

Letter of Comment No: 16
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Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

RE: FSP FAS 13-b, *Accounting for Rental Costs Incurred during a Construction Period*.

JetBlue Airways Corporation appreciates the opportunity to provide comments on proposed FASB Staff Position No. FAS 13-b, *Accounting for Rental Costs Incurred During a Construction Period*. It is the view of JetBlue that rental costs incurred during construction periods should continue be capitalized as a project cost of the related long-lived asset.

We are a major low-cost passenger airline that operates out of 32 airports in 13 states, Puerto Rico, the Dominican Republic and The Bahamas. At each airport in which we operate, we typically enter into ground and building leases. Unlike traditional retailers, if we want to operate in a given market, our choices are limited, at best, and we do not have the option to own the underlying land. Our leasehold improvements can be minimal and limited to signage and network connections or they can be as significant as an entire aircraft hangar or passenger terminal.

Our biggest concern with the proposed Staff Position is related to long-term building construction projects, such as a hangar, which can take in excess of a year to construct. For the economics to work, these leasing arrangements are usually long-term – up to 25 or 30 years. The rents are typically reduced during the construction period and have CPI based escalations throughout the term. The combination of long construction periods and long lease terms with non-contingent escalating rents results in significant rent expense being allocated to the construction period due to the straight-line rent requirements of Technical Bulletin 85-3.

Statement of Position 98-5, *Reporting on the Costs of Start-Up Activities*, requires that all start-up costs be expensed as incurred; however, “the costs of acquiring or constructing long-lived assets, and getting them ready for their intended uses” were specifically excluded in paragraph 8. Assuming a lease is in place during construction, rents are a necessary cost of readying these long lived assets for their intended use; therefore, these costs qualify for the scope exception set forth in SOP 98-5 and should not be expensed as incurred. In drafting SOP 98-5, AcSEC did not attempt to provide an all-inclusive detailed list of excludable costs and felt that individual registrants were best able to identify these costs, consistent with their own policies¹. They did, however, provide a few examples to serve as guidelines for registrants. Example 1 indicates that the cost of a new plant should not be considered a start-up cost and example 3 illustrates that rents incurred during a three month tenant build-out should be and therefore expensed. Considering these illustrated guidelines with the understanding that AcSEC never intended to provide an all inclusive list, we believe that capitalization of rents continues to be the correct approach in the case of newly constructed buildings as outlined in example 1.

¹ SOP 98-5, Para 32

Construction period rent is considered a project cost as outlined in EITF 97-10². Since these project costs are directly related to the asset being constructed, they should be capitalized as required by SFAS No. 67³. This concept is reinforced by SFAS No. 34, *Capitalization of Interest Cost*, which states "the historical cost of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use"

Concept Statement No. 6 defines an asset as "probable future economic benefits obtained or controlled by a particular entity as a result of a past transaction or event". Construction period rents satisfy this definition. Prior to approving any construction project the discounted cash flows, which include all project costs such as rent, architectural fees and permits, are analyzed. Presumably, if the benefit to be derived from the constructed asset is not sufficient to cover all project costs, including construction period rents, we would not proceed; therefore, these costs clearly represent a probable future economic benefit.

We would not be opposed to further disclosure related to capitalized construction period rents, similar to disclosure required for capitalized interest or intangible assets. However, for the reasons enumerated above we feel that continued capitalization of construction period rents is appropriate, especially in the case of newly constructed facilities. As with all intangible and long-lived assets, these costs need to be evaluated at least periodically, for impairment indicators and recoverability.

We appreciate the opportunity to share our opinion on this issue and thank you for your consideration.

Sincerely,

Holly Nelson
Vice President and Controller

² "costs, such as interest or ground rentals incurred during the construction period, are considered to be part of total project costs, consistent with GAAP."

³ SFAS No. 67, para 7 " Project costs clearly associated with the acquisition, development, and construction of a real estate project should be capitalized".