted immediately over the telephone. The offering was now ready for public sale. The final pricing and acceleration of the registration statement typically happened within a few hours.

During the morning of the effective day, the lead underwriter confirmed the selling agreement with the members of the syndicate. Following confirmation of the selling agreement, selling began. Members of the syndicate sold shares of the offering through oral solicitations to potential investors. Because investors were required to receive a final copy of the prospectus with the confirmation of sale and the law allowed investors to back out of purchase orders upon receipt of the final prospectus, the offering sale was not realized until underwriters actually received payment. Underwriters would generally cancel orders if payment was not received within five days of the confirmation.

SEC Rule 10b-7 permitted underwriters to engage in price-stabilization activities for a limited period during security distribution. Under this rule, underwriters often posted stabilizing bids at or below the offer price, which provided some price stability during the initial trading of an IPO.

The offering settlement, or closing, occurred seven to ten days after the effective date, as specified in the underwriting agreement. At this meeting, the firm delivered the security certificates to the underwriters and dealers, and the lead underwriter delivered the prescribed proceeds to the firm. In addition, the firm traditionally delivered an updated comfort letter from its independent accountants. Following the offering, the underwriter generally continued to provide valuable investment-banking services by distributing research literature and acting as a market maker for the company.

The IPO Decision

There was some debate among the JetBlue management team regarding the appropriate pricing policy for the IPO shares. Morgan Stanley reported that the deal was highly oversubscribed by investors (i.e., demand exceeded supply). Analysts and reporters were overwhelmingly enthusiastic about the offering. (**Exhibit 10** contains a selection of recent comments by analysts and reporters.) Given such strong demand, some members of the group worried that the current pricing range still left too much

money on the table. Moreover, they believed that raising the price would send a strong signal of confidence to the market.

The contrasting view held that increasing the price might compromise the success of the deal. In management's view, a successful offering entailed not only raising the short-term capital needs, but also maintaining access to future capital and providing positive returns to the crew members (employees) and others involved in directed IPO share purchases. Because maintaining access to capital markets was considered vital to JetBlue's aggressive growth plans, discounting the company's IPO price seemed like a reasonable concession to ensure a successful deal and generate a certain level of investor buzz. Being conservative on the offer price seemed particularly prudent considering the risks of taking an infant New York airline public just six months after 9/11. (**Exhibit 11** provides forecasts of expected aggregate industry growth and profitability; **Exhibit 12** shows the share-price performance of airlines over the past eight months.)

By April 2002, the U.S. economy had been stalled for nearly two years. The Federal Reserve had attempted to stimulate economic activity by reducing interest rates to their lowest level in a generation. Current long-term U.S. Treasuries traded at a yield of 5%, short-term rates were at 2%, and the market risk premium was estimated to be 5%.

Based on the JetBlue management team's forecast of aircraft acquisitions, **Exhibit 13** provides a financial forecast for the company.[5]

[5]In pricing IPO shares, it was appropriate to divide the total equity value of the firm by the premoney shares outstanding. In the case of JetBlue, the number of premoney shares outstanding was 35.1 million. This number included the automatic conversion of all convertible redeemable preferred shares into common shares.

EXHIBIT 1 | Selections from JetBlue Prospectus

The Offering

Common stock offered	5,500,000 shares
Use of proceeds	We intend to use the net proceeds, together with existing cash, for working capital and capital expenditures, including capital expenditures related to the purchase of aircraft.
Dividends	We have not declared or paid any dividends on our common stock. We currently intend to retain our future earnings, if any, to finance the further expansion and continued growth of our business.
Proposed NASDAQ National Market symbol	JBLU

Results of Operations

	Three Months Ended				
Operating Statistics:	**Dec 31, 2000**	**Mar 31, 2001**	**Jun 30, 2001 (unaudited)**	**Sep 30, 2001**	**Dec 31, 2001**
Revenue passengers	523,246	644,419	753,937	791,551	926,910
Revenue passenger miles (in thousands)	469,293	600,343	766,350	863,855	1,051,287
Available seat miles (in thousands)	623,297	745,852	960,744	1,131,013	1,370,658
Load factor	75.3%	80.5%	79.8%	76.4%	76.7%
Breakeven load factor	79.4%	73.2%	70.6%	74.6%	76.2%
Aircraft utilization (hours per day)	11.8	13.1	13.1	12.8	11.8
Average fare	$ 90.65	$ 96.15	$ 101.01	$ 101.66	$ 99.37
Yield per passenger mile (cents)	10.11	10.32	9.94	9.29	8.76
Passenger revenue per available seat mile (cents)	7.61	8.31	7.93	7.10	6.72
Operating revenue per available seat mile (cents)	7.85	8.56	8.16	7.30	6.97
Operating expense per available seat mile (cents)	8.03	7.55	7.01	6.93	6.68
Departures	4,620	5,283	6,332	6,936	7,783
Average stage length (miles)	833	871	937	1,007	1,087
Average number of operating aircraft during period	9.2	10.5	13.2	15.9	19.4
Full-time equivalent employees at period end	1,028	1,350	1,587	1,876	2,116
Average fuel cost per gallon (cents)	103.38	86.03	83.24	79.53	60.94
Fuel gallons consumed (in thousands)	8,348	9,917	12,649	14,958	17,571
Percent of sales through jetblue.com during period	32.6%	37.6%	39.4%	45.1%	51.3%

EXHIBIT 2 | Balance Sheets of JetBlue Airways (in thousands of dollars)

	December 31	
	2001	2000
ASSETS		
Cash and cash equivalents	$117,522	$34,403
Receivables, less allowance	20,791	21,633
Inventories, less allowance	2,210	1,133
Prepaid expenses and other	3,742	2,744
Total current assets	144,265	59,913
Flight equipment	364,681	163,060
Predelivery deposits for flight equipment	125,010	91,620
	489,691	254,680
Less accumulated depreciation	9,523	2,334
	480,168	252,346
Other property and equipment	29,023	18,290
Less accumulated depreciation	4,313	1,632
	24,710	16,658
Total property and equipment	504,878	269,004
Other Assets	24,630	15,211
Total Assets	$673,773	$344,128

	December 31	
	2001	2000
LIABILITIES		
Accounts payable	$24,549	$12,867
Air traffic liability	51,566	27,365
Accrued salaries, wages and benefits	18,265	5,599
Other accrued liabilities	15,980	5,255
Short-term borrowings	28,781	15,138
Current maturities of long-term debt	54,985	24,800
Total current liabilities	194,126	91,024
Long Term Debt	290,665	137,110
Deferred Credits & Other Liabilities	10,708	6,595
Convertible Redeemable Preferred Stock	210,441	163,552
COMMON STOCKHOLDERS' EQUITY		
Additional paid-in capital	44	44
Accumulated deficit	3,889	487
Unearned compensation	(33,117)	(54,684)
Total common stockholders' equity (deficit)	(2,983)	—
Total Liabilities & Common Stockholders' Equity	(32,167)	(54,153)
	$673,773	$344,128

EXHIBIT 3 | Statements of Operations of JetBlue Airways (in thousands of dollars, except per-share amounts)

	Year Ended December 31		
	2001	2000	1999
Operating Revenues			
Passenger	$310,498	$101,665	$ —
Other	9,916	2,953	—
Total Operating Revenues	320,414	104,618	—
Operating Expenses			
Salaries, Wages and Benefits	84,762	32,912	6,000
Aircraft Fuel	41,666	17,634	4
Aircraft Rent	32,927	13,027	324
Sales and Marketing	28,305	16,978	887
Landing Fees and Other Rents	27,342	11,112	447
Depreciation and Amortization	10,417	3,995	111
Maintenance Materials and Repairs	4,705	1,052	38
Other Operating Expenses	63,483	29,096	6,405
Total Operating Expenses	293,607	125,806	14,216
Operating Income (Loss)	26,807	(21,188)	(14,216)
Other Income (Expense)			
Airline Stabilization Act Compensation	18,706	—	—
Interest Expense	(14,132)	(7,395)	(705)
Capitalized Interest	8,043	4,487	705
Interest Income and Other	2,491	2,527	685
Total Other Income (Expense)	15,108	(381)	685
Income (Loss) Before Income Taxes	41,915	(21,569)	(13,531)
Income Tax Expense (Benefit)	3,378	(239)	233
Net Income (Loss)	38,537	(21,330)	(13,764)
Preferred Stock Dividends	(16,970)	(14,092)	(4,656)
Net Income (Loss) Applicable to Common Stockholders	$21,567	($35,422)	($18,420)
Earnings (Loss) Per Common Share:			
Basic	$9.88	($27)	($37)
Diluted	$1.14	($27)	($37)
Pro forma basic (unaudited)	$1.30		

EXHIBIT 4 | Statements of Cash Flows of JetBlue Airways (in thousands of dollars)

	Year Ended December 31		
	2001	2000	1999
Cash Flows From Operating Activities			
Net income (loss)	$38,537	($21,330)	($13,764)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	9,972	3,889	111
Amortization	445	106	—
Deferred income taxes	3,373	—	—
Other, net	5,960	3,892	619
Changes in certain operating assets and liabilities:			
Decrease (increase) in receivables	430	(21,622)	—
Increase in inventories, prepaid expenses and other	(2,120)	(3,354)	(340)
Increase in air traffic liability	23,788	26,173	—
Increase in accounts payable and other accrued liabilities	30,894	15,070	6,818
Net cash provided by (used in) operating activities	111,279	2,824	(6,556)
Cash Flows From Investing Activities			
Capital expenditures	(233,775)	(205,759)	(12,463)
Predelivery deposits for flight equipment, net	(54,128)	(27,881)	(50,713)
Increase in security deposits	(1,952)	(7,939)	(5,302)
Purchases of short-term investments	—	(20,923)	—
Proceeds from maturities of short-term investments	—	21,392	—
Other, net	—	(20)	1,026
Net cash used in investing activities	(289,855)	(241,130)	(67,452)
Cash Flows From Financing Activities			
Proceeds from issuance of convertible redeemable preferred stock	29,731	51,322	80,671
Proceeds from issuance of common stock	25	130	69
Proceeds from issuance of long-term debt	185,000	137,750	—
Proceeds from short-term borrowings	28,781	15,138	—
Proceeds from aircraft sale and leaseback transactions	72,000	70,000	—
Repayment of long-term debt	(35,254)	(18,577)	—
Repayment of short-term borrowings	(15,138)	—	—
Other, net	(3,450)	(1,300)	—
Net cash provided by financing activities	261,695	254,463	80,740
Increase In Cash And Cash Equivalents	83,119	16,157	6,732
Cash and cash equivalents at beginning of year	34,403	18,246	11,514
Cash and cash equivalents at end of year	$117,522	$34,403	$18,246

EXHIBIT 5 | Selections from Value Line Tear Sheet for Southwest Airlines

Recent stock price	$20.69			
P/E ratio	49.3			
Dividend yield	0.1%			
Beta	1.10			
Financial statement forecast	2001	2002E	2003E	2005E/2007E
Total debt (in millions)	$1,842			
Revenue (in millions)	$5,555	$6,000	$7,100	$10,300
Operating margin	17.1%	18.0%	24.5%	27.0%
Tax rate	31.0%	38.5%	38.5%	38.5%
Common shares outstanding (in millions)	776.8	785.0	795.0	815.0

EXHIBIT 6 | Southwest Airlines: Current Debt Outstanding

Issue	Moody's Rating	Amount Outstanding	Maturity Date	Yield to Maturity
Short-term bank debt	NA	$475 million	NA	NA
Floating rate secured notes	NA	$200 million	2004	NA
Private notes 5.10–6.10	NA	$614 million	2006	NA
Floating rate French Bank debt	NA	$52 million	2012	NA
8.75 Note	Baa1	$100 million	Oct-2003	5.65%
8.00 Note	Baa1	$100 million	Feb-2005	5.91%
7.875 Debenture	Baa1	$100 million	Sep-2007	7.41%
7.375 Debenture	Baa1	$100 million	Feb-2027	8.68%
Capital leases	NA	$109 million	NA	NA

Data Source: Mergent's Bond Record; Southwest Annual Report.

EXHIBIT 7 | Recent Valuation Multiples

	Actual for 2001						Estimates for 2002	
	Price/ Share	Book Equity/ Share	Book Debt/ Share	EBITDA*/ Share	EBIT/ Share	Earnings/ Share	EBIT/ Share	Earnings/ Share
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
AirTran	6.6	0.5	4.0	1.2	0.8	0.3	0.8	0.3
Alaska Air	29.1	32.1	33.8	3.3	(1.7)	(1.5)	2.7	(0.8)
America West	3.5	12.5	10.2	(4.3)	(6.2)	(4.4)	(4.5)	(4.1)
AMR	22.3	35.1	69.3	(7.0)	(16.2)	(11.5)	12.4	(3.9)
ATA	15.0	10.8	32.9	8.5	(2.0)	(2.6)	(6.4)	(7.2)
Continental	26.2	20.9	82.0	9.8	1.4	(1.6)	11.1	(1.2)
Delta	29.3	32.7	70.3	(1.4)	(11.8)	(9.9)	8.4	(3.1)
Frontier	17.0	5.4	0.0	3.2	3.0	2.0	0.6	0.4
Midwest	14.6	8.3	2.7	(0.1)	(1.6)	(1.1)	1.6	0.8
Northwest	15.7	(5.1)	66.9	1.6	(4.4)	(5.0)	7.2	(2.5)
Ryanair	32.1	5.5	3.3	1.3	0.9	0.7	1.2	0.9
Southwest	18.5	5.3	1.8	1.5	1.1	0.7	1.4	0.7
United	13.5	59.6	186.2	(37.0)	(56.1)	(39.6)	N/A	(15.4)
WestJet	15.9	2.8	1.0	2.1	1.3	0.8	1.6	0.6

	Trailing					Leading	
	Market to book multiple	Total capital multiple	EBITDA multiple	EBIT multiple	PE Multiple	EBIT multiple	PE multiple
	[1/2]	[(1+3)/(2+3)]	[(1+3)/4]	[(1+3)/5]	[1/6]	[(1+3)/7]	[1/8]
AirTran	13.5	2.4	8.6	13.0	25.3	13.9	20.0
Alaska Air	0.9	1.0	19.2	(37.1)	(19.3)	23.3	(38.8)
America West	0.3	0.6	(3.2)	(2.2)	(0.8)	(3.0)	(0.8)
AMR	0.6	0.9	(13.1)	(5.7)	(1.9)	7.4	(5.7)
ATA	1.4	1.1	5.6	(23.8)	(5.7)	(7.5)	(2.1)
Continental	1.3	1.1	11.0	77.0	(16.7)	9.8	(22.4)
Delta	0.9	1.0	(71.6)	(8.4)	(3.0)	11.8	(9.4)
Frontier	3.2	3.2	5.3	5.7	8.4	26.6	45.9
Midwest	1.8	1.6	(298.3)	(11.0)	(13.5)	11.2	17.4
Northwest	(3.1)	1.3	51.6	(18.8)	(3.1)	11.5	(6.3)
Ryanair	5.8	4.0	26.4	38.5	44.0	30.3	34.1
Southwest	3.5	2.9	13.4	18.6	27.6	14.3	28.4
United	0.2	0.8	(5.4)	(3.6)	(0.3)	N/A	(0.9)
WestJet	5.6	4.4	8.1	12.7	19.6	10.6	26.9

Data Source: Actual numbers for 2001 are from company annual reports. Estimates for 2002 are from Value Line when available, otherwise consensus analyst estimates are used. All stock prices are quoted as of December 31, 2001. Ryanair figures are based on the respective American Deposit Receipt prices. Westjet figures are in Canadian dollars. One US dollar = 1.5870 Canadian dollars as of March 31, 2002. The calculation procedure for the valuation multiples is defined in the lower panel based on the numbered variables defined in the upper panel.

EXHIBIT 8 | Historical Annual Growth Rates for Low-Fare Airlines

	$ Revenue Growth					$ Gross Equipment Growth				
Year	AirTran	ATA	Frontier	Ryanair	Southwest	AirTran	ATA	Frontier	Ryanair	Southwest
1972					−20%					177%
1973					5%					55%
1974					28%					61%
1975					32%					54%
1976					51%					35%
1977					101%					59%
1978					42%					66%
1979					46%					68%
1980					32%					57%
1981					35%					27%
1982					45%					23%
1983					18%					35%
1990					10%					17%
1991					14%					11%
1992					20%					28%
1993		1%			21%		11%			36%
1994	456%	21%			18%	2204%	24%			13%
1995	186%	18%	49%		13%	175%	23%	186%		11%
1996	−4%	2%	125%	20%	10%	−40%	5%	66%	25%	19%
1997	49%	20%	39%	N/A	16%	−4%	4%	26%	15%	12%
1998	18%	21%	56%	N/A	19%	108%	17%	50%	29%	9%
1999	−20%	39%	105%	39%	19%	15%	22%	50%	11%	14%
2000	35%	23%	79%	68%	16%	24%	15%	43%	21%	19%
2001	−22%	−58%	237%	N/A	12%	7%	−1%	−6%	N/A	−2%

EXHIBIT 9 | Lifecycle of a Typical U.S. IPO Transaction

Event time (in days)	Event
<0	Underwriter selection meeting.
0	Organizational "all-hands" meeting. "Quiet period" begins.
15–44	Due diligence. Underwriter interviews management, suppliers, and customers; reviews financial statements; drafts preliminary registration statement. Senior management of underwriter gives OK on issue.
45	Registration (announcement) date. Firm files registration statement with SEC; registration statement is immediately available to the public.
45–75	SEC review period. SEC auditor reviews for compliance with SEC regulations. Underwriter assembles syndicate and prepares road show.
50	Distribute preliminary prospectus (red herring).
60–75	Road show. Underwriters and issuing firm's management present offering to interested institutional investors and build book of purchase orders.
75–99	Letters of comment received from SEC; amendments filed with SEC.
99	Effective date. Underwriter and firm price offering. SEC gives final approval of registration statement.
100	Public offering date. Stock issued and begins trading.
108	Settlement date. Underwriter distributes proceeds to issuing firm.
After market	Underwriter may support new equity by acting as market maker and distributing research literature on issuing firm.

EXHIBIT 10 | Selected Quotations of Analysts and Reporters

"The bottom line is really very simple. Neeleman saw a gaping hole and flew a plane through it. Get on this baby, because this is as close to a sure thing as it gets."
—Lisa DiCarlo, *Forbes*

"People are going to have a high appetite for JetBlue stock."
—Ray Neidl, ABN Amro

"JetBlue took to the skies in 2000 and surprised the airline sector when it reported its first profit only a year later. Passengers are drawn to the low fares, leather seats and free live TV on board. And Wall Street admires JetBlue for its experienced management team and winning formula, one made popular by the success of Southwest Airlines."
—Suzanne Pratt, *Nightly Business Report*

"JetBlue is off to a good start. But to say it deserves the valuation of Southwest, which has not had a year without profits for 27 years, might be a stretch."
—Jim Corridore, Standard & Poor's

"JetBlue has a management team with real expertise, and they're executing very well."
—Marc Baum, IPO Group

"It's a very young company that's still going to need to make a lot of investment over the next 5 to 10 years. There's not going to be a lot of free cash flow."
—Jonathan Schrader, Morningstar

"What's important here is that the business model is solid and they aren't deviating from it."
—Helane Becker, Buckingham Research

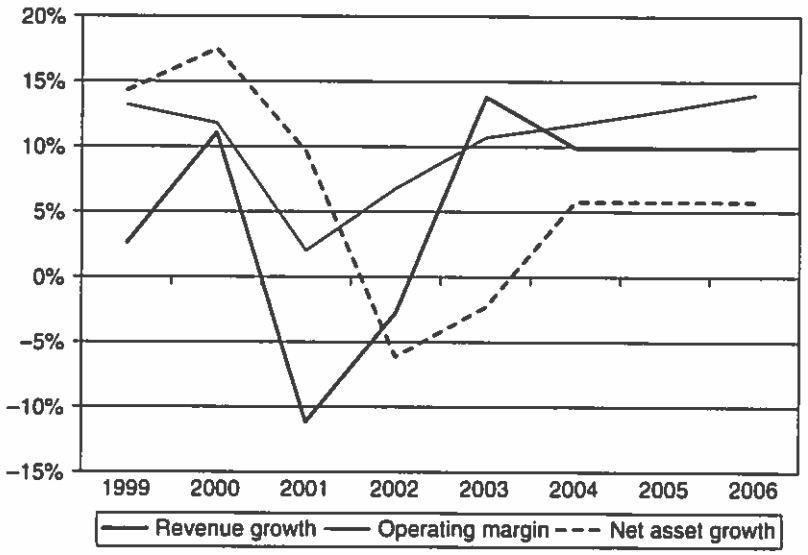
"Everyone I've talked to that's flown with them has been delighted."
—Jim Broadfoot, Ivy Emerg. Growth Fund

"This is an industry where the failure rate is very high for new entrants."
—Patrick Murphy, former Assistant Secretary, Department of Transportation

"It's a fantastic airline. It's also something that you need to personally experience . . . There's live TV, all-leather seats that are comfortable, and the crew has an attitude that is one of service. It's ingrained and installed in them and as a result, they treat passengers differently. I think they have cornered the market on perhaps the way flying ought to be."
—Clark Snyder, LiveTV

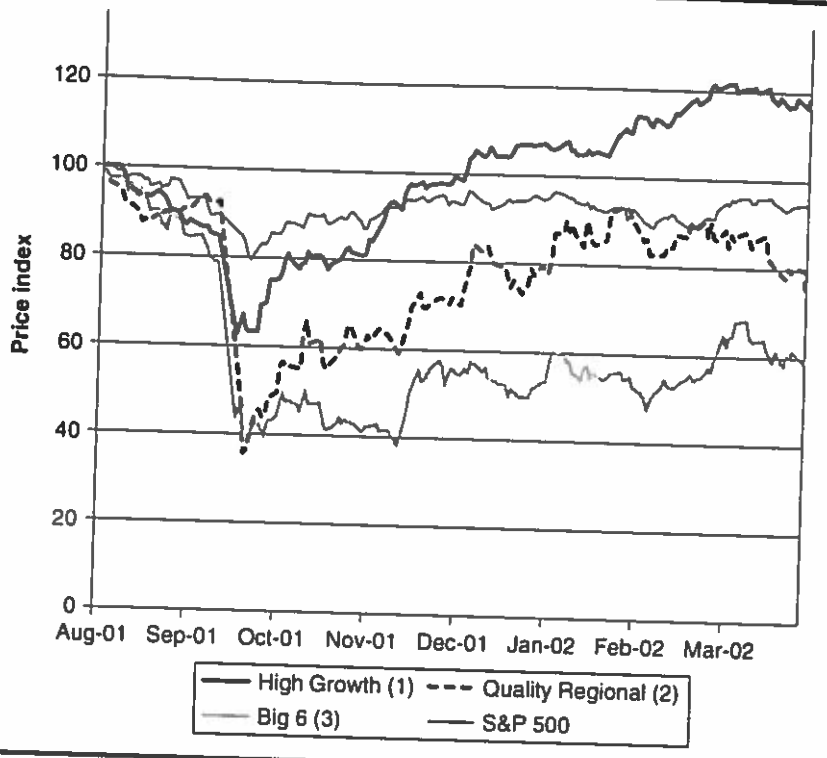
Sources: *BusinessWeek*, *BBC News*, *Nightly Business Report*, *New York Metro*.

EXHIBIT 11 | Historical Financial Performance and Analysts' Financial Forecasts for Air-Transport Industry



Source: Adapted from Value Line Investment Survey, March 2002.

EXHIBIT 12 | Recent Share-Price Performance for Airlines



Notes:

1. High-growth airlines include Southwest Airlines, Ryanair, easyJet, and WestJet.
2. Quality regional airlines include Atlantic Coast and Skywest.
3. Big 6 airlines include American, Continental, Delta, Northwest, United, and US Airways.

EXHIBIT 13 | JetBlue Financial Forecast (dollars in millions)

	2001	2002E	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E
Number of aircraft	21	34	48	62	74	86	98	108	113	117
$ Revenue/plane	$15.3	$17.6	$18.4	$19.2	$20.1	$21.0	$21.9	$22.8	$23.8	$24.9
Expected inflation rate		16%	4%	4%	4%	4%	4%	4%	4%	4%
Operating margin	8.4%	13.3%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%
$ Depreciation per aircraft	$0.5	$0.5	$0.5	$0.6	$0.6	$0.6	$0.7	$0.7	$0.7	$0.8
$ Net capex per incremental aircraft	$21.3	$22.3	$23.5	$24.6	$25.9	$27.1	$28.5	$29.9	$31.4	$33.0
Expected inflation rate		5%	5%	5%	5%	5%	5%	5%	5%	5%
NWC turnover (revenue/NWC)	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4
Financial forecast										
Revenue	$320	$600	$884	$1,192	$1,485	$1,802	$2,114	$2,466	$2,694	$2,912
Cash expenses	283	502	723	975	1,215	1,474	1,753	2,016	2,202	2,380
Depreciation	10	18	26	36	45	54	65	75	83	90
EBIT	27	80	134	181	226	274	326	375	410	443
Taxes (Tax rate = 34%)	9	27	46	62	77	93	111	127	139	151
NOPAT	18	53	89	120	149	181	215	247	270	292
Capital expenditure	234	290	328	345	310	326	342	299	157	132
Net working capital	34	63	94	126	157	191	227	261	285	308
Fixed assets	530	802	1,104	1,413	1,679	1,950	2,227	2,451	2,526	2,568

Data Source: JetBlue management forecast and case writer analysis.