

# JetBlue Airways - The Spirit Decision

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**Topic:** Mergers & Acquisitions, Competitive Strategy, Pricing Strategy

**Industry:** Passenger Airlines

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**Decision date and information cutoff:** 7 March 2023, close of day

**Decision scope:** Whether and how JetBlue should continue pursuing its proposed acquisition of Spirit Airlines

**Case convention:** This is an author-created management decision exercise. It does not represent private board deliberations. Use only information public by the cutoff; no later litigation evidence or transaction outcomes are admissible.

## The decision

On 7 March 2023, the U.S. Department of Justice (DOJ), joined by Massachusetts, New York, and the District of Columbia, sued to block JetBlue Airways' proposed acquisition of Spirit Airlines. JetBlue and Spirit said they would continue to advance the transaction. The lawsuit made a long-running strategic question immediate: should JetBlue keep contesting the challenge under its merger agreement, seek a negotiated or otherwise contract-permitted route back to a standalone plan, or continue only while defined conditions remain satisfied? [S4-S5]

JetBlue had agreed to pay \$33.50 per Spirit share, representing \$3.8 billion of fully diluted equity value. Its July 2022 announcement described an adjusted enterprise value of \$7.6 billion, including debt and leases. JetBlue management projected \$600-700 million in net annual synergies once integration was complete, said the combined airline would better challenge the largest U.S. carriers, and forecast leverage of 3.0-3.5 times. These were management projections, not independently established savings or outcomes. The public announcement did not provide a complete bridge for synergy timing, one-time costs, route-level effects, or the probability of approval. [S1, pp. 1-4]

The choice was not simply "buy" or "walk away." JetBlue's agreement required reasonable best efforts to obtain approval and to contest and defend challenges, subject to limits on required divestitures; closing still depended on regulatory clearance. The agreement gave neither party a general unilateral convenience-termination right. It allowed termination by mutual written consent authorized by both boards, but that is not necessarily fee-free: negotiated payments and surviving obligations would need to be addressed. [S2, Note 17, pp. 105-107; S6, §§5.5(e), 6.1(b)-(c), 7.1(a), 7.2(a)]

JetBlue had paid \$272 million in October 2022, and monthly \$0.10-per-share ticking prepayments had begun after year-end. On specified antitrust termination paths-a final U.S. antitrust order or a defined antitrust-condition failure at an eligible outside date-and if other conditions are met, the agreement provides any positive remaining amount of the \$400 million Parent Regulatory Fee after subtracting the approval prepayment, ticking prepayments, and specified award-related payments, plus a separate \$70 million Additional Parent Regulatory Fee. These are conditional contractual amounts, not a universal exit charge. The remaining and additional regulatory fees are not payable where the relevant failure resulted from Spirit's breach of its \$5.5 regulatory-efforts obligations and JetBlue would have been entitled to

terminate under §7.1(f). Spirit's separate \$94.2 million Breakup Fee applies only to distinct specified triggers, including certain Triggering Event or Superior Proposal paths. Other vote and breach paths also have separate consequences. The public summary does not establish a single cost for a mutual termination or any voluntary pivot; transaction-specific counsel must assess an actual path. This case is not legal advice. [S2, Note 17, pp. 105-107; S6, §§7.1-7.2, 8.4]

**Assignment:** Advise JetBlue's board as of 7 March 2023. Recommend (1) continued litigation, (2) a negotiated or otherwise contract-permitted standalone pivot, or (3) conditional continuation with explicit decision gates. Explain how your choice serves JetBlue's competitive strategy, what evidence could change your view, and what management should do next. Do not assume the lawsuit's outcome or that a transaction can close on a particular date.

## JetBlue's strategic position

JetBlue management presented Spirit as a way to broaden its network and create a national low-fare challenger to the largest U.S. carriers. The DOJ offered a competing theory: Spirit played a disruptive ultra-low-cost role, and combining the airlines could weaken current and potential route competition. The complaint alleged route overlaps, Spirit entry and expansion, and a plan to retrofit Spirit aircraft into JetBlue's configuration. Those are plaintiffs' allegations, not findings. JetBlue publicly rejected the DOJ's theory and argued that the combination would create a stronger competitor. [S1, pp. 1-4; S4, Complaint ¶¶1-9, 29; S5]

The strategic tension is real in either direction. A larger network may improve customer reach and traffic density, and density can reduce airline costs when more passengers use a network. Yet size alone does not guarantee lower cost, and a merger can remove a rival whose low fares constrain the combined company. The company-specific synergy bridge and route-level competitive effects were not publicly established at cutoff. Historical airline research supports both the possibility of density economies and concern about lost competition; it does not supply a JetBlue-specific forecast. [A1-A3]

JetBlue also had an operating recovery to manage. In FY2022 it reported \$9.158 billion in revenue, \$9.456 billion in operating expenses, a \$298 million operating loss, and a \$362 million net loss. Its reported operating margin was negative 3.3%. Reported revenue per available seat mile (RASM) was 14.20 cents and cost per available seat mile (CASM) was 14.67 cents; the 0.47-cent negative spread is a simple derivation from those metrics, not cash contribution or a merger-synergy estimate. Capacity grew 19.1%, load factor was 81.5%, and average fare was \$217.03. [S2, MD&A, pp. 45-49]

For 2023, JetBlue management forecast capacity growth of 5.5-8.5%, high-single- to low-double-digit revenue growth, and earnings per share of \$0.70-\$1.00. The 10-K calls this "earnings per share"; it is management guidance, not an actual result. JetBlue also described labor, fuel, and maintenance pressures. A standalone strategy therefore had opportunity, but it was not a proven low-risk alternative. [S2, MD&A, pp. 45-49]

## Spirit: opportunity and integration risk

Spirit was a growing ultra-low-cost carrier, but its latest audited annual results showed material losses and operating cash use. Its FY2022 statements reported \$5.068 billion in operating revenue, \$5.667 billion in operating expenses, a \$598.917 million operating loss, and a \$554.150 million net loss. The operating margin of negative 11.8% is derived from the audited operating loss divided by revenue. Spirit used \$89.022 million of cash in operating activities in 2022. These audited figures describe the year ended 31 December 2022; they are not a forecast of failure or insolvency. [S3, pp. 70, 73]

At year-end Spirit reported \$1.346 billion in cash and equivalents, \$107.115 million in short-term investments, and \$119.392 million in restricted cash. Management's \$1.7535 billion liquidity measure included unrestricted cash, short-term securities, and a \$300 million undrawn revolving facility; it was not all cash on hand. The balance sheet reported \$346.888 million in current maturities and \$3.200 billion in long-term debt and finance leases, net. A separate debt-principal schedule totaled \$3.6424 billion. These measures have different accounting bases and should not be added together. Management said it expected to meet cash needs over the following 12 months using cash, financing arrangements, and operating cash flows; that statement was management's outlook, not an independent solvency conclusion. [S3, pp. 62, 72, 93]

Spirit's fleet and capacity were still expanding. Its 10-K listed 194 aircraft at year-end. Its comparative operating statistics, identified as unaudited, reported 48.568 billion available seat miles (ASMs), up 19.2%, and an 81.9% load factor. The financial strain could make a combination more urgent and the network more valuable to JetBlue, while also increasing financing, service-continuity, and integration risks. [S3, Item 2 aircraft table, printed p. 44 / SEC lines 1148-1158; comparative operating statistics, pp. 57-58 / SEC lines 1444-1472]

## Competition and the evidence dispute

Airline competition is often route-specific. A merger may affect customers where both carriers already fly, where one could plausibly enter, and where network connections or airport presence matter. DOJ's complaint described such theories and asserted that Spirit's presence constrained fares. Because this evidence was presented by plaintiffs in litigation, it should be tested against underlying schedule and fare data before being treated as a neutral market measurement. The case does not supply a verified route-by-route merger impact or a JetBlue-specific fare elasticity. [S4, pp. 12-16]

Prior studies offer mechanisms and caution rather than a ready-made answer. Caves, Christensen, and Tretheway found economies of traffic density in a pre-deregulation airline sample, while returns to overall scale were statistically consistent with constant returns. Kwoka and Shumilkina's study of USAir-Piedmont estimated fare increases of roughly 9-10% on direct-overlap routes and 5-6% where one carrier was a potential entrant. Borenstein found markedly different fare patterns across two earlier airport-dominance episodes. Differences in period, routes, networks, market structure, and identification prevent using these historical results as JetBlue-Spirit forecasts. [A1-A3]

## Decision paths

**Continue contesting the challenge.** This preserves the acquisition strategy and its projected network and cost benefits, subject to litigation, financing, integration, and regulatory risk. It also requires management attention while JetBlue works on its own operating performance. The board should ask what evidence supports the net synergy range, how long JetBlue can sustain the effort, and what regulatory or operational developments would change its decision.

**Seek a negotiated or other contract-permitted path to standalone growth.** This could refocus resources on JetBlue's existing network and operations, but would give up the planned combination and require careful treatment of the agreement, any counterparty negotiations, prepayments, and conditional termination provisions. The public information does not establish that unilateral voluntary termination is available or what it would cost. Management should obtain transaction-specific legal and financial analysis before recommending a path.

**Continue conditionally.** The board could maintain the current effort while setting review gates tied to new evidence, litigation cost and timing, JetBlue's operating recovery, Spirit's financial and operating condition, and a more complete integration and synergy case. A gate is useful only if it identifies what evidence will be reviewed, when, and what action is contractually available. Conditions should not disguise a presumption that approval or closing is certain.

## Questions for discussion

1. What is the strongest strategic case for combining JetBlue and Spirit? What is the strongest case against it?
2. How should JetBlue weigh Spirit's growth and network assets against its losses, cash use, debt, and management-defined liquidity?
3. Which parts of the synergy thesis are plausible from public evidence, and which remain unproven?
4. What should a conditional strategy's decision gates measure? Which decisions require legal or financial advice beyond the public record?
5. Recommend a path, name its main downside, and identify one observable fact that would cause you to reconsider.

## Exhibits

### Exhibit 1. Selected FY2022 airline facts

| Measure             | JetBlue  | Spirit               | Status / interpretation                                                      |
|---------------------|----------|----------------------|------------------------------------------------------------------------------|
| Operating revenue   | \$9,158m | \$5,068.447m         | Audited FY2022 statements; Spirit figure converted from thousands            |
| Operating expenses  | \$9,456m | \$5,667.364m         | Audited FY2022 statements; Spirit figure converted from thousands            |
| Operating loss      | \$(298)m | \$(598.917)m         | Audited/reported; Spirit operating margin of –11.8% is derived               |
| Net loss            | \$(362)m | \$(554.150)m         | Audited FY2022 statements                                                    |
| Operating cash flow | -        | \$(89.022)m          | Spirit audited cash flow statement                                           |
| Load factor         | 81.5%    | 81.9%                | Reported operating statistics; Spirit's comparative statistics are unaudited |
| ASMs                | -        | 48.568bn, +19.2% YoY | Spirit unaudited comparative operating statistics                            |
| Year-end fleet      | -        | 194 aircraft         | Spirit 10-K aircraft table                                                   |

Sources: JetBlue 2022 Form 10-K, MD&A and operating tables, pp. 45-49; Spirit 2022 Form 10-K, audited statements pp. 70-73, Item 2 aircraft table, printed p. 44 / SEC lines 1148-1158, and comparative operating statistics pp. 57-58 / SEC lines 1444-1472. Dashes mean not shown here, not zero.

## Exhibit 2. What is known-and what is not

| Item                       | Public information by cutoff                                                                                                                                                                                                                                            | Boundary                                                                                                                                        |
|----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| Transaction rationale      | \$3.8bn equity value; \$600-700m projected net annual synergies; 3.0-3.5x projected leverage                                                                                                                                                                            | JetBlue management claims; no complete public synergy or integration bridge                                                                     |
| Challenge                  | DOJ and states sought to block the deal and alleged harm to current and potential competition                                                                                                                                                                           | Plaintiffs' allegations, not adjudicated findings                                                                                               |
| JetBlue operating position | FY2022 loss; 2023 capacity and earnings guidance                                                                                                                                                                                                                        | Historical audited results vs. management forecast                                                                                              |
| Spirit condition           | Audited losses and operating cash use; management liquidity definition; growing fleet/capacity                                                                                                                                                                          | Liquidity includes borrowing availability; fleet/capacity measures are unaudited                                                                |
| Exit economics             | No general unilateral convenience termination; mutual written consent requires both boards. Specified antitrust paths may trigger the remaining amount of a \$400m Parent Regulatory Fee plus a separate \$70m fee; Spirit's \$94.2m Breakup Fee has distinct triggers. | Amounts depend on contractual path and conditions; mutual termination is not assumed fee-free and no \$470m generic walk-away charge is stated. |
| Route economics            | Complaint describes route competition; academic studies provide historical estimates                                                                                                                                                                                    | No independently reconstructed route-level impact or JetBlue-specific elasticity                                                                |

## Source key

- **S1.** JetBlue Airways and Spirit Airlines, definitive merger announcement, 28 July 2022, Exhibit 99.1 to JetBlue 8-K, pp. 1-4. [SEC exhibit](#).
- **S2.** JetBlue Airways Corporation, 2022 Form 10-K, filed 27 February 2023. MD&A, FY results and 2023 outlook, pp. 45-49; merger terms in Note 17, pp. 105-107. [SEC filing](#).
- **S3.** Spirit Airlines, Inc., 2022 Form 10-K, filed 6 February 2023. Audited statements pp. 70-73; liquidity p. 62; fleet table, printed p. 44 / SEC lines 1148-1158; unaudited operating statistics pp. 57-58; debt maturities p. 93. [SEC filing](#).
- **S4.** U.S. Department of Justice et al., *United States et al. v. JetBlue Airways Corporation and Spirit Airlines, Inc.*, complaint filed 7 March 2023, ¶¶1-9, 29, pp. 1-5, 12-16. Allegations only. [Complaint PDF](#).
- **S5.** JetBlue and Spirit, public response to DOJ filing, 7 March 2023. Management advocacy. [JetBlue release](#).
- **S6.** Filed JetBlue-Spirit Merger Agreement, Exhibit 2.1 to JetBlue 8-K, 28 July 2022. §§5.5(e), 6.1(b)-(c), 7.1(a)-(h), 7.2(a)-(h), and 8.4; remedy limits, closing conditions, termination rights and conditional fee definitions. [SEC agreement](#).

- **A1.** Caves, Douglas W., Laurits R. Christensen, and Michael W. Tretheway, "Economies of Density versus Economies of Scale: Why Trunk and Local Service Airline Costs Differ," *RAND Journal of Economics* 15(4), 471-489 (1984), sample pp. 475-477, estimates Tables 3-5, pp. 477-480; robustness pp. 480-482. [Full text](#).
- **A2.** Kwoka, John E., Jr., and Evgenia Shumilkina, "The Price Effect of Eliminating Potential Competition," *Journal of Industrial Economics* 58(4), 767-793 (2010), author manuscript Tables I, II, IV-V, pp. 776-791. Direct PDF access was blocked; indexed full text, published abstract, and author presentation were checked. [Published abstract](#).
- **A3.** Borenstein, Severin, "Airline Mergers, Airport Dominance, and Market Power," *American Economic Review* 80(2), 400-404 (1990), Tables 1-2, pp. 401-402. [Author PDF](#).