Frontier Airlines Holdings, Inc.
Form 10-K
May 25, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2007

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: **000-51890**

FRONTIER AIRLINES HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**20-4191157**
(State or other jurisdiction of incorporated or organization)	(I.R.S. Employer Identification No.)
7001 Tower Road, Denver, CO	**80249**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number including area code: **(720) 374-4200**

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of exchange on which registered
Common Stock, Par Value of $0.001 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrant is a well−known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes__ No_X_

Indicate by check mark whether the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ___ No _X_

Indicate by check mark whether the Registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ___

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer or large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ___ Accelerated filer _X_ Non-accelerated filer ___

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ___ No _X_

The aggregate market value of common stock held by non-affiliates of the Company computed by reference to the last quoted price at which such stock sold on such date as reported by the Nasdaq National Market as of September 30, 2006 was $298,817,926.

The number of shares of the Company's common stock outstanding as of May 23, 2007 is 36,641,181.

Documents incorporated by reference

Certain information required by Part III is incorporated by reference to the Company's 2007 Proxy Statement.

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PART I

Special Note About Forward-Looking Statements. *This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act") that describe the business and prospects of Frontier Airlines Holdings, Inc. and the expectations of our company and management. All statements included in this report that address activities, events or developments that we expect, believe, intend or anticipate will or may occur in the future, are forward-looking statements. When used in this document, the words "estimate," "anticipate," "intend," "project," "believe" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. These risks and uncertainties include, but are not limited to: the timing of, and expense associated with, expansion and modification of our operations in accordance with our business strategy or in response to competitive pressures or other factors; failure of our new markets to perform as anticipated; the inability to achieve a level of revenue through fares sufficient to obtain profitability due to competition from other air carriers and excess capacity in the markets we serve; the inability to obtain sufficient gates at Denver International Airport ("DIA") to accommodate the expansion of our operations; the inability to successfully lease or build a new maintenance hanger prior to a potential lease termination of our primary maintenance hanger located at DIA that is on a month-to-month sublease with Continental Airlines; general economic factors and behavior of the fare-paying public and its potential impact on our liquidity; terrorist attacks or other incidents that could cause the public to question the safety and/or efficiency of air travel; hurricanes and their impact on oil production; operational disruptions, including weather; industry consolidation; the impact of labor disputes; enhanced security requirements; changes in the government's policy regarding relief or assistance to the airline industry; the economic environment of the airline industry generally; increased federal scrutiny of low-fare carriers generally that may increase our operating costs or otherwise adversely affect us; actions of airlines competing in our primary markets, such as increasing capacity and pricing actions of United Airlines, Southwest Airlines, and other competitors, particularly in some of our Mexico destinations due to the increase in the number of domestic airlines authorized to serve Mexican markets from the U.S.; the availability of suitable aircraft, which may inhibit our ability to achieve operating economies and implement our business strategy; the unavailability of, or inability to secure upon acceptable terms, debt or operating lease financing necessary to acquire aircraft which we have ordered; uncertainties regarding aviation fuel price; inherent risks of entering into, new business strategies, such as the start-up of a new subsidiary using a different type of aircraft and in different markets and a new regional jet partner, and various risk factors to our business discussed elsewhere in this report. Forward-looking statements include the statements in Item 7, "Outlook". Because our business, like that of the airline industry generally, is characterized by high fixed costs relative to revenues, small fluctuations in our revenue per available seat mile ("RASM") or cost per available seat mile ("CASM") can significantly affect operating results. These risks and factors are not exclusive, and we undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this filing.*

Item 1: Business

General

On April 3, 2006, Frontier Airlines, Inc. ("Frontier") completed its corporate reorganization (the "Reorganization"). As a result of the Reorganization, Frontier became a wholly-owned subsidiary of Frontier Airlines Holdings, Inc. ("Frontier Holdings"), a Delaware corporation, and Frontier Holdings became the successor issuer to Frontier pursuant to Rule 12g-3 under the Exchange Act. In connection with the Reorganization, each outstanding share of common stock, no par value, of Frontier was exchanged for one share of common stock, $0.001 par value, of Frontier Holdings, resulting in each shareholder of Frontier as of the close of business on March 31, 2006 becoming a stockholder of Frontier Holdings as of the opening of business on April 3, 2006. The common stock of Frontier Holdings is now the publicly traded stock of the company. In this report, references to “us,” “we,” or the “company” refer to the consolidated results of Frontier Holdings unless the context requires otherwise.

In September 2006, we formed a new subsidiary, Lynx Aviation, Inc. (“Lynx Aviation”). Lynx Aviation intends to assume a purchase agreement between Frontier Holdings and Bombardier, Inc. for ten Q400 turboprop aircraft, each with a seating capacity of 74, with the option to purchase ten additional aircraft. The aircraft will be purchased and operated by Lynx Aviation under a separate operating certificate. Lynx Aviation is currently in the process of obtaining Federal authorization to provide scheduled air transportation. Lynx Aviation submitted its

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application to the Department of Transportation in January 2007, and the DOT entered its show cause order on May 4, 2007. Lynx Aviation expects it will receive its authorizations in August and commence revenue service operations in September 2007 with ten aircraft in service by the end of January 2008. At this time, Frontier and Lynx Aviation are the only subsidiaries of Frontier Holdings. The financial performance of Frontier Holdings is represented by the financial performance of Frontier and includes only start-up costs for Lynx Aviation because it has not yet commenced operations.

Now in our 13th year of operations, we are a low cost, affordable fare airline operating primarily in a hub and spoke fashion connecting cities coast to coast through our hub at Denver International Airport ("DIA"). We are the second largest jet service carrier at DIA based on departures and in January 2007, we became a major carrier as designated by the DOT. As of May 18, 2007, we, in conjunction with our Frontier JetExpress brand operated by Horizon Air Industries, Inc. ("Horizon") and Republic Airlines, Inc. ("Republic") or ("Frontier JetExpress"), operate routes linking our Denver hub to 49 U.S. cities spanning the nation from coast to coast, eight cities in Mexico and two cities in Canada. We also provide service to Mexico from 10 non-hub cities. We began service between San Francisco, California and Los Angeles, California with five daily frequencies on June 29, 2006 and service between San Francisco, California and Las Vegas, Nevada on December 14, 2006 with one daily frequency. On May 3, 2007, we announced that we plan to terminate point-to-point service between San Francisco and Los Angeles and between San Francisco and Las Vegas effective July 10, 2007.

We were organized in February 1994, and we began flight operations in July 1994 with two leased Boeing 737-200 jets. We have since expanded our fleet in service to 59 jets as of May 18, 2007 (38 of which we lease and 21 of which we own), consisting of 49 Airbus A319s and ten Airbus A318s. In April 2005, we completed our plan to replace our Boeing aircraft with new purchased and leased Airbus jet aircraft. During the years ended March 31, 2007 and 2006, we increased year-over-year capacity by 14.4% and 8.4%, respectively. During the years ended March 31, 2007 and 2006, we increased mainline passenger traffic by 14.7% and 12.9%, respectively, outpacing our increase in capacity during both periods. We intend to continue our growth strategy and to expand to new markets and add frequency to existing markets that we believe are underserved.

On January 11, 2007, we signed an agreement with Republic under which Republic will operate up to 17 Embraer 170 aircraft with capacity of 76-seats under our Frontier JetExpress brand. The contract is for an 11-year period from the in-service date of the last aircraft, which is scheduled for December 2008. The service began on March 4, 2007 and replaced our agreement with Horizon, which will expire on return of the last aircraft in December 2007. We control the routing, scheduling and ticketing of this service. We compensate Republic for its services based on its operating expenses plus a margin on certain of its expenses. The agreement provides for financial incentives and penalties based on the performance of Republic.

In September 2003, we signed an agreement with Horizon, under which Horizon operates up to nine 70-seat CRJ 700 aircraft under our Frontier JetExpress brand. In September 2006, we amended the Horizon Agreement to provide that all nine CRJ-700 aircraft will be returned to Horizon during a one-year ramp down period that began in January 2007 and will be completed in December 2007.

As of May 18, 2007, Frontier JetExpress provided service to Billings, Montana; Boise, Idaho; El Paso, Texas; Little Rock, Arkansas; Louisville, Kentucky; Oklahoma City, Oklahoma; Tulsa, Oklahoma, and Calgary, Alberta, Canada and supplements our mainline service to Albuquerque, New Mexico; Los Angeles, California; Omaha, Nebraska; San Francisco, California; and Spokane, Washington.

We currently lease 22 gates on Concourse A at DIA on a preferential basis. We use these 22 gates and share use of up to seven common use regional jet parking positions to operate approximately 300 daily mainline flight departures and arrivals and 65 Frontier JetExpress daily system flight departures and arrivals.

Our filings with the Securities and Exchange Commission (the "SEC") are available at no cost on our website, www.frontierairlines.com, in the Investor Relations folder contained in the section titled "About Frontier". These reports include our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, Section 16 reports on Forms 3, 4 and 5, and any related amendments or other documents that we file or furnish with the SEC, and are made available as soon as reasonably practicable after we file or furnish the materials with the SEC.

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Our corporate headquarters are located at 7001 Tower Road, Denver, Colorado 80249. Our administrative office telephone number is 720-374-4200 and our reservations telephone number is 800-432-1FLY.

Overview of Operations and the Industry

We intend to continue our focused growth strategy while keeping our operating costs low. One of the key elements to keeping our costs low was the completion of the transition from a Boeing fleet to an all Airbus fleet in April 2005. This strategy produces cost savings because crew training is standardized for aircraft of a common type, maintenance issues are simplified, spare parts inventory is reduced, and scheduling is more efficient. We also keep our operating costs low by operating only two types of Airbus aircraft with similar engines and cockpit configurations and a single class of service. Operating a single class of service simplifies our operations, enhances productivity, increases our capacity and offers an operating cost advantage. The anticipated addition of the Bombardier Q400 turboprop aircraft through our Lynx Aviation subsidiary and the expansion of our JetExpress operation will allow us to add routes to markets that we believe are under-served in Colorado and elsewhere in the Rocky Mountain region using the aircraft that we believe will offer favorable economics and operating performance for the selected routes. The operations of both Lynx Aviation and Jet Express services are separate and apart from our mainline Airbus operations. We anticipate that Lynx Aviation will begin revenue service in September 2007.

As of May 18, 2007, we had remaining firm purchase commitments for 21 aircraft (one Airbus 318 aircraft, ten Airbus 320 aircraft and ten Bombardier Q400 aircraft). We intend to use these additional aircraft to provide service to new markets and to add frequencies to existing markets that we believe are underserved.

We believe we have a proven management team and a strong company culture and will continue to focus on differentiating the product and service we provide to our passengers. We believe our friendly and dedicated employees, affordable pricing, accommodating service, in-flight entertainment systems and comfortable airplanes distinguish our product and service from our competitors. Safety is a primary concern, and we are proud that our maintenance staff has been awarded the Federal Aviation Administration (“FAA”) Diamond Award for Excellence for eight straight years - an award that recognizes our commitment to the ongoing training and education of our maintenance staff. Our product begins with the Airbus aircraft, which offers a comfortable passenger cabin that we configure with one class of seating, ample leg room, and in-seat 24 channel live television entertainment. We also provide four additional channels that offer current-run pay-per-view movies.

The airline industry is intensely competitive with record high aviation fuel costs. We expect competition will remain intense. Business and leisure travelers continue to reevaluate their travel budgets and remain highly price sensitive. Increased competition has prompted aggressive strategies from competitors through discounted fares and sales promotions. Additionally, the intense competition coupled with the record high fuel costs has created financial hardship for some of our competitors that have been forced to reduce capacity and, in some cases, seek bankruptcy protection.

Business Strategy and Markets

Our business strategy is to provide air service at affordable fares to high volume markets from our DIA hub and limited point-to-point routes outside of our DIA hub while seeking ways to leverage our strong market position in Denver and excellent product and service. Our strategy is based on the following factors:

- Stimulate demand by offering a combination of low fares, quality service and frequent flyer credits in our frequent flyer program, *EarlyReturns*®.
- Expand our Denver hub operation and increase connecting traffic by adding additional high volume markets to our current route system through use of our own aircraft, the introduction and expansion of Lynx Aviation and by entering into code sharing agreements and other relationships with other airlines.

- Continue filling gaps in flight frequencies to current markets from our DIA hub.
- Evaluate other opportunities for additional non-hub point-to-point routes.

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Route System Strategy

Our route system strategy encompasses connecting our Denver hub to top business and leisure destinations. We currently serve 44 of the top 50 destinations from Denver, as defined by the U.S. Department of Transportation's, ("DOT") Origin and Destination Market Survey.

As of May 18, 2007, we, in conjunction with Frontier JetExpress, operate routes linking our Denver hub to 49 U.S. cities spanning the nation from coast to coast, eight cities in Mexico and two cities in Canada. We also provide service to Mexico from 10 non-hub cities and we began service between San Francisco, California and Los Angeles, California with five daily frequencies on June 29, 2006 and service between San Francisco, California and Las Vegas, Nevada on December 14, 2006 with one daily frequency. On May 3, 2007, we announced that we plan to terminate point-to-point service between San Francisco and Los Angeles and between San Francisco and Las Vegas effective July 10, 2007.

During the year ended March 31, 2007 and as of May 18, 2007, we added new service out of DIA to the following cities with commencement dates as follows:

Destination	Commencement Date
DIA to Calgary, Alberta, Canada (1)	May 25, 2006
DIA to Guadalajara, Mexico	December 24, 2006
DIA to Hartford, Connecticut	March 2, 2007
DIA to Louisville, Kentucky (1)	April 1, 2007
DIA to Vancouver, British Colombia, Canada	May 5, 2007
DIA to Memphis, Tennessee	May 12, 2007

(1) Operated exclusively by Frontier JetExpress.

We also discontinued service to Baltimore, Maryland effective January 8, 2007

We have continued our Mexico expansion, and as of May 18, 2007 we serve the following routes:

Destination	Current non-stop round-trip frequencies
California:	
Los Angeles to Cabo San Lucas	One Daily
San Diego to Cancun*	Once per week
San Francisco to Cabo San Lucas	Daily except Saturdays
San Jose to Cabo San Lucas*	Three per week
Sacramento to Cabo San Lucas*	Four per week
Colorado:	
Denver to Acapulco*	Twice per week
Denver to Cabo San Lucas	Daily
Denver to Cancun	Daily
Denver to Cozumel	Three per week

Denver to Guadalajara	Four weekly
Denver to Ixtapa/Zihuatanejo	Three per week
Denver to Mazatlan	Four weekly
Denver to Puerto Vallarta	Daily

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Missouri:	
Kansas City to Cabo San Lucas*	Once per week
Kansas City to Puerto Vallarta*	Once per week
St. Louis to Cancun*	Three per week
Indiana:	
Indianapolis to Cancun*	Three per week
Tennessee:	
Nashville to Cancun*	Three per week
Utah:	
Salt Lake City to Cancun	Once per week
* Seasonal service	

On March 19, 2007, we announced that we plan to offer daily mainline non-stop and one-stop service between DIA and Jacksonville International Airport beginning June 15, 2007. On February 7, 2007, we also announced that we plan to offer non-stop flights between Dallas/Ft. Worth and Mazatlan, Mexico three times a week beginning on June 7, 2007. On April 25, 2007, we announced that we plan to offer daily non-stop service between DIA and Baton Rouge, Louisiana to become the only low-cost carrier serving Baton Rouge Metropolitan Airport. The new service will be operated by Republic Airlines using EMB170 equipment beginning on August 15, 2007.

On April 3, 2007, the U.S. Department of Transportation issued an "Open-Skies Notice" inviting all U.S. air carriers now certificated to conduct foreign scheduled air transportation and interested in applying for blanket open-skies certificate authority to file applications with the Department. We filed for this blanket authority in April 2007. In advance of receiving this blanket authority, on May 14, 2007, we filed an application to provide scheduled air service from DIA and Los Angeles, California to two destinations in Costa Rica. We received approval to fly to Costa Rica from the DOT on May 17, 2007 and plan to start service to the Santamaria International Airport in San Jose, Costa Rica on November 30, 2007.

Fleet and Operational Upgrades

As of November 2004, Frontier's Airbus fleet was certified to FAA Category III instrument approach minimums. Category III certification reduces the number of diversions because of low visibility, a condition that occurs with some regularity at a number of the cities we serve.

As of July 2004, ten of our owned A319 aircraft have increased maximum rated thrust from a base of 22,000 to 23,500 pounds per engine and as of April 2005, these ten aircraft have increased maximum take-off weight from a base of 70 tons to 75.5 tons. The improved operational performance of these aircraft allows us to serve longer haul markets such as Denver to Anchorage, Alaska, and to depart from airports with shorter runways while carrying a full passenger load. In addition, two of the A319 aircraft delivered to us during fiscal year 2007 included over-water configurations and we plan to change three more A319 aircraft that we own to over-water configurations during the year.

Marketing and Sales

Our sales efforts target value conscious leisure and business travelers. Value conscious customers are price-sensitive; however, we believe their travel decisions are also balanced with other aspects of our product offering such as our frequent flyer program, non-stop service, advanced seat assignments, service level and live television entertainment. In the leisure market, we offer discounted fares marketed through the Internet, newspaper, radio and

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television advertising along with special promotions and travel packages. In May 2003, we launched a new brand strategy and advertising campaign designed to identify Frontier as “A Whole Different Animal” and to set us apart from our competition. The campaign includes television, print and radio components that began running in the Denver market and have since expanded to additional markets along our routes. We have gathered extensive customer and employee feedback that has allowed us to identify elements of service that are important to our customers who have the potential to fly with us more often.

On May 23, 2006, we launched a new version of our website as part of our strategic initiative to reduce commissions paid to external travel websites and to provide better customer service by increasing our website bookings. We have increased our rate of bookings on our internal website from 36.0% to 37.4% of total bookings. We began a phased improvement of our website shortly after we converted our reservation and ticketing automation to Sabre by March 2005. In January 2007, we added redemption capabilities for Early Return members. Also, on May 1, 2007, we implemented a new low fare shopping capability that now displays fares three days before and after departure and return dates. Results are listed in a seven-by-seven grid format that allows users to see when the cheapest fares are being offered. The Web site's default setting will pull up flexible fares, but customers can still search by schedule.

In conjunction with the branding campaign, we have sponsorship agreements as the exclusive airline of The Pepsi Center in Denver, Denver’s National Hockey League team, the Colorado Avalanche, and Denver’s National Basketball Association team, the Denver Nuggets. We also have sponsorship agreements with Colorado’s Major League Baseball team the Colorado Rockies, Colorado’s National Lacrosse League team, the Colorado Mammoth, and Colorado’s Arena Football League team, the Colorado Crush. In addition, we are the exclusive airline partner for the college athletic programs of the Air Force Academy, University of Colorado, Colorado State University, the University of Denver, the University of Northern Colorado, and the University of Wyoming. The agreements allow for prominent signage in applicable stadiums and arenas, participation in-game promotions, receipt of prominent logo and advertising placement in publications and access to joint promotion opportunities. These agreements vary in terms of length and the amount and method of compensation to the sponsored entities.

In order to increase connecting traffic, we have a code share agreement with Great Lakes Aviation Ltd. and in January 2007, we signed an agreement with Republic operating as Frontier JetExpress that is replacing our current agreement with Horizon. This will increase our regional jet fleet from nine aircraft to 17 aircraft. We also expect Lynx Aviation to provide additional connecting traffic to markets where regional jet service would not be as economically feasible to operate or operationally restricted. We also have interline agreements with 105 domestic and international airlines serving cities on our route system. Generally, these agreements include joint ticketing and baggage services and other conveniences designed to expedite the connecting process.

In November 2006, we partnered with AirTran Airways to create the first Low Cost Carrier referral and frequent flyer partnership in the industry that offers travelers the ability to reach more than 80 destinations across four countries. This partnership enables both airlines to increase destination options by linking phone and online reservations systems as well as enabling Frontier’s *EarlyReturns*® and AirTran’s A+ Rewards members to earn and redeem mileage/travel credits on both airlines.

To balance the seasonal demand changes that occur in the leisure market, we have introduced programs over the past several years that are designed to capture a larger share of the corporate market, which tends to be less seasonal than the leisure market. These programs include negotiated fares for large companies that sign contracts committing to a specified volume of travel, future travel credits for small and medium size businesses contracting with us, and special discounts for members of various trade and nonprofit associations.

We also pursue sales opportunities with meeting and convention arrangers and government travel offices. The primary tools we use to attract this business include personal sales calls, direct mail and telemarketing. In addition, we offer air/ground vacation packages to many destinations on our route system under contracts with various tour operators.

We participate in the four major computer reservation systems used by travel agents to make airline reservations: Amadeus, Galileo, Worldspan and Sabre. We maintain reservation centers in Denver, Colorado and Las Cruces, New Mexico, operated by our own employees.

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LiveTV

In October 2002, we signed a 12 year purchase and long-term services agreement with LiveTV, LLC to bring DIRECTV AIRBORNE ™ satellite programming to every seatback in our Airbus fleet. DIRECTV® programming features 24 channels of live television delivered to each seat. We charge $5 per segment for access to the system to offset the costs for the system equipment, programming, and services. In 2005, we continued to improve our customers' flying experience by adding four additional channels that offer current-run pay-per-view movies for $8 per segment.

Customer Loyalty Program

We have operated *EarlyReturns*®, our frequent flyer program, since February 2001. Our frequent flyer program won the following awards at the 2007 Freddie Awards for frequent flyer programs: first place for program of the year and best award (for redemption deals); second place for best member communication and best customer service; third place for best website and best award redemption; fourth place for the best elite level, fifth place for the best bonus promotion (fly 3 get 1 free) and sixth place for best affinity card. We believe that our frequent flyer program offers some of the most generous benefits in the industry, including a free round-trip award ticket within the contiguous U.S. or between the contiguous U.S. and Canada after accumulating only 15,000 miles (25,000 miles to Alaska or any of our destinations in Mexico). There are no blackout dates for award travel. Additionally, members who earn 25,000 or more Frontier flight miles or fly 40 or more Frontier flight segments in a calendar year attain Summit Level status, which includes a 50% mileage bonus on each paid Frontier flight, priority check-in and boarding, complimentary on-board cocktails and DIRECTV, extra allowance on checked baggage and priority baggage handling, standby at no charge on return flights the day before, the day of, and the day after the originally scheduled flight, $100 change fees waived, and access to an exclusive customer service toll-free phone number. Members who earn 15,000 - 24,999 Frontier flight miles annually, fly 25 or more Frontier flight segments, or spend $60,000 or more on their Frontier MasterCard in a calendar year attain Ascent Level status, which includes a 25% mileage bonus on each Frontier flight, priority check-in and boarding, complimentary DIRECTV service, and access to an exclusive customer service toll-free phone number. Members earn one mile for every mile flown on Frontier. Members can also earn additional miles through our program partners, which presently include Hertz Rental Car, 1-800-FLOWERS.com, Qwest Communications, SuperShuttle, Marriott International and Frontier Airline Cruises, and can transfer points to miles from Citibank Diners Club. To apply for the *EarlyReturns*® program, customers may visit our Web site at www.frontierairlines.com; obtain an *EarlyReturns*® enrollment form at any of our airport counters or call our *EarlyReturns*® Service Center toll-free hotline at 866-26-EARLY, or our reservations at 800-432-1FLY.

In November 2006, we partnered with AirTran Airways to create the first Low Cost Carrier referral and frequent flyer partnership in the industry that offers travelers the ability to reach more than 80 destinations across four countries. This partnership enables both airlines to increase destination options by linking phone and online reservation systems as well as enabling Frontier's *EarlyReturns*® and AirTran's A+ Rewards members to earn and redeem mileage/travel credits on both airlines.

In March 2003, we entered into a co-branded credit card arrangement with a MasterCard issuing bank. In May 2007, we amended this agreement to extend the term through December 2014 with enhanced financial terms. Credit card users earn miles on their credit card purchases. We receive fees for new accounts, the purchase of frequent flier miles awarded to credit card customers and a percentage of the annual renewal fees.

In June 2004, we entered into an agreement with Points.com that allows for the sale, purchase and exchange of *EarlyReturn*® points. Beginning in July 2005, we entered into an agreement with American Express that allows its cardholders to convert their Membership Reward points into *EarlyReturns*® points.

In June 2005, we launched the More Store (www.frontiermorestore.com), which is an online miles shopping experience designed to provide Ascent and Summit level *EarlyReturns*® members with the ability to purchase merchandise online with frequent flyer miles in an auction-style bidding process or with a stated amount of miles. Approximately 26 million points have been redeemed for merchandise since the launch.

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Competition and Market Barriers

The Airline Deregulation Act of 1978 produced a highly competitive airline industry, freed of government regulations that for 40 years prior to the Deregulation Act had dictated where domestic airlines could fly and how much they could charge for their services. Since then, we and other smaller carriers have entered markets long dominated by larger airlines with substantially greater resources, such as United Airlines, American Airlines, Northwest Airlines and Delta Air Lines.

We compete principally with United, the dominant carrier at DIA. United has a competitive advantage due to its larger number of flights from DIA, its significantly broader domestic and international route system, its mature and robust loyalty program, and its offering a multiple class cabin for most of its flights. In February 2003, United launched a new low-fare airline, Ted, which we believe was developed in an attempt to operate with lower costs than United's mainline operations to compete with us and other low-cost carriers.

In January 2006, Southwest Airlines, the largest low−fare major U.S. airline, introduced service at DIA. Southwest Airlines currently has 36 flights out of DIA to 10 destinations, and has announced plans to add another six flights out of DIA by adding service to Oakland, California and additional frequencies to Houston, Texas in June 2007. Southwest pioneered the low−cost model by operating a single aircraft fleet with high utilization, being highly productive in the use of its people and assets, providing a simplified fare structure and offering only a single class of seating with no seat assignments. These methods, coupled with significant favorable fuel hedging positions, enable Southwest to offer fares that are significantly lower than those charged by other U.S. airlines. We believe we need to match these low fares in the routes in which we compete with Southwest in order to retain market share, which has impacted our yields. Further expansion by Southwest into other markets we serve would cause the same result.

During the month of March 2007, United, Ted, and its commuter affiliates had a total market share at DIA of approximately 55.4%, down from 55.9% during the month of March 2006. During the month of March 2007, Southwest had a total market share at DIA of approximately 4.6%, up from 3.1% during the month of March 2006. Our market share at DIA, including our codeshare affiliates, during the month of March 2007 was 21.0%, up from 20.5% during the month of March 2006. As of May 1, 2007, we directly compete with United and United regional jet affiliates on 87.7% of the cities we serve out of DIA and with Southwest on 14.0% of the cities we serve. We compete with United and Southwest primarily on the basis of fares, fare flexibility, the number of markets we operate in and the number of frequencies within a market, our frequent flyer programs, brand recognition (particularly in Denver market), the level of passenger entertainment available on our aircraft and the quality of our customer service.

Where we do not compete directly with United and/or Southwest, we compete with many other air carriers for the limited number of passengers desiring to travel between the cities we serve. With excess capacity in these and almost all markets, it is extremely difficult to demand fare levels sufficient to offset the high costs of operating an airline, particularly with the current high prices for aviation fuel.

At the present time, New York's LaGuardia and John F. Kennedy International Airports and Washington Ronald Reagan National Airport are regulated by means of "slot" allocations, which represent government authorization to take off or land at a particular airport within a specified time period. FAA regulations require the use of each slot at least 80% of the time and provide for forfeiture of slots in certain circumstances. At New York LaGuardia airport, we currently hold four high-density exemption slots, with two seasonal slots, and at the present time, we utilize four of these slots to operate three daily round-trip flights between DIA and LaGuardia. In addition to slot restrictions, Reagan National is limited by a perimeter rule, which initially limited flights to and from Reagan National to 1,250 miles. In April 2000, the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century, or AIR 21, was enacted. AIR 21 authorized the DOT to grant up to 12 slot exemptions beyond the 1,250-mile Reagan National perimeter, provided certain specifications are met. Under AIR 21, we were awarded two slots for one daily round-trip flight. In 2004 the Vision 100 - Century of Flight Aviation Authorization Act was enacted, which authorized the DOT to grant an additional 12 slot exemptions into Reagan National. In April 2004, we were granted four additional slots at Reagan National for two additional round-trip flights.

Another airport we serve, John Wayne International Airport in Santa Ana, California (SNA), is also slot controlled at the local level as mandated by a federal court order. We were originally awarded six arrival and departure slots at SNA, or three daily round-trips. We began service with two daily round-trips to SNA in August 2003 and added a third daily round- trip in March 2004.

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Maintenance and Repairs

All of our aircraft maintenance and repairs are accomplished in accordance with our maintenance program approved by the FAA. Since mid-1996, we have trained, staffed and supervised our own maintenance work force at Denver, Colorado. We sublease a portion of Continental Airlines' hangar at DIA where we currently perform most of our own line maintenance and longer interval maintenance through the "D" check level. Continued access to the Continental hangar at DIA is currently in question, as discussed more fully in Item 1A, "Risk Factors" of this report. We also maintain line maintenance facilities at Phoenix, Arizona and Kansas City, Missouri. Outside FAA approved contractors perform other major maintenance, such as line maintenance at our spoke cities, longer interval maintenance when we do not have adequate facilities or staff to meet maintenance needs and for major engine repairs.

We have attempted to level our engine maintenance expenses by entering into a maintenance cost per hour agreement with GE Engine Services, Inc. ("GE"). For owned aircraft, this agreement is for a 12-year period from the effective date for our owned aircraft or May 1, 2019, whichever comes first. For each covered leased aircraft, the agreement term coincides with the initial lease term of 12 years. This agreement precludes us from using another third party for such services during the term on the covered engines. This agreement requires non-refundable monthly payments, which are increased periodically, at a specified rate multiplied by the number of flight hours the engine operated during that month. Currently, engines on all of our owned and most of our leased aircraft are subject to the GE agreement. For the covered leased aircraft, the lessors pay GE directly for the repair of aircraft engines in conjunction with this agreement from reserve accounts established under the applicable lease documents. For our owned aircraft, we pay GE directly and are required to pay any amounts above funded reserves in the event of a shortfall if maintenance expenses incurred are outside scheduled maintenance and not otherwise covered by a reserve.

Under our aircraft lease agreements, we pay all expenses relating to the maintenance and operation of our aircraft, and we are required to pay supplemental monthly rent payments to the lessors based on usage. Supplemental rents, which increase annually, are applied against the cost of scheduled major maintenance. To the extent these reserves are not used for major maintenance during the lease terms, excess supplemental rents are forfeited to the aircraft lessors after termination of the lease. Additionally, to the extent actual maintenance expenses incurred exceed these reserves, we are required to pay these amounts.

Our monthly completion factors for the years ended March 31, 2007, 2006, and 2005, excluding cancellations that were not related to maintenance, averaged 99.9%, 99.9% and 99.8%, respectively. The completion factor is the percentage of our scheduled flights that were operated by us, whether or not delayed (i.e., not canceled). We believe that our high monthly completion factors are attributable to the reliability of our new Airbus fleet and our record of excellence in our maintenance department.

For eight consecutive years starting in 1999, our maintenance and engineering department received the FAA's highest award, the Diamond Certificate of Excellence, in recognition of 100 percent of our maintenance and engineering employees completing advanced aircraft maintenance training programs. The Diamond Award recognizes advanced training for aircraft maintenance professionals throughout the airline industry. We were the first Part 121 domestic air carrier to achieve 100 percent participation in this training program by our maintenance employees.

Fuel

Fuel prices have increased significantly over the past three years. During the years ended March 31, 2007, 2006, and 2005, jet fuel, including hedging activities and our regional partner operations, accounted for 31.8%, 31.1% and 24.0%, respectively, of our operating expenses. We have arrangements with major fuel suppliers for substantial portions of our fuel requirements, and we believe that these arrangements assure an adequate supply of fuel for current and anticipated future operations. Jet fuel costs are subject to wide fluctuations as a result of sudden disruptions in supply beyond our control. Therefore, we cannot predict the future availability and cost of jet fuel with any degree of certainty. Our mainline average fuel prices per gallon including realized and non-cash mark to market hedging activities, taxes and into-plane fees for the last three fiscal years were as follows:

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Fiscal Year Ended	Average Fuel Price per Gallon	Monthly Low Price per Gallon	Monthly High Price per Gallon
March 31, 2007	$ 2.12	$ 1.57	$ 2.47
March 31, 2006	$ 1.99	$ 1.66	$ 2.65
March 31, 2005	$ 1.41	$ 1.19	$ 1.64

As of May 18, 2007, the average price per gallon was approximately $2.30 excluding the impact of our fuel hedges. We implemented a fuel-hedging program in November 2002, under which we entered into crude oil or Gulf Coast jet fuel derivative contracts to partially protect us against significant increases in fuel prices. As of March 31, 2007, we had hedged approximately 46% of our projected fuel requirements for the quarter ending June 30, 2007, 30% of our projected fuel requirements for the quarter ending September 30, 2007, 40% of our projected fuel requirements as of December 31, 2007 and 18.8% of our projected fuel requirements as of March 31, 2008.

Increases in fuel prices or a shortage of supply could have a material adverse effect on our operations and financial results. Based on our current fleet and operations, we estimate that a 1¢ increase in the price of fuel per gallon increases our operating expenses by $2,039,000 on an annualized basis. This number will increase as our capacity increases. Our ability to pass on increased fuel costs to passengers through price increases or fuel surcharges may be limited, particularly because of our affordable fare strategy and intense competition.

Insurance

We carry $1.0 billion per aircraft per occurrence in property damage insurance and passenger and third-party liability insurance, and insurance for aircraft loss or damage with deductible amounts as required by our aircraft lease agreements, and customary coverage for other business insurance. While we believe such insurance is adequate, there can be no assurance that such coverage will adequately protect us against all losses that we might sustain. Our aircraft hull and liability coverage renewed on December 31, 2006 for one year at reduced year-over-year rates.

In December 2002, through authority granted under the Homeland Security Act of 2002, the U.S. government expanded its insurance program to enable airlines to elect either the government's excess third-party war risk coverage or for the government to become the primary insurer for all war risks coverage. We elected to take primary government coverage in February 2003 and dropped the commercially available war risk coverage. The current government war risk policy is in effect until August 31, 2007. We do not know whether the government will extend the coverage beyond August 31, 2007 and if it does how long the extension will last. We expect that if the government stops providing excess war risk coverage to the airline industry, the premiums charged by aviation insurers for this coverage will be substantially higher than the premiums currently charged by the government or the coverage will not be available from reputable underwriters.

Employees

As of May 1, 2007, we had 5,265 employees, including 4,334 full-time and 931 part-time personnel. Our employees included 666 pilots, 978 flight attendants, 1,256 customer service agents, 517 ramp service agents, 334 reservations agents, 132 aircraft appearance agents, 45 catering agents, 341 mechanics and related personnel, and 996 general management and administrative personnel. We consider our relations with our employees to be good.

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Approximately 22% of our employees are represented by unions. The following table reflects the principal collective bargaining agreements, and their respective amendable dates:

Employee Group	Approximate Number of Employees	Representing Union	Contract Amendable Date
Pilots	666	Frontier Airline Pilots Association	March 2011
Mechanics	281	Teamsters Airline Division	July 2008
Dispatchers	16	Transport Workers Union	Under Negotiation
Aircraft appearance agents and maintenance cleaners	132	Teamsters Airline Division	October 2013
Material Specialist	22	International Brotherhood of Teamsters	Under Negotiation

In September 2006, the National Mediation Board notified us that two unions petitioned for representation of our flight attendants: the International Brotherhood of Teamsters ("IBT") and the Frontier Flight Attendants Association ("FFAA"). Only the IBT had a sufficient number of authorization cards to be included in the election ballot. The results were counted on November 30, 2006, and the flight attendants voted against union representation by the IBT. This is the fifth time our flight attendants voted against union representation.

In February 2007, Frontier and the Frontier Airline Pilots Association ("FAPA") announced that FAPA membership ratified a new collective bargaining agreement. The new four-year agreement amends the previous five-year contract signed in May 2000. Implementation of the approved agreement began in March 2007.

In March 2006, our material specialists voted for union representation by the IBT affecting 22 employees. We are currently in the process of negotiating this agreement.

In September 2006, the contract with our dispatchers, who are represented by the Transport Workers Union ("TWU"), expired. We are currently in the process of re-negotiating this agreement, which affects 16 employees.

We have established a compensation philosophy that we will pay competitive wages compared to other airlines of similar size and other employers with which we compete for our labor supply. Employees have the opportunity to earn bonuses under our profit sharing program and may be granted shares of our common stock under our Employee Stock Ownership Program ("ESOP"). The bonuses and ESOP grants are discretionary and reviewed by our Board of Directors each year.

Effective in May 2000, we enhanced our 401(k) Retirement Savings Plan by announcing an increased matching contribution by the company. Participants may receive a 50% company match for contributions up to 10% of salary. This match is discretionary and is approved on an annual basis by our Board of Directors. The Board of Directors has approved the continuation of the match through the plan year ending December 31, 2007.

For the plan years ended December 31, 2007, 2006 and 2005, the Company contributed 300,000, 400,000, and 346,400 shares of stock to the ESOP, respectively. The 2007 contribution was funded from shares we purchased in the open market and the 2006 and 2005 contributions were funded from shares issued. These shares are allocated to eligible employees at the end of the plan year. Employees become vested in shares allocated to their

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account 20% per year and may obtain a distribution of vested shares upon leaving the company. We believe that the 401(k) match, the ESOP and the related vesting schedules of 20% per year may reduce our employee turnover rates.

In September 2004, our stockholders approved an equity incentive plan for officers and directors that provided a framework for our Board of Directors to grant certain incentive awards to members of management. In March 2005, our Board of Directors adopted a new annual bonus and long-term incentive plan for our officers and directors. The long-term incentive plan included the issuance of stock-only stock appreciation rights, restricted stock units and a three-year cash incentive pool. Annual bonuses and three-year cash incentive pools are paid out based upon the company reaching targeted pre-tax profits and may also be adjusted based on our annual pre-tax profit performance relative to peer group companies.

Both initial and recurring training is required for many employees. We train our pilots, flight attendants, ground service personnel, reservations personnel and mechanics. FAA regulations require pilots to be licensed as commercial pilots, with specific ratings for aircraft to be flown, to be medically certified or physically fit, and have to recent flying experience. Mechanics, quality control inspectors and flight dispatchers must be licensed and qualified for specific aircraft. Flight attendants must have initial and periodic competency, fitness training and certification. The FAA approves and monitors our training programs. Management personnel directly involved in the supervision of flight operations, training, maintenance and aircraft inspection must meet experience standards prescribed by FAA regulations.

All new employees are subject to pre-employment drug testing. Those employees who perform safety sensitive functions are also subject to random drug and alcohol testing, and mandatory testing in the event of an accident.

Government Regulation

General. All interstate air carriers are subject to regulation by the DOT, the FAA and other state and federal government agencies. In general, the amount of regulation over domestic air carriers in terms of market entry and exit, pricing and inter-carrier agreements has been greatly reduced since the enactment of the Deregulation Act.

U.S. Department of Transportation. The DOT's jurisdiction extends primarily to the economic aspects of air transportation, such as certification and fitness, insurance, advertising, computer reservation systems, deceptive and unfair competitive practices, and consumer protection matters such as compliance with the Air Carrier Access Act, on-time performance, denied boarding, discrimination and baggage liability. The DOT also is authorized to require reports from air carriers and to investigate and institute proceedings to enforce its economic regulations and may, in certain circumstances, assess civil penalties, revoke operating authority and seek criminal sanctions. We hold a Certificate of Public Convenience and Necessity issued by the DOT that allows us to engage in air transportation. In January 2007, the DOT designated us as a major carrier, which is U.S.-based airlines that post more than $1 billion in revenue during a fiscal year.

U.S. Federal Aviation Administration. The FAA's regulatory authority relates primarily to flight operations and air safety, including aircraft certification and operations, crew licensing and training, maintenance standards, and aircraft standards. The FAA also oversees aircraft noise regulation, ground facilities, dispatch, communications, weather observation, and flight and duty time. It also controls access to certain airports through slot allocations, which represent government authorization for airlines to take off and land at controlled airports during specified time periods. The FAA has the authority to suspend temporarily or revoke permanently the authority of an airline or its licensed personnel for failure to comply with FAA regulations and to assess civil and criminal penalties for such failures. We hold an operating certificate issued by the FAA pursuant to Part 121 of the Federal Aviation Regulations. We must have and we maintain FAA certificates of airworthiness for all of our aircraft. Our flight personnel, flight and emergency procedures, aircraft and maintenance facilities and station operations are subject to periodic inspections and tests by the FAA.

Transportation Security Administration. On November 19, 2001, in response to the terrorist acts of September 11, 2001, the President of the United States signed into law the Aviation and Transportation Security Act ("ATSA"). The ATSA created the Transportation Security Administration ("TSA"), an agency within the DOT, to oversee, among other things, aviation and airport security. The ATSA provided for the federalization of airport passenger, baggage, cargo, mail, employee and vendor screening processes. The ATSA also enhanced background checks, provided federal air marshals aboard flights, improved flight deck security, and enhanced security for airport

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perimeter access. In addition, the ATSA required that all checked baggage be screened by explosive detection systems by December 31, 2002. Funding for airline and airport security under the ATSA is primarily provided by a $2.50 per enplanement ticket tax, with authority granted to the TSA to impose additional fees on the air carriers if necessary to cover additional federal aviation security costs. Since 2002, the TSA has imposed an Aviation Security Infrastructure Fee on all airlines to assist in the cost of providing aviation security. The fees assessed are based on airlines' actual 2000 security costs. Pursuant to authority granted to the TSA to impose additional fees on air carriers if necessary to cover additional federal aviation security costs, the TSA has imposed an additional annual Security Infrastructure Fee on certain airlines, including us. The industry has opposed and disagrees with the higher assessment and is working with the TSA on a resolution.

Environmental Matters. The Aviation Safety and Noise Abatement Act of 1979, the Airport Noise and Capacity Act of 1990 and Clean Air Act of 1963 oversee and regulate airlines with respect to aircraft engine noise and exhaust emissions. We are required to comply with all applicable FAA noise control regulations and with current exhaust emissions standards. Our fleet is in compliance with the FAA’s Stage 3 noise level requirements. In addition, various elements of our operation and maintenance of our aircraft are subject to monitoring and control by federal and state agencies overseeing the use and disposal of hazardous materials and storm water discharge. We believe we are currently in substantial compliance with all material requirements of these agencies.

Railway Labor Act/National Mediation Board. Our labor relations with respect to our unionized employees are covered under Title II of the Railway Labor Act and are subject to the jurisdiction of the National Mediation Board.

Foreign Operations. The availability of international routes to U.S. carriers is regulated by treaties and related agreements between the United States and foreign governments. The United States typically follows the practice of encouraging foreign governments to enter into “open skies” agreements that allow multiple carrier designation on foreign routes. In some cases, countries have sought to limit the number of carriers allowed to fly these routes. Certain foreign governments impose limitations on the ability of air carriers to serve a particular city and/or airport within their country from the U.S. For a U.S. carrier to fly to any such international destination, it must first obtain approval from both the U.S. and the “foreign country authority”. For those international routes where there is a limit to the number of carriers or frequency of flights, studies have shown these routes have more value than those without restrictions. In the past, U.S. government route authorities have been sold between carriers.

On April 3, 2007, the U.S. Department of Transportation issued an “Open-Skies Notice” inviting all U.S. air carriers now certificated to conduct foreign scheduled air transportation and interested in applying for blanket open-skies certificate authority to file applications with the Department. We filed for this blanket authority in April 2007.

Foreign Ownership. Pursuant to U.S. law and DOT regulation, each United States air carrier must qualify as a United States citizen, which requires the carrier’s President and at least two-thirds of its board of directors and other managing officers be comprised of United States citizens, that not more than 25% of the carrier’s voting stock may be owned by foreign nationals, and that the carrier not be otherwise subject to foreign control.

Miscellaneous. We are also subject to regulation or oversight by other federal and state agencies. Antitrust laws are enforced by the U.S. Department of Justice and the Federal Trade Commission. All air carriers are subject to certain provisions of the Communications Act of 1934 because of their extensive use of radio and other communication facilities, and are required to obtain an aeronautical radio license from the Federal Communications Commission. The U.S. Citizenship and Immigration Services, the U.S. Customs Service and the Animal and Plant Health Inspection Service of the U.S. Department of Agriculture each have jurisdiction over certain aspects of our aircraft, passengers, cargo and operations.

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Item 1A. Risk Factors

In addition to the other information contained in this Form 10-K, the following risk factors should be considered carefully in evaluating our business and us. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. In addition, please read "Special Note About Forward-Looking Statements" in this Form 10-K, where we describe additional uncertainties associated with our business and the forward-looking statements included or incorporated by reference in this Form 10-K. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere included or incorporated by reference in this Form 10-K. Please note that additional risks not presently known to us or that we currently deem immaterial may also impair our business and operations.

Risks Related to Frontier

We may not be able to obtain or secure financing for our new aircraft.

As of March 31, 2007, we have remaining firm purchase commitments for 13 aircraft from Airbus (three Airbus 318 aircraft and ten Airbus 320 aircraft) and ten Q400 aircraft from Bombardier. We have secured financing commitments for all ten of the Bombardier aircraft and three Airbus A318 aircraft deliveries through February 2008 totaling approximately $225.3 million. To complete the purchase of the remaining ten A320 Airbus aircraft, we must secure aircraft financing totaling approximately $320.0 million, which we may not be able to obtain on terms acceptable to us, if at all. The terms of the purchase agreement do not allow for cancellations of any of the purchase commitments. The amount of financing required will depend on the required down payment on mortgage-financed aircraft and the extent to which we lease as opposed to purchase the aircraft. We are exploring various financing alternatives, including, but not limited to, domestic and foreign bank financing, leveraged lease arrangements or sale/leaseback transactions. There can be no guarantee that additional financing will be available when required or will be on acceptable terms. Our inability to secure the financing could have a material adverse effect on our cash balances or result in delays in or our inability to take delivery of Airbus aircraft that we have agreed to purchase. The failure to take these future deliveries would impair our strategy for long-term growth and could result in the loss of pre-delivery payments and deposits previously paid to the manufacturer, and the imposition of other penalties or the payment of damages in accordance with the terms of the purchase agreement with the manufacturer. Additionally, the terms of the purchase agreement with the manufacturer would require us to pay penalties or damages in the event of any breach of contract with our supplier, including possible termination of the agreement. As of March 31, 2007, we had made pre-delivery payments on future aircraft deliveries totaling $52,453,000, of which $14,833,000 relates to aircraft for which we have not yet secured financing and $37,620,000 relates to aircraft for which we have secured financing.

We have a significant amount of fixed obligations and we will incur significantly more fixed obligations, which could increase the risk of failing to meet payment obligations.

As of March 31, 2007, our total debt was $478.8 million, including $92.0 million of convertible debt due in December 2025 that was issued in December 2005. Maturities of our long-term debt are $26.8 million in fiscal year 2008, $28.4 million in fiscal year 2009, $30.1 million in fiscal year 2010, $31.9 million in 2011, $51.0 million in 2012, and an aggregate of $310.6 million for the years thereafter. In addition, total interest due for our fixed obligations is $246.1 million in the aggregate. Maturities of long-term debt and interest due are based on the stated maturity; however, the convertible notes are callable by holders of the notes in December 2010. Our total existing long-term debt has 73.6% that bears floating interest rates and the remaining 26.4% bears fixed rates. In addition to long-term debt, we have a significant amount of other fixed obligations under operating leases related to our aircraft, airport terminal space, other airport facilities and office space. As of March 31, 2007, future minimum lease payments under non-cancelable operating leases were approximately $164.0 million in fiscal year 2008, $172.0 million in fiscal year 2009, $181.6 million in fiscal year 2010, $168.4 million in fiscal year 2011, $166.5 million in fiscal year 2012 and an aggregate of $837.9 million for the years thereafter. Approximately 85.8% of our minimum lease payments related to aircraft and leased engines are fixed in nature, and the remaining 14.2% are adjusted periodically based on floating interest rates. As of March 31, 2007, we had commitments of

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approximately $721.8 million to purchase 23 additional aircraft over approximately the next four years, including estimated amounts for contractual price escalations, spare parts to support these aircraft and to equip the aircraft with LiveTV, and obligations relating to a service agreement with Sabre Travel Network. We expect to incur additional debt or long-term lease obligations as we take delivery of new aircraft and other equipment and continue to expand into new markets.

Many of our financial obligations contain cross-default provisions.

Many of our financial arrangements contain cross-default provisions. As a result, if we default in our payment or performance obligations under one of our financial arrangements and, in some cases, if the amount due thereunder is accelerated, other financial arrangements may be declared in default and accelerated even though we are meeting payment and performance obligations on those other arrangements. If this occurs, we may not have sufficient available cash to pay all amounts that are then due and payable under our lease and loan agreements, and we may have to seek additional debt or equity financing, which may not be available on acceptable terms, or at all. If alternative financing were not available, we would have to sell assets in order to obtain the funds required to make the accelerated payments or seek ways to restructure the lease and loan obligations.

Our failure to successfully implement our growth strategy could harm our business.

As of March 31, 2007, our growth strategy involves adding 13 additional Airbus aircraft and ten Bombardier Q400 aircraft, which we could choose to increase to 30 total Airbus aircraft (including the exercise of 17 additional purchase rights) and 20 Bombardier aircraft (including the exercise of ten additional options), increasing the frequency of flights to markets we currently serve, expanding the number of markets served and increasing flight connection opportunities. The purchase rights on our Airbus aircraft expire on July 1, 2007 and our last option expires on December 1, 2007 for our Bombardier aircraft, subject to additional extension rights. It is critical that we achieve our growth strategy in order for our business to attain economies of scale and to sustain or improve our results of operations. Increasing the number of markets we serve depends on our ability to access suitable airports located in our targeted geographic markets in a manner that is consistent with our cost strategy. While we currently have sufficient gates and facilities at DIA to accommodate our current level of operations, our continued mainline expansion, the increase of our regional jet fleet from nine to 17 aircraft, and the initiation of turboprop service by Lynx Aviation expected in September 2007, may require us to obtain additional gates and other operational facilities at our Denver hub. Any condition that would deny, limit or delay our access to airports we seek to serve in the future will constrain our ability to grow or cause us to move some of our capacity to other airports. This would limit our ability to leverage our hub and spoke network. Additionally, traffic may not materialize in new markets. Opening new markets requires us to commit a substantial amount of resources, even before the new services commence. Expansion will also require additional skilled personnel, equipment and facilities. An inability to hire and retain skilled personnel or to secure the required equipment and facilities efficiently and cost-effectively may negatively affect our ability to achieve our growth strategy. We cannot assure you that we will be able to successfully expand our existing markets or establish new markets, and our failure to do so could harm our business.

Growth of our fleet and expansion of our markets and services may also strain our existing management resources and systems to the point that they may no longer be adequate to support our operations, requiring us to make significant expenditures in these areas. We may need to further develop our information technology systems and other corporate infrastructure to accommodate future growth, particularly with respect to efficient Internet ticket sales and passenger check-in capabilities. We cannot assure you that we will be able to sufficiently develop our systems and infrastructure on a timely basis, and the failure to do so could harm our business.

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We depend heavily on the Denver market to be successful.

Our business strategy has historically focused on adding flights to and from our Denver base of operations. Currently, 96% of our flights originate or depart from DIA. A reduction in our share of the Denver market, increased competition, or reduced passenger traffic to or from Denver could have a material adverse effect on our financial condition and results of operations. In addition, our dependence on a hub system operating out of DIA makes us more susceptible to adverse weather conditions and other traffic delays in the Rocky Mountain region than some of our competitors that may be better able to spread these traffic risks over larger route networks.

We face intense competition and market dominance by United Airlines and other airlines at DIA, and Southwest Airlines service to and from Denver, has increased competition on certain of our routes.

The airline industry is highly competitive, primarily due to the effects of the Airline Deregulation Act of 1978, which substantially eliminated government authority to regulate domestic routes and fares and increased the ability of airlines to compete with respect to flight frequencies and fares. We compete with United in our hub in Denver, and we anticipate that we will compete with United in any additional markets we elect to serve in the future. United, Ted, and United's regional airline affiliates are the dominant carriers out of DIA, accounting for approximately 55.4% of all revenue passengers out of DIA for the month of March 2007. In addition, Southwest Airlines started service to and from Denver in January 2006 and currently has 36 daily departures. Southwest's introductory fares were significantly below the fares we were able to obtain prior to its arrival. Fare pressure exerted by Southwest on its announced routes and on any future expansion in Denver by Southwest will require us to be fare competitive, and may place additional downward pressure on our yields. In addition, in the last four years Alaska Airlines, JetBlue Airways and AirTran Airways have commenced service at DIA. These airlines have offered low introductory fares and compete on several of our routes. Fare wars, predatory pricing, ''capacity dumping,'' in which a competitor places additional aircraft on selected routes, and other competitive activities could adversely affect us. The future activities of United, Southwest and other carriers may have a material adverse effect on our revenues and results of operations.

United currently operates ten flights a week to Mexico that compete with our current routes to Mexico. Most of our current and potential competitors have significantly greater financial resources, larger route networks, and superior market identity. Denver is also a hub for United's low-cost operation Ted, which began in February 2004. United's scale and ability to lower the costs of its mainline operations through its bankruptcy may continue to place downward pressure on airfares charged in the Denver market and adversely affect our market share at DIA and our ability to maintain yields required for profitable operations. The potential for United and Southwest to place downward pressure on airfares charged in the Denver market may impair our ability to maintain yields required for profitable operations.

Competition on our Mexican routes may increase due to recent regulatory changes, which may adversely impact some of our most important markets.

The U.S. and Mexico amended their bilateral agreement relating to commercial air service. Previously, only two U.S. based airlines were permitted to provide air service between city pairs in the U.S. and Mexico. In many cases, we were one of the two U.S. based airlines providing service to the cities we serve in Mexico. The amendments to the bilateral agreement expanded the authorized service levels to three U.S. based airlines per city pair. It is therefore highly likely that we will see other airlines seeking to add service to some of the Mexico destinations we serve, which would increase competition and perhaps place downward pressure on airfares in these markets. Flights to resort destinations in Mexico have represented a significant portion of our vacation-oriented operations, and if competition results in lower load factors or airfares on our Mexico flights, our operating results may be adversely impacted. United currently operates ten flights a week to Mexico that compete with our current routes to Mexico.

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We may not have access to adequate gates or airport slots, which could decrease our competitiveness.

The number of gates, ticket counter or office space available to us at DIA, or any other airport where we operate or seek to commence operations in the future, may be limited due to the lack of available space or disruptions caused by airport renovation projects. Available facilities may not provide for the best overall service to our customers and may prevent us from scheduling our flights during peak or opportune times. The lack of available facilities may limit our ability to expand service to certain cities or restrict our ability to plan departures and arrivals in a manner that provides efficient service or connecting times to and through our Denver hub. Inefficient operations may result in a reduction in passenger bookings or lost revenue.

In the U.S., the FAA currently regulates slot allocations at O'Hare International Airport in Chicago, at JFK and LaGuardia Airports in New York City, and at Ronald Reagan National Airport in Washington D.C. John Wayne Airport in Orange County also limits arrivals and departures at its airport for noise control purposes. We currently operate at LaGuardia Airport, Ronald Reagan National Airport and John Wayne Airport through arrival and departure slots at these airports. In each case, the agencies controlling slot allocations reserve the right to recall slot allocations for, among other reasons, lack of meeting frequency or capacity requirements. If we lose existing slot allocations, are denied requests for additional slot allocations at these airports, or are denied slot allocations at other slot-controlled airports where we wish to operate in the future, our ability to provide service would be restricted, eliminated, or reduced. Because these cities represent key markets, the resulting restriction on our service could negatively effect our results of operations.

We experience high costs at DIA, which may impact our results of operations.

We operate our hub of flight operations from DIA where we experience high costs. Financed through revenue bonds, DIA depends on landing fees, gate rentals, income from airlines, the traveling public, and other fees to generate income to service its debt and to support its operations. Our cost of operations at DIA will vary as traffic increases or diminishes at the airport or as significant improvement projects are undertaken by the airport. We believe that our operating costs at DIA substantially exceed those that other airlines incur at most hub airports in other cities, which decreases our ability to compete with other airlines with lower costs at their hub airports. In addition, United represents a significant tenant at DIA. In connection with United's bankruptcy, United and DIA restructured United's lease agreement in a fashion that reduces the amounts United is required to pay under its lease. Normally, the decrease in payments by United would result in the increase in amounts paid by all other airlines. At this time, however, the City and County of Denver has agreed to offset the decrease in payments negotiated by United. The city's obligation to make these offset payments is subject to rescission in certain circumstances. If these payments are rescinded or if United otherwise significantly reduces operations at DIA, the overall costs at DIA may significantly increase for all other carriers operating at DIA, including ourselves. Also, we have recently added six additional gates in Concourse A, related holdroom space and more space to accommodate our DIA regional operations.

Our all-Airbus mainline fleet creates certain concentration risks.

As of March 31, 2007, we operated 57 Airbus aircraft. We completed our transition from Boeing aircraft to operating only Airbus aircraft on our mainline routes in April 2005. One of the key elements of this strategy is to produce cost savings because crew training is standardized for aircraft of a common type, maintenance issues are simplified, spare parts inventory is reduced, and scheduling is more efficient. We cannot assure you that we will achieve all of the cost savings we anticipated from the fleet transition.

Since we operate only Airbus aircraft on our mainline routes and GE engines, we are dependent on single manufacturers for future aircraft acquisitions or deliveries, spare parts or warranty service. If Airbus is unable to perform its obligations under existing purchase agreements,

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or is unable to provide future aircraft or services, whether by fire, strike or other events that affect its ability to fulfill contractual obligations or manufacture aircraft or spare parts, we would have to find another supplier for our aircraft. If acceptable Airbus aircraft were otherwise not available in the marketplace, Boeing is the only other manufacturer from which we could purchase or lease alternate aircraft. If we were forced to acquire Boeing aircraft, we would need to address fleet transition issues, including substantial costs associated with retraining our employees, acquiring new spare parts, and replacing our manuals. In addition, the fleet efficiency benefits described above may no longer be available.

Our business would be significantly disrupted if an FAA airworthiness directive or service bulletin were issued that resulted in the grounding of Airbus aircraft or GE engines of the type we operate while the defect was being corrected. Our business could also be harmed if the public avoids flying Airbus aircraft due to an adverse perception about the aircraft’s safety or dependability, whether real or perceived, in the event of an accident or other incident involving an Airbus aircraft of the type we fly.

If we, through our new subsidiary Lynx Aviation, fail to successfully take delivery of and operate reliably the new Bombardier Q400 aircraft we agreed to purchase, our business could be harmed.

Acquisition of a new type of aircraft, such as the Bombardier Q400, which we plan to place into revenue service in September 2007, involves a variety of risks relating to its ability to be successfully placed into service, including delays in meeting the agreed upon delivery schedule and the inability of the aircraft and all of its components to comply with agreed upon specifications and performance standards. In addition, Lynx Aviation needs to obtain a certificate of public convenience and necessity and an operating certificate in order to operate these aircraft. Application for these government authorizations was submitted in January 2007 and we anticipate receiving these authorizations in time for Lynx Aviation to commence operations in September 2007. However, approval of our application could be delayed. In the meantime, we are incurring significant start-up costs for Lynx, including the hiring and training of employees and making pre-delivery payments on the Bombardier Q400 aircraft. We are also required to purchase these aircraft in accordance with the timing and terms of our purchase agreement with Bombardier. Any delay in the ability for Lynx Aviation to commence operations and generate revenues while we continue to incur these significant start-up costs will likely have a significant impact on our results of operations.

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We rely on one vendor to provide our LiveTV service.

One of the unique features of our Airbus fleet is that every seat in each of our Airbus aircraft is equipped with LiveTV. LiveTV is provided by a subsidiary of JetBlue Airways, a competitor of ours. We do not know of any other company that could provide us economically with LiveTV equipment and related satellite signals for programming. Our LiveTV installations have exceeded the number of installations provided for in our contract with the supplier of LiveTV, and although we have had discussions with the supplier about expanding the number of aircraft covered by the contract, we have not finalized the terms of an expanded agreement. If the supplier of LiveTV were to stop supplying us with the equipment or service for any reason, or refused to supply equipment for our future aircraft deliveries, we could lose one of the unique services that we believe differentiates us from our competitors.

Our maintenance expenses may be higher than we anticipate and will increase as our fleet ages.

We bear the cost of all routine and major maintenance on our owned and leased aircraft. Maintenance expenses comprise a significant portion of our operating expenses. In addition, we are required periodically to take aircraft out of service for heavy maintenance checks, which can increase costs and reduce revenue. We also may be required to comply with regulations and airworthiness directives the FAA issues, the cost of which our aircraft lessors may only partially assume depending upon the magnitude of the expense. Although we believe that our owned and leased aircraft are currently in compliance with all FAA issued airworthiness directives, additional airworthiness directives likely will be required in the future, necessitating additional expense.

Because the average age of our aircraft is approximately 3.3 years, our aircraft require less maintenance now than they will in the future. We have incurred lower maintenance expenses because most of the parts on our aircraft are under multi-year warranties. Our maintenance costs will increase significantly, both on an absolute basis and as a percentage of our operating expenses, as our fleet ages and these warranties expire.

We may need to make other arrangements for our maintenance facility.

We currently sublease a substantial part of a maintenance hangar located at DIA from Continental Airlines. We use this facility to perform our heavy maintenance and some of our line maintenance. The sublease has expired and attempts to negotiate a fixed term extension have been unsuccessful to date. Therefore, we are currently renting this facility on a month-to-month basis. Continental has also indicated that it may reduce the amount of space we could sublease. The space reduction would prevent us from accommodating both our heavy and line maintenance functions at the Continental hangar. If Continental reduces the space covered by a sublease extension, or if we receive a notice to vacate from Continental, our maintenance operations would be significantly disrupted and we would likely need to rely on outside maintenance providers to cover our maintenance requirements until we located a new facility or facilities. This disruption would significantly increase our costs. We are currently is the design stages of a new line maintenance facility at DIA and are moving aggressively to complete this project, but it may not be completed prior to a reduction in our subleased space or our need to vacate the Continental facility. We have also issued a request for proposals for the lease or construction of new or existing hangar and shop space to accommodate our heavy maintenance functions. This facility may be located at DIA or elsewhere, depending on the responses we receive. If we are required to relocate our heavy maintenance operations, we will incur relocation expenses and our heavy maintenance operations will likely be disrupted during the relocation process. The inability to procure new maintenance facilities in a timely fashion may cause us to increase our overall maintenance costs. Further, the lease or financing costs of a new facility or facilities may be higher than those of our current sublease with Continental.

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Our landing fees may increase because of local noise abatement procedures.

As a result of litigation and pressure from residents in the areas surrounding airports, airport operators have taken actions over the years to reduce aircraft noise. These actions have included regulations requiring aircraft to meet prescribed decibel limits by designated dates, curfews during nighttime hours, restrictions on frequency of aircraft operations, and various operational procedures for noise abatement. The Airport Noise and Capacity Act of 1990 recognized the right of airport operators with special noise problems to implement local noise abatement procedures as long as the procedures do not interfere unreasonably with the interstate and foreign commerce of the national air transportation system. Compliance with local noise abatement procedures may lead to increased landing fees.

An agreement between the City and County of Denver and another county adjacent to Denver specifies maximum aircraft noise levels at designated monitoring points in the vicinity of DIA with significant payments payable by the city to the other county for each substantiated noise violation under the agreement. DIA has incurred these payment obligations and likely will incur such obligations in the future, which it will pass on to us and other air carriers serving DIA by increasing landing fees. Additionally, noise regulations could be enacted in the future that would increase our expenses and could have a material adverse effect on our operations.

Unionization affects our costs and may affect our operations.

Five of our employee groups are represented by unions: our pilots, dispatchers, mechanics, material specialist and aircraft appearance agents. In addition, since 1997 we have had union organizing attempts that were defeated by our flight attendants and ramp service agents. The collective bargaining agreement with our pilots union, FAPA, expired in May 2005. In February 2007, FAPA membership ratified a four year agreement that amends the previous five-year contract signed in May 2005. In March 2006, our material specialists voted for union representation by the IBT, which affects approximately 22 employees. We are currently in the process of negotiating their first agreement. In September 2006, the contract with our dispatchers, who are represented by the TWU, expired. We are currently in the process of re-negotiating this agreement, which affects approximately 16 employees.

If we are unable to reach agreement with any of the represented work groups whose contracts are currently being negotiated, or if currently non-unionized employees were to unionize and we were unable to reach agreement on the terms of their employment, we may need to go to mediation and may experience widespread employee dissatisfaction. We could be subject to work slowdowns or stoppages. In addition, we may be subject to disruptions by organized labor groups protesting certain groups for their non-union status or conducting sympathy action for fellow members striking at other airlines. Any of these events would be disruptive to our operations and could harm our business.

The lack of marketing alliances could harm our business.

Many airlines have marketing alliances with other airlines, under which they market and advertise their status as marketing alliance partners. Among other things, they share the use of two-letter flight designator codes to identify their flights and fares in the computerized reservation systems and permit reciprocity in their frequent flyer programs. We do not have an extensive network of marketing partners. The lack of marketing alliances puts us at a competitive disadvantage to global network carriers, whose ability to attract passengers through more widespread alliances, particularly on international routes, may adversely affect our passenger traffic and our results of operations.

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Our lack of higher borrowing capacity under our current lines of credit and our lack of other borrowing facilities makes us highly dependent upon our existing cash and operating cash flows.

Airlines require substantial liquidity to operate. We have a line of credit with a maximum borrowing amount of $20.0 million based on 60% of the value of certain spare parts inventory. As of May 18, 2007, based on our eligible spare parts inventory, we could borrow up to $16.5 million, which was reduced by letters of credit issued of $11.3 million as of March 31, 2007. We also have an additional revolving line of credit for $5.8 million, and we can issue letters of credit for up to $5.0 million of which $4.8 million had been issued as of March 31, 2007. Our limited borrowing capacity means we rely primarily on operating cash flows to provide working capital. Unless we secure additional borrowing capacity under lines of credit, borrowing facilities or other financing, we will be dependent upon our existing cash and operating cash flows to fund our operations and to make scheduled payments on our debt and other fixed obligations. If we deplete our existing cash, fail to generate sufficient funds from operations to meet these cash requirements and are unable to secure additional lines of credit, borrowing facility or other financing, we could default on our debt and other fixed obligations. Our inability to meet our obligations as they become due would seriously harm our business and financial results, particularly in light of the cross-default clauses contained in many of our financing arrangements.

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If we are unable to attract and retain qualified personnel at reasonable costs, our business will be harmed.

Our business is labor intensive, with labor costs totaling $246.6 million, $219.4 million and $202.3 million for the years ended March 31, 2007, 2006 and 2005, respectively. We expect salaries, wages and benefits to increase on a gross basis. These costs could increase as a percentage of our overall costs, which could harm our business. Our growth plans will require us to hire, train and retain a significant number of new employees in the future. From time to time, the airline industry has experienced a shortage of personnel licensed by the FAA, especially pilots and mechanics. We compete against the major U.S. airlines for labor in these highly skilled positions. Many of the major U.S. airlines offer wage and benefit packages that exceed our wage and benefit packages. As a result, in the future, we may have to increase significantly wages and benefits in order to attract and retain qualified personnel or risk considerable employee turnover. If we are unable to hire, train and retain qualified employees at a reasonable cost, we may be unable to complete our growth plans and our business could be harmed.

We rely heavily on automated systems and technology to operate our business and any failure of these systems could harm our business.

We are increasingly dependent on automated systems and technology to operate our business, enhance customer service and achieve low operating costs, including our computerized airline reservation system, telecommunication systems, website, check-in kiosks and in-flight entertainment systems. Substantial or repeated system failures to any of the above systems could reduce the attractiveness of our services and could result in our customers purchasing tickets from another airline. Any disruptions in these systems could result in the loss of important data, increase our expenses and generally harm our business. In addition, a seemingly high percentage of customers have been booking flights on our airline through third-party websites, which has increased our distribution costs. If any of these third-party websites experiences system failures or discontinues listing our flights on its systems, our bookings and revenues may be adversely impacted.

We implement improvements to our website and reservations system from time to time. Implementation of changes to these systems may cause operational and financial disruptions if we experience transition or system cutover issues, if the new systems do not perform as we expect them to, or if vendors do not deliver systems upgrades or other components on a timely basis. Any such disruptions may have the effect of discouraging some travelers from purchasing tickets from us and increasing our reservations staffing.

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Risks Associated with the Airline Industry

The airline industry has incurred significant losses resulting in airline restructuring and bankruptcies, which could result in changes in our industry.

Financial losses throughout the airline industry in recent years have resulted in airlines renegotiating or attempting to renegotiate labor contracts, reconfiguring flight schedules, furloughing or terminating employees, and taking other efficiency and cost-cutting measures. Despite these actions, several airlines have sought reorganization under Chapter 11 of the U.S. Bankruptcy Code, which permits them to reduce labor rates, restructure debt, terminate pension plans and generally reduce their cost structure. Such factors may have a greater impact during time periods when the industry encounters continued financial losses, as airlines under financial pressures may institute pricing structures to achieve near-term survival rather than long-term viability. It is foreseeable that further airline reorganizations, bankruptcies, or consolidations may occur, the effects of which we are unable to predict. We cannot assure you that the occurrence of these events, or potential changes resulting from these events, will not harm our business or the industry.

We may be subject to terrorist attacks or other acts of war and increased costs or reductions in demand for air travel due to hostilities in the Middle East or other parts of the world.

Although the entire industry is substantially enhancing security equipment and procedures, it is impossible to guarantee that additional terrorist attacks, such as the terrorist attacks that occurred on September 11, 2001 and more recent threats in August 2006, or other acts of war will not occur. Given the weakened state of the airline industry, if additional terrorist attacks or acts of war occur, particularly in the near future, it can be expected that the impact of those attacks on the industry may be similar in nature to but substantially greater than those resulting from the September 11 terrorist attacks.

Increases in fuel costs affect our operating costs and competitiveness.

Fuel is a major component of our operating expenses, accounting for 31.8% of our total operating expenses for the year ended March 31, 2007, up from 31.1% for the year ended March 31, 2006. On an actual basis, mainline fuel costs including the impact of hedging increased to $343.1 million, representing an average cost of $2.12 per gallon, from $281.9 million, or $1.99 per gallon, over the same periods. Both the cost and availability of fuel are influenced by many economic and political factors and events occurring in oil-producing countries throughout the world, which causes fuel costs to fluctuate widely. High oil prices have had a significant adverse impact on our results of operations over the past two fiscal years. We cannot predict our future cost and availability of fuel, or the impact or further disruptions in oil supplies or refinery productivity based on natural disasters, which affect our ability to compete. The unavailability of adequate fuel supplies could have a material adverse effect on our operations and profitability. In addition, larger airlines may have a competitive advantage because they pay lower prices for fuel and other airlines, such as Southwest Airlines, may have substantial fuel hedges that give them a competitive advantage. We generally follow industry trends by imposing a fuel surcharge in response to significant fuel price increases. However, our ability to pass on increased fuel costs have been and may continue to be limited by economic and competitive conditions. Although we implemented a fuel hedging program in 2003, under which we entered into Gulf Coast jet fuel and West Texas Intermediate crude derivative contracts that are intended to partially protect us against significant increases in fuel prices, this program is limited in fuel volume and duration. As of March 31, 2007, we had hedged following percentages for our projected fuel requirements as follows:

Approximately 46% for the quarter ending June 30, 2007
Approximately 30% for the quarter ending September 30, 2007

Approximately 40% for the quarter ending December 31, 2007
Approximately 19% for the quarter ending March 31, 2008

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The airline industry is seasonal and cyclical, resulting in unpredictable liquidity and earnings.

Because the airline industry is seasonal and cyclical, our liquidity and earnings will fluctuate and be unpredictable. Our operations primarily depend on passenger travel demand and seasonal variations. Our weakest travel periods are generally during the quarters ending in March and December. The airline industry is also a highly cyclical business with substantial volatility. Airlines frequently experience short-term cash requirements. These requirements are caused by seasonal fluctuations in traffic, which often reduce cash during off-peak periods, and various other factors, including price competition from other airlines, national and international events, fuel prices, and general economic conditions including inflation. Our operating and financial results are likely to be negatively impacted by national or regional economic conditions in the U.S., and particularly in Colorado.

Our current insurance costs could increase if the U.S. government does not provide war risk coverage to airlines.

Following the September 11 terrorist attacks, aviation insurers dramatically increased airline insurance premiums and significantly reduced the maximum amount of insurance coverage available to airlines for liability to persons other than passengers for claims resulting from acts of terrorism, war or similar events to $50 million per event and in the aggregate. In light of this development, under the Air Transportation Safety and System Stabilization Act, the U.S. government has provided domestic airlines with excess war risk coverage above $50 million up to an estimated $1.6 billion per event for us.

In December 2002, through authority granted under the Homeland Security Act of 2002, the U.S. government expanded its insurance program to enable airlines to elect either the government’s excess third-party war risk coverage or for the government to become the primary insurer for all war risks coverage. We elected to take primary government coverage in February 2003 and dropped the commercially available war risk coverage. The current government war risk policy is in effect until August 31, 2007. We do not know whether the government will extend the coverage beyond August 31, 2007 and if it does how long the extension will last. We expect that if the government stops providing excess war risk coverage to the airline industry, the premiums charged by aviation insurers for this coverage will be substantially higher than the premiums currently charged by the government or the coverage will not be available from reputable underwriters. Significant increases in insurance premiums would harm our financial condition and results of operations.

Our financial results and reputation could be harmed in the event of an accident or incident involving our aircraft.

An accident or incident involving one of our aircraft could involve repair or replacement of a damaged aircraft and its consequential temporary or permanent loss from service, and significant potential claims of injured passengers and others. We are required by the DOT and our lenders and lessors to carry hull, liability and war risk insurance. Although we believe we currently maintain liability insurance in amounts and of the type generally consistent with industry practice, the amount of such coverage may not be adequate and we may be forced to bear substantial losses from an accident. Substantial claims resulting from an accident in excess of our related insurance coverage would harm our business and financial results. Moreover, any aircraft accident or incident, even if fully insured, could cause a public perception that we are less safe or reliable than other airlines, which would harm our business.

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We are in a high fixed cost business, and any unexpected decrease in revenues would harm us.

The airline industry is characterized by low profit margins and high fixed costs primarily for personnel, fuel, aircraft ownership and lease costs and other rents. The expenses of an aircraft flight do not vary significantly with the number of passengers carried and, as a result, a relatively small change in the number of passengers or in pricing would have a disproportionate effect on our operating and financial results. Accordingly, a shortfall from expected revenue levels can have a material adverse effect on our profitability and liquidity. We are often affected by factors beyond our control, including weather conditions, traffic congestion at airports and increased security measures, and irrational pricing from competitors, any of which could harm our operating results and financial condition.

Delays or cancellations due to adverse weather conditions or other factors beyond our control could adversely affect us.

Like other airlines, we are subject to delays caused by factors beyond our control, including adverse weather conditions, air traffic congestion at airports and increased security measures. Delays frustrate passengers, reduce aircraft utilization and increase costs, all of which negatively affect profitability. During periods of snow, rain, fog, hurricanes or other storms, or other adverse weather conditions, flights may be cancelled or significantly delayed. Cancellations or delays due to weather conditions, traffic control problems and breaches in security could harm our operating results and financial condition.

In December 2006 and January 2007, major snow storms in Denver, Colorado had a significant negative impact on our operating results. In the December 2006 snow storms, we cancelled 875 flights, 104,567 passengers were impacted and one storm completely shut down DIA for almost 48 hours. We estimate that this storm reduced our revenue for the quarter ended December 31, 2006 by approximately $13,200,000 ($12,200,000 in mainline passenger revenue and $1,000,000 in regional partner revenue) and $3,500,000 in January 2007. In addition, the snow storms increased many variable costs including $3,300,000 in additional glycol expenses over the prior year and $889,000 in additional wages related to our flight crews and station personnel, offset by a reduction of fuel, landing fees, maintenance expenses and catering expenses of $3,306,000.

We are subject to strict federal regulations, and compliance with federal regulations increases our costs and decreases our revenues.

Airlines are subject to extensive regulatory and legal requirements that involve significant compliance costs. Any future changes in regulatory oversight of airlines generally, or low-fare carriers in particular, could result in a material increase in our operating expenses or otherwise hinder our business. In the last several years, Congress has passed laws and the DOT and FAA have issued regulations relating to the operation of airlines that have required significant expenditures. For example, the President signed into law the Stabilization Act in November 2001. This law federalized substantially all aspects of civil aviation security and requires, among other things, the implementation of certain security measures by airlines and airports, including a requirement that all passenger baggage be screened. Funding for airline and airport security under the law is primarily provided by a $2.50 per enplanement ticket tax effective February 1, 2002, with authority granted to the TSA to impose additional fees on air carriers if necessary. Under the Appropriations Act enacted on April 16, 2003, the $2.50 enplanement tax was temporarily suspended on ticket sales from June 1, 2003 through September 30, 2003. This enplanement tax resumed on October 1, 2003, and recently proposed legislation, although unsuccessful to date, would increase the ticket tax to $5.00 per enplanement. To the extent this increase could not be passed on to the passenger, it would result in a significant increase in our cost of operations. In addition, the acquisition, installation and operation of the required baggage screening systems by airports will result in capital expenses and costs by those airports that will likely be passed on to the airlines through increased use and landing fees. On February 17, 2002, the Stabilization Act imposed a base security infrastructure fee on commercial air carriers in an amount equal to the calendar year ended 2000 airport security expenses. The infrastructure fee for us is $1,625,000 annually subject to final audit. Pursuant to authority granted to the TSA to impose additional fees on air carriers if necessary to cover additional federal

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aviation security costs, the TSA has imposed an additional annual Security Infrastructure Fee on certain airlines, including Frontier. A revision in the fee structure assessed by the TSA could result in increased cost for us. The airline industry has opposed and disagrees with the higher assessment and is working with the TSA on a resolution.

Although we have obtained the necessary authority from the DOT and the FAA to conduct flight operations and are currently seeking such authority from the FAA with respect to our Bombardier aircraft, we must maintain this authority by our continued compliance with applicable statutes, rules, and regulations pertaining to the airline industry, including any new rules and regulations that may be adopted in the future. We believe that the FAA strictly scrutinizes smaller airlines like ours, which makes us susceptible to regulatory demands that can negatively impact our operations. We may not be able to continue to comply with all present and future rules and regulations. In addition, we cannot predict the costs of compliance with these regulations and the effect of compliance on our profitability, although these costs may be material.

Item 1B. Unresolved Staff Comments

None.

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Item 2: Properties

Aircraft

As of May 18, 2007, excluding JetExpress, we operate 49 Airbus A319 aircraft and ten Airbus A318 aircraft in all-coach seating configurations. The age of these aircraft, their passenger capacities and expiration years for the leased aircraft are shown in the following table:

Aircraft Model	No. of Aircraft	Year of Manufacture	Approximate Seating Capacity	Lease Expiration
A319	36	2001 - 2007	132	2013 - 2019
A319	13	2001 - 2006	132	Owned
A318	2	2004	114	2016
A318	8	2003 - 2007	114	Owned

We have completed our fleet replacement plan to phase out our Boeing aircraft and have replaced them with a combination of Airbus A319 and A318 aircraft. In March 2000, we entered into a purchase agreement with Airbus, as subsequently amended in April 2006, to purchase 38 Airbus aircraft. As of May 18, 2007, we had taken delivery of 27 of these aircraft, four of which we sold and leased back. In addition, prior to the delivery of two aircraft in fiscal year 2004, we assigned delivery to a lessor and agreed to lease these aircraft over 12-year terms. Our purchase agreement with Airbus also includes purchase rights for up to 17 additional aircraft, and allows us to purchase Airbus A318 or A320 aircraft in lieu of the A319 aircraft at our option. We have remaining firm purchase commitments for 11 Airbus aircraft and 10 Bombardier Q400 aircraft. We anticipate the following fleet composition as of the end of each fiscal year through 2011:

Fiscal Year Ending	A319	A318	A320	Q400	End of Year Cumulative Total Fleet
March 31, 2007	49	8	-	-	57
March 31, 2008	49	11	2	10	72
March 31, 2009	49	11	3	10	73
March 31, 2010	49	11	8	10	78
March 31, 2011	49	11	10	10	80

This table does not include any of the 17 Airbus and ten Bombardier Q400 aircraft for which we have purchase rights and options respectively, which would allow us to take delivery of additional A318, A319 or A320 aircraft beginning in fiscal year 2009. The purchase rights on our Airbus aircraft expire on July 1, 2007 and our last option expires on December 1, 2007 for our Bombardier aircraft, subject to additional extension rights. In addition, we can defer delivery of two A320 aircraft to be delivered in November 2009 and February 2010 into the year 2011.

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Facilities

We lease approximately 70,000 square feet of space at our headquarters facility near DIA. The lease expires in January 2015. We also lease an additional 20,000 square feet of space in a building adjacent to our main headquarters. This lease expires in July 2008. We are currently examining options to acquire additional office space to accommodate our growth.

Our Denver, Colorado reservations facility is 16,000 square foot facility, also in Denver, Colorado, which we have leased for a 10-year lease term ending in June 2011. In August 2000, we established a second reservations center facility in Las Cruces, New Mexico. This facility is approximately 12,000 square feet and is leased for a term of 122 months ending August 2010.

Lynx Aviation currently leases approximately 12,000 square feet of space in Westminster, Colorado. The lease expires in December 2012.

We have entered into an airport lease and facilities agreement expiring in 2010 with the City and County of Denver, Colorado, at DIA for ticket counter space, 22 gates in Concourse A and associated operations space. Our future growth may require us to work with DIA and the City and County of Denver, Colorado to develop access to additional gates and other airport facilities. If the construction of additional facilities is required to meet our growth needs, it is likely that we would be obligated to lease the additional facilities, thereby increasing our overall rates and charges paid to the airport. Because our overall rates and charges will be based on the final project costs as well as the number of passengers and gross weight landed at the airport, it is not possible at this time to determine the amount of future rates and charges at DIA.

We sublease a portion of Continental Airlines' hangar at DIA. The primary term of this sublease expired in February 2007 and we now occupy that facility on a month-to-month basis. Additionally, we lease maintenance facilities in Kansas City, Missouri and Phoenix, Arizona.

Each of our airport locations requires leased space associated with gate operations, ticketing and baggage operations. We either lease the ticket counters, gates, and airport office facilities at each of the airports we serve from the appropriate airport authority or sublease them from other airlines.

Item 3: Legal Proceedings

From time to time, we are engaged in routine litigation incidental to our business. We believe there are no legal proceedings pending in which we are a party or of which any of our property is the subject that are not adequately covered by insurance maintained by us or which have sufficient merit to result in a material adverse affect upon our business, financial condition, results of operations, or liquidity.

Item 4: Submission of Matters to a Vote of Security Holders

None

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PART II

Item 5: Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Price Range of Common Stock

Our common stock is listed on the NASDAQ Global Market and is traded under the symbol FRNT. As of May 18, 2007, there were 1,639 holders of record of our common stock. The following table shows the range of high and low sales prices per share for our common stock for the periods indicated as reported by NASDAQ.

	High	Low
Fiscal Year 2007 Quarter Ended		
June 30, 2006	$ 7.83	$ 5.66
September 30, 2006	$ 8.63	$ 5.79
December 31, 2006	$ 9.08	$ 6.87
March 31, 2007	$ 8.07	$ 5.90
Fiscal Year 2006 Quarter Ended		
June 30, 2005	$ 12.96	$ 9.26
September 30, 2005	$ 13.01	$ 8.90
December 31, 2005	$ 10.92	$ 7.57
March 31, 2006	$ 9.40	$ 6.43

Dividend Policy

We have not declared or paid cash dividends on our common stock. We currently intend to retain any future earnings to fund operations and the continued development of our business, and, thus, do not expect to pay any cash dividends on our common stock in the foreseeable future. Future cash dividends, if any, will be determined by our Board of Directors and will be based upon our earnings, capital requirements, financial condition and other factors deemed relevant by the Board of Directors.

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Performance Graph

The following graph shows the cumulative total shareholder return on Frontier's common stock compared to the cumulative total return of two other indices: (i) The Nasdaq National Market Composite Index of U.S. Companies (IXICN), and (ii) the Peer Group Index of similar line-of business companies consisting of Midwest Express Airlines (MEH), AirTran Holdings, Inc. (AAI), and JetBlue Airways Corporation (JBLU) (the "Peer Group"). JetBlue did not begin trading until April 2002, and is not included in the Peer Group Index until fiscal year 2003. The graph shows the value at the end of each of the last five fiscal years of $100 invested in Frontier Holdings common stock or the indices on March 31, 2002, assumes reinvestment of dividends, and takes into account stock splits. Historical stock price performance is not necessarily indicative of future stock price performance.

	Mar-02	Mar-03	Mar-04	Mar-05	Mar-06	Mar-07
Frontier Airlines Holdings, Inc.	100.00	27.13	56.88	57.21	42.03	32.81
NASDAQ Market Index	100.00	72.68	108.07	108.34	126.79	131.23
Peer Group Index	100.00	70.15	115.46	85.90	138.55	109.92

Issuer Purchases of Equity Securities

The following chart provides information regarding Common Stock purchases by the Company during the period January 1, 2007 through March 31, 2007.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet to be purchased under the plans or program
January 1, 2007 through January 31, 2007	-	-	-	-
February 1, 2007 through February 28, 2007	-	-	-	-
March 1, 2007 through March 31, 2007	212,701	$ 6.14	212,701	87,299

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Item 6: Selected Financial Data

The following selected financial and operating data as of and for each of the years ended March 31, 2007, 2006, 2005, 2004, and 2003 are derived from our audited financial statements. This data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the related notes thereto included elsewhere in this report.

	Year Ended March 31,				
	2007	**2006**	**2005**	**2004**	**2003**
	(Amounts in thousands except per share amounts)				
Statement of Operations Data:					
Total operating revenues	$ 1,170,949	$ 1,001,522	$ 837,585	$ 644,739	$ 469,992
Total operating expenses	1,181,651	1,009,419	864,032	617,257	500,783
Operating income (loss)	(9,834)	(7,897)	(26,447)	27,482	(30,791)
Income (loss) before income tax expense (benefit) and cumulative effect of change in accounting principle	(24,996)	(20,468)	(35,838)	20,457	(39,509)
Income tax expense (benefit)	(4,626)	(6,497)	(12,408)	7,822	(14,655)
Income (loss) before cumulative effect of change in accounting principle	(20,370)	(13,971)	(23,430)	12,635	(24,854)
Cumulative effect of change in accounting principle	-	-	-	-	2,011
Net income (loss)	$ (20,370)	$ (13,971)	$ (23,430)	$ 12,635	$ (22,843)
Income (loss) per share before cumulative effect of a change in accounting principle:					
Basic	$ (0.56)	$ (0.39)	$ (0.66)	$ 0.39	$ (0.84)
Diluted	$ (0.56)	$ (0.39)	$ (0.66)	$ 0.36	$ (0.84)
Net income (loss) per share:					
Basic	$ (0.56)	$ (0.39)	$ (0.66)	$ 0.39	$ (0.77)
Diluted	$ (0.56)	$ (0.39)	$ (0.66)	$ 0.36	$ (0.77)
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 202,981	$ 272,840	$ 174,795	$ 190,609	$ 104,880
Current assets	340,405	390,957	275,550	269,733	191,291
Total assets	1,042,868	970,432	792,011	769,706	588,315
Current liabilities	359,326	301,011	233,850	181,659	130,519
Long-term debt	451,908	405,482	282,792	280,001	261,739
Total liabilities	833,372	741,656	554,090	511,764	429,348
Stockholders' equity	209,496	228,776	237,920	257,942	158,967
Working capital (deficit)	(18,921)	89,946	41,700	88,074	60,772

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	Year Ended March 31,				
	2007	2006	2005	2004	2003
Selected Operating Data - Mainline:					
Passenger revenue (000s) (1)	$ 1,037,302	$ 878,681	$ 731,822	$ 615,390	$ 460,188
Revenue passengers carried (000s)	9,140	7,764	6,653	5,569	3,926
Revenue passenger miles (RPMs) (000s) (3)	8,532,577	7,436,830	6,587,589	5,120,587	3,599,553
Available seat miles (ASMs) (000s) (4)	11,310,070	9,885,599	9,115,868	7,153,740	6,013,261
Passenger load factor (5)	75.4%	75.2%	72.3%	71.6%	59.9%
Break-even load factor (6)	76.3%	75.8%	75.0%	68.8%	65.0%
Block hours (7)	234,965	202,300	182,581	142,466	120,297
Departures	97,554	82,878	72,888	61,812	53,081
Average seats per departure	129.6	129.4	130.1	132.2	132.1
Average stage length	895	922	961	875	858
Average length of haul	934	958	990	919	917
Average daily block hour utilization (8)	11.9	11.5	11.1	10.4	9.8
Passenger yield per RPM (cents) (9), (10)	12.05	11.68	11.03	11.96	12.74
Total yield per RPM (cents) (11)	12.62	12.22	11.44	12.37	13.06
Passenger yield per ASM (cents) (12)	9.09	8.79	7.97	8.56	7.63
Total yield per ASM (cents) (13)	9.52	9.19	8.26	8.86	7.82
Cost per ASM (cents)	9.49	9.13	8.46	8.42	8.33
Fuel expense per ASM (cents)	3.03	2.85	2.04	1.52	1.43
Cost per ASM excluding fuel (cents) (14)	6.46	6.28	6.42	6.90	6.90
Average fare (15)	$ 102.59	$ 103.05	$ 102.31	$ 103.54	$ 108.81
Average aircraft in service	54.1	48.2	44.9	37.3	33.8
Aircraft in service at end of period	57	50	47	38	36
Average age of aircraft at end of period	3.2	2.6	2.5	3.9	7.4
Average fuel cost per gallon (16)	$ 2.12	$ 1.99	$ 1.41	$ 1.04	$ 0.96
Fuel gallons consumed (000's)	161,616	141,474	131,906	104,799	89,236

Selected Operating Data - Regional Partner (2):

Passenger revenue (000s) (1)	$ 94,164	$ 92,826	$ 84,269	$ 11,191	$ -
Revenue passengers carried (000s)	899	912	872	115	-
Revenue passenger miles (RPMs) (000s) (3)	576,431	591,787	527,205	75,974	-
Available seat miles (ASMs) (000s) (4)	799,914	821,244	736,287	111,144	-
Passenger load factor (5)	72.1%	72.1%	71.6%	68.4%	-
Passenger yield per RPM (cents) (9)	16.34	15.69	15.98	14.73	-
Passenger yield per ASM (cents) (12)	11.77	11.30	11.45	10.07	-
Cost per ASM (cents)	13.55	13.01	12.56	13.17	-
Average fare (15)	$ 104.72	$ 101.78	$ 96.66	$ 97.03	$ -
Aircraft in service at end of period	9	9	9	7	-

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	Year Ended March 31, 2007	2006	2005	2004	2003
Selected Operating Data - Combined:					
Passenger revenue (000s) (1)	$ 1,131,466	$ 971,507	$ 816,091	$ 626,581	$ 460,188
Revenue passengers carried (000s)	10,039	8,676	7,525	5,684	3,926
Revenue passenger miles (RPMs) (000s) (3)	9,109,008	8,028,617	7,114,794	5,196,561	3,599,553
Available seat miles (ASMs) (000s) (4)	12,109,984	10,706,843	9,852,155	7,264,884	6,013,261
Passenger load factor (5)	75.2%	75.0%	72.2%	71.5%	59.9%
Passenger yield per RPM (cents) (9), (10)	12.32	11.98	11.39	12.01	12.74
Total yield per RPM (cents) (11)	12.85	12.47	11.77	12.41	13.06
Passenger yield per ASM (cents) (12)	9.27	8.98	8.23	8.59	7.63
Total yield per ASM (cents) (13)	9.67	9.35	8.50	8.87	7.82
Cost per ASM (cents)	9.76	9.43	8.77	8.50	8.33

(1) "Passenger revenue" includes revenues for reduced rate stand-by passengers, charter revenues, administrative fees, and revenue recognized for unused tickets that are greater than one year from issuance date. The incremental revenue from passengers connecting from regional flights to mainline flights is included in our mainline passenger revenue.

(2) Regional Partner operating data includes the operations of Republic, Horizon and Mesa Airlines. On January 11, 2007, we signed an agreement with Republic under which Republic will operate up to 17 Embraer 170 aircraft with capacity of 76-seats under our Frontier JetExpress brand. The contract is for an 11-year period from the in-service date of the last aircraft, which is scheduled for December 2008. The service began on March 4, 2007 and is replacing our agreement with Horizon, which will expire on return of the last aircraft in December 2007. In September 2003, we signed an agreement with Horizon, under which Horizon operates up to nine 70-seat CRJ 700 aircraft under our Frontier JetExpress brand. The service began on January 1, 2004 and replaced our codeshare with Mesa Airlines, which terminated on December 31, 2003. In accordance with Emerging Issues Task Force No. 01-08, "Determining Whether an Arrangement Contains a Lease" ("EITF 01-08"), we have concluded that the Horizon and Republic agreements contain leases as the agreements convey the right to use a specific number and specific type of aircraft over a stated period of time. Therefore, we are recording revenues and expenses related to these agreements on a gross basis. Under the Mesa agreement, we recorded JetExpress revenues reduced by related expenses net in other revenues. JetExpress operations under the Mesa agreement from April 1, 2003 to December 31, 2003 and from February 1, 2003 to March 31, 2003 are not included in regional partner statistics in 2004 and 2003 because the Mesa arrangement was effective prior to May 28, 2003, the effective date of EITF 01-08.

Amounts included in other revenues for Mesa for the years ended March 31, 2007, 2006, 2005, 2004 and 2003 were as follows:

Year Ended March 31,

	2007	2006	2005	2004	2003
Mesa revenues (000s)	$ -	$ -	$ -	$ 25,155	$ 1,608
Mesa expenses (000s)	-	-	-	(23,438)	(2,314)
Net amount in other revenues	$ -	$ -	$ -	$ 1,717	$ (706)

Mesa's revenue passenger miles (RPMs) and available seat miles (ASMs) for the years ended March 31, 2007, 2006, 2005, 2004 and 2003 were as follows:

	Year Ended March 31,				
	2007	2006	2005	2004	2003
Mesa RPMs (000s)	-	-	-	148,163	11,004
Mesa ASMs (000s)	-	-	-	174,435	17,759

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(3) "Revenue passenger miles," or RPMs, are determined by multiplying the number of fare-paying passengers carried by the distance flown. This represents the number of miles flown by revenue paying passengers.
(4) "Available seat miles," or ASMs, are determined by multiplying the number of seats available for passengers by the number of miles flown.
(5) "Passenger load factor" is determined by dividing revenue passenger miles by available seat miles. This represents the percentage of aircraft seating capacity that is actually utilized.
(6) "Break-even load factor" is the passenger load factor that will result in operating revenues being equal to operating expenses, assuming constant revenue per passenger mile and expenses.

A reconciliation of the components of the calculation of break-even load factor is as follows:

	Year Ended March 31,				
	2007	**2006**	**2005**	**2004**	**2003**
			(in thousands)		
(Income) loss before cumulative effect of accounting change	$ 20,370	$ 13,971	$ 23,430	$ (12,635)	$ 24,854
Income tax (expense) benefit	4,626	6,497	12,408	(7,822)	14,655
Passenger revenue	1,037,302	878,681	731,822	615,390	460,188
Regional partner expense	(108,355)	(106,866)	(92,481)	(14,634)	-
Regional partner revenue	94,164	92,826	84,269	11,191	-
Charter revenue	(8,861)	(10,011)	(5,381)	(2,724)	(1,515)
Passenger revenue mainline (excluding charter and regional partner revenue required to break even)	$ 1,039,246	$ 875,098	$ 754,067	$ 588,766	$ 498,182

The calculation of the break-even load factor is as follows:

	Year Ended March 31,				
	2007	**2006**	**2005**	**2004**	**2003**
Passenger revenue mainline (excluding charter and regional partner revenue required to break even) ($000s)	$ 1,039,246	$ 875,098	$ 754,067	$ 588,766	$ 498,182
Mainline yield per RPM (cents)	12.05	11.68	11.03	11.96	12.74
Mainline revenue passenger miles (000s) to break even assuming constant yield per RPM	8,624,448	7,492,277	6,838,110	4,920,834	3,909,610
Mainline available seat miles (000's)	11,310,070	9,885,599	9,115,868	7,153,740	6,013,261
Mainline break-even load factor	76.3%	75.8%	75.0%	68.8%	65.0%

(7) "Block hours" represent the time between aircraft gate departure and aircraft gate arrival.

(8) "Average daily block hour utilization" represents the total block hours divided by the number of aircraft days in service, divided by the weighted average of aircraft in our fleet during that period. The number of aircraft includes all aircraft on our operating certificate, which includes scheduled aircraft, as well as aircraft out of service for maintenance and operational spare aircraft, and excludes aircraft removed permanently from revenue service or new aircraft not yet placed in revenue service. This represents the amount of time that our aircraft spend in the air carrying passengers.

(9) "Passenger yield per RPM" is determined by dividing passenger revenues (excluding charter revenue) by revenue passenger miles.

(10) For purposes of these yield calculations, charter revenue is excluded from passenger revenue. These figures may be deemed non-GAAP financial measures under regulations issued by the SEC. We believe that presentation of yield excluding charter revenue is useful to investors because charter flights are not included in RPMs or ASMs. Furthermore, in preparing operating plans and forecasts, we rely on an analysis of yield exclusive of charter revenue. Our presentation of non-GAAP financial measures should not be viewed as a substitute for our financial or statistical results based on GAAP. The calculation of passenger revenue excluding charter revenue is as follows:

	Year Ended March 31,				
	2007	**2006**	**2005**	**2004**	**2003**
Passenger revenues - mainline, as reported	$ 1,037,302	$ 878,681	$ 731,822	$ 615,390	$ 460,188
Less: charter revenue	8,861	10,011	5,381	2,724	1,515
Passenger revenues - mainline excluding charter	1,028,441	868,670	726,441	612,666	458,673
Add: Passenger revenues - regional partner	94,164	92,826	84,269	11,191	-
Passenger revenues, system combined	$ 1,122,605	$ 961,496	$ 810,710	$ 623,857	$ 458,673

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(11) "Total yield per RPM" is determined by dividing total revenues by revenue passenger miles. This represents the average amount one passenger pays to fly one mile.

(12) "Passenger yield per ASM" or "RASM" is determined by dividing passenger revenues (excluding charter revenue) by available seat miles.

(13) "Total yield per ASM" is determined by dividing total revenues by available seat miles.

(14) This may be deemed a non-GAAP financial measure under regulations issued by the Securities and Exchange Commission. We believe the presentation of financial information excluding fuel expense is useful to investors because we believe that fuel expense tends to fluctuate more than other operating expenses. Excluding fuel from the cost of mainline operations facilitates the comparison of results of operations between current and past periods and enables investors to better forecast future trends in our operations. Furthermore, in preparing operating plans and forecasts, we rely, in part, on trends in our historical results of operations excluding fuel expense. However, our presentation of non-GAAP financial measures should not be viewed as a substitute for our financial results determined in accordance with GAAP.

(15) "Average fare" excludes revenue included in passenger revenue for charter and reduced rate stand-by passengers, administrative fees, and revenue recognized for unused tickets that are greater than one year from issuance date.

(16) "Average fuel cost per gallon" includes non-cash mark to market gains/(losses) from fuel hedging of $12,753,000, $(2,163,000), $2,837,000, and $469,000 for the years ended March 31, 2007, 2006, 2005, and 2004, respectively.

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Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a low cost, affordable fare airline operating primarily in a hub and spoke fashion connecting cities coast to coast through our hub at DIA. We are the second largest jet service carrier at DIA based on departures. We offer our customers a differentiated product, with a new aircraft, affordable pricing, and in-seat DirectTV with 24 channels of live television entertainment with four additional channels of current-run pay-per-view movies in a one class cabin on our mainline routes. As of March 31, 2007, we, in conjunction with Frontier JetExpress, operate routes linking our Denver hub to 46 U.S. cities from coast to coast, to eight cities in Mexico and to one city in Canada. As of March 31, 2007, we provided jet service to Mexico from ten non-hub cities and we began service between San Francisco, California and Los Angeles, California with five daily frequencies on June 29, 2006 and service between San Francisco, California and Las Vegas, Nevada on December 14, 2006 with one daily frequency.

During the year ended March 31, 2007, we had a net loss of $20,370,000 or 56¢ per diluted share, as compared to a net loss of $13,971,000 or 39¢ per diluted share for the year ended March 31, 2006. Included in our net loss for the year ended March 31, 2007 was a non-cash mark to market derivative gain which decreased fuel expense by $12,753,000 and $656,000 in gains on Boeing parts held for sale which were offset by a tax valuation allowance of $3,980,000. These items, net of income taxes, decreased our net loss by 12¢ per share for the year ended March 31, 2007. Included in our net loss for the year ended March 31, 2006 was a non-cash mark to market derivative loss, which increased fuel expense by $2,163,000 and $3,414,000 of aircraft and facility exit charges which related primarily to three leased Boeing 737-300 aircraft we ceased using during the first quarter of fiscal year 2006, offset by gains on the sale of Boeing parts held for sale of $1,144,000 These items, net of income taxes, increased our net loss by 8¢ per share for the year ended March 31, 2006.

Our losses over the past three years have been primarily driven by rising fuel costs and our inability to pass these increases on to our customers due to a highly competitive market. We have seen a sharp rise in fuel costs since January 2004, and fuel costs may continue to increase or remain at these historically high levels. Our average fuel cost per gallon, including hedging activities, was $2.12 for the year ended March 31, 2007 compared to $1.99 for the year ended March 31, 2006, an increase of 6.5%. We have implemented several strategic initiatives to decrease our fuel burn rate during the year, which resulted in a decrease of our fuel burn rate to an average of 688 gallons per block hour from an average of 699 gallons per block hour for fiscal year 2006, a decrease of 1.6%.

We have increased passenger revenues by 18.1% over the prior year which is a result of increasing our capacity (as measured by ASM's) by 14.4% while increasing our passenger yields by 3.2%. The increase in our passenger yields can be primarily attributed to a 2.5% reduction in our average length of haul as we had a decrease of our average fare from $103.05 to $102.59, or 0.4%, due to competitive pricing pressure.

We have relatively low operating expenses excluding fuel because we currently operate a single fleet of aircraft on our mainline routes in a single class of service with high aircraft utilization rates. Our mainline CASM, or cost per available seat mile, for the year ended March 31, 2007 and 2006 was 9.49¢ and 9.13¢, respectively, an increase of 3.9%. The increase in mainline CASM was largely due to an increase in fuel expense to 3.03¢ per ASM from 2.85¢ per ASM for the years ended March 31, 2007 and 2006, respectively, an increase of 6.3%. Mainline CASM excluding fuel was 6.46¢ per ASM as compared to 6.28¢ per ASM for the years ended March 31, 2007 and 2006, respectively, an increase of 2.9%. This increase in mainline CASM is partially due to $3,582,000 of start-up costs in Lynx Aviation, $3,800,000 of expenses (primarily deicing expense) associated with unusually inclement weather at DIA, a decrease in the average stage length of 2.9%, an increase in promotion and sales expense related to increased rates in reservation and travel agency expenses and increases in advertising spending.

We intend to continue our focused growth strategy, which included the completion of our fleet transition from a Boeing fleet to an all Airbus fleet in April 2005. One of the key elements of this strategy is to produce cost savings because crew training is standardized for aircraft of a common type, maintenance issues are simplified, spare parts inventory is reduced and scheduling is more efficient. As of March 31, 2007, we have remaining firm purchase commitments for 13 Airbus aircraft from Airbus and ten Q400 aircraft from Bombardier. We intend to use these additional aircraft to provide service to new markets and to add frequencies to existing markets that we believe are underserved.

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The airline industry continues to operate in an intensely competitive market. We expect competition will remain intense, as over-capacity in the industry continues to exists. Business and leisure travelers continue to reevaluate their travel budgets and remain highly price sensitive. Increased competition has prompted aggressive strategies from competitors through discounted fares and sales promotions. Additionally, the intense competition has created financial hardship for some of our competitors that have been forced to reduce capacity or have been forced into bankruptcy protection.

Highlights from the 2007 Fiscal Year

- We took delivery of six new Airbus A319 aircraft and one new Airbus A318 aircraft (3 owned and 4 leased), for an increase of seven aircraft and a fleet total of 57 available for revenue service at year end.

- In January 2007, the DOT designated us as a major carrier, which is U.S.-based airlines that post more than $1 billion in revenue during a fiscal year.

- We formed a new subsidiary, Lynx Aviation, Inc., which intends to assume a purchase agreement between Frontier Holdings and Bombardier, Inc. for ten Q400 turboprop aircraft (with an option to purchase ten additional aircraft) and will be operated with its own operating certificate.

- On January 11, 2007, we signed an agreement with Republic Airlines, Inc., which Republic will operate up to 17 Embraer 170 aircraft with capacity of 76-seats under our Frontier JetExpress brand. The service began on March 4, 2007 and is replacing our agreement with Horizon.

- The City and County of Denver announced that it reached an agreement with United Airlines under which United Airlines gave up the six gates it leased on Concourse A. We lease these gates on a preferential basis.

- We unveiled “A Whole Different Website” with new features and functionality.

- We renewed our title as the official and now exclusive airline sponsor of the Colorado Rockies, Denver's major league baseball team, for an additional five years.

- We entered into an exclusive three year agreement with Marriott International’s guest loyalty program, Marriott Rewards®, in conjunction with our *EarlyReturns*® frequent flyer program.

- In December 2006, the readers of Business Traveler magazine selected us as the best low cost carrier in the U.S. in the magazine’s 18th annual Readers’ Choice Business Travel Survey.

- In November 2006, we partnered with AirTran Airways to create the first Low Cost Carrier referral and frequent flyer partnership in the industry that offers travelers the ability to reach more than 80 destinations across four countries. This partnership enables both airlines to increase destination options by linking phone and online reservations systems as well as enabling our *EarlyReturns*® and AirTran’s A+ Rewards members to earn and redeem mileage/travel credits on both airlines.

- On November 30, 2006, our flight attendants voted against union representation by the IBT. This is the fifth time our flight attendants voted against union representation.

- In February 2007, FAPA ratified a new collective bargaining agreement. The new four-year agreement amended the previous five-year contract signed in May 2000.

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Outlook

Although we have been able to raise capital and continue to grow, the highly competitive nature of the airline industry could prevent us from attaining the passenger traffic or yields required to reach profitable operations in new and existing markets. We expect our mainline full-year operating capacity for fiscal year 2008 to increase by approximately 12% to 14% over fiscal year 2007 with the addition of three A318's, two A320's and ten Q400's. While the industry revenue environment remains extremely competitive, our passenger revenue per available seat mile is expected to increase slightly in fiscal year 2008. Our mainline cost per available seat mile, excluding fuel, is expected to also rise slightly over fiscal 2007 as we will be investing in the start-up operations of Lynx Aviation for the first two quarters of fiscal year 2008 until revenue service begins, which is estimated to be in September 2007. Fuel costs have risen sharply in 2007 and may remain at these historically high levels or increase even further. Due to the unpredictability of the price of fuel and these historically high fuel costs, we cannot predict if we will be profitable in fiscal 2008.

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Selected Mainline Operating Statistics

To a large extent, changes in operating expenses for airlines are driven by changes in capacity, or ASMs. The following table provides our operating revenues and expenses for our mainline operations expressed as cents per total mainline ASMs and as a percentage of total mainline operating revenues, as rounded, for years ended March 31, 2007, 2006, and 2005. Regional partner revenues, expenses and ASMs were excluded from this table. This data should be read in conjunction with "Selected Financial Data" contained in Item 6 to this report.

	2007		2006		2005	
	Revenue/Cost Per ASM (in cents)	% Of Total Revenue	Revenue/Cost Per ASM (in cents)	% Of Total Revenue	Revenue/Cost Per ASM (in cents)	% Of Total Revenue
Revenues:						
Passenger - mainline	9.17	96.3%	8.89	96.7%	8.03	97.1%
Cargo	0.06	0.7%	0.06	0.6%	0.05	0.7%
Other	0.29	3.0%	0.24	2.7%	0.18	2.2%
Total revenues	9.52	100.0%	9.19	100.0%	8.26	100.0%
Operating expenses:						
Flight operations	1.43	15.0%	1.43	15.5%	1.45	17.5%
Aircraft fuel expense	3.03	31.9%	2.85	31.0%	2.04	24.7%
Aircraft lease expense	0.96	10.1%	0.95	10.4%	0.95	11.5%
Aircraft and traffic servicing	1.47	15.5%	1.40	15.2%	1.42	17.2%
Maintenance	0.78	8.2%	0.78	8.5%	0.84	10.2%
Promotion and sales	1.02	10.7%	0.91	9.9%	0.88	10.7%
General and administrative	0.50	5.2%	0.50	5.4%	0.53	6.4%
Aircraft lease and facility exit costs	-	-	0.03	0.4%	-	-
Impairments and (gains)/ losses on sales of assets, net	(0.01)	(0.1)%	(0.01)	(0.1)%	0.06	0.7%
Depreciation	0.31	3.2%	0.29	3.1%	0.29	3.5%
Total operating expenses	9.49	99.7%	9.13	99.3%	8.46	102.4%

Results of Operations - Year Ended March 31, 2007 Compared to Year Ended March 31, 2006

We had a net loss of $20,370,000 or 56¢ per diluted share for the year ended March 31, 2007, as compared to a net loss of $13,971,000 or 39¢ per diluted share for the year ended March 31, 2006. Included in our net loss for the year ended March 31, 2007 was a tax valuation allowance of $3,980,000 offset by a non-cash mark to market derivative gain which decreased fuel expense by $12,753,000 and $656,000 in gains on Boeing parts held for sale. These items, net of income taxes, decreased our net loss by 12¢ per share for the year ended March 31, 2007.

Included in our net loss for the year ended March 31, 2006 were the following items before the effect of income taxes: aircraft lease and facility exit charges of $3,414,000 primarily relating to three leased Boeing 737-300 aircraft that we ceased using during the first quarter, gains of $1,144,000 related to the sale of Boeing parts held for sale and other assets and a non-cash mark to market loss on fuel hedges of $2,163,000. These items, net of income taxes, increased our net loss by 8¢ per share.

Mainline Revenues

Industry fare pricing behavior has a significant impact on our revenues. Because of the elasticity of passenger demand, we believe that increases in fares may at certain levels result in a decrease in passenger demand in many markets. We cannot predict future fare levels, which depend to a substantial degree on actions of

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competitors and the economy. When sale prices or other price changes are initiated by competitors in our markets, we believe that we must, in most cases, match those competitive fares in order to maintain our market share. In addition, certain markets we serve are destinations that cater to vacation or leisure travelers, resulting in seasonal fluctuations in passenger demand and revenues in these markets.

Passenger Revenues - Mainline. Mainline passenger revenues totaled $1,037,302,000 for the year ended March 31, 2007 compared to $878,681,000 for the year ended March 31, 2006, an increase of 18.1%. Mainline passenger revenues include revenues for reduced rate stand-by passengers, charter revenue, administrative fees, revenue recognized for tickets that are not used within one year from their issue dates and revenue recognized from our co-branded credit card agreement.

Revenues from ticketed passenger sales generated 90.4% of our mainline passenger revenues and increased $137,676,000 or 17.2% over the year ended March 31, 2006. The increase in mainline revenue earned from ticketed passenger sales resulted from a 14.4% increase in ASMs, or $115,282,000, an increase of 0.2 points in load factor, or $2,596,000, and an increase in our yields from ticket sales of 2.2% or $19,798,000. The percentage of revenues generated from other sources compared to total mainline passenger revenue are as follows: Administrative fees were 2.7%; revenue recognized for tickets that were not used within one year from issuance were 3.0%, charter revenues were 0.9% and revenue from our co-branded credit card were 1.9%. These sources of revenue increased total mainline passenger revenues by $20,317,000 as compared to the year ended March 31, 2006.

Other Revenues. Other revenues, comprised principally of the revenue from the marketing component of our co-branded credit card, interline and ground handling fees, liquor sales, LiveTV sales, pay-per-view movies and excess baggage fees totaled $32,603,000 and $24,338,000 for the year ended March 31, 2007 and March 31, 2006, respectively, an increase of 34.0% and were 3.0% and 2.7% of total mainline operating revenues for the years ended March 31, 2007 and 2006. The increase in other revenues was primarily due to the increase of $6,646,000 in the revenues earned for the marketing component of our co-branded credit card agreement and other partnership agreements.

Mainline Operating Expenses

Total mainline operating expenses were $1,073,296,000 and $902,553,000 for the years ended March 31, 2007 and 2006, respectively, an increase of 18.9%, and represented 99.7% and 99.3% of total mainline revenues, respectively. Mainline operating expenses increased slightly as a percentage of mainline revenue during the year ended March 31, 2006 largely a result of a 6.5% increase in our aircraft fuel cost per gallon for the year ended March 31, 2006 as compared to the prior comparable period.

Salaries, Wages and Benefits. We record salaries, wages and benefits within the specific expense category identified in our statements of operations to which they pertain. Salaries, wages and benefits increased 12.4% to $246,568,000 compared to $219,380,000, and were 22.9% and 24.1% of total mainline revenues for the years ended March 31, 2007 and 2006, respectively. Salaries, wages and benefits increased over the prior comparable period largely as a result of an increase in the number of full-time equivalent employees to support our continued capacity growth. Our full-time equivalent employee count increased from approximately 4,200 at March 31, 2006 to 4,800 at March 31, 2007, or 14.3%.

Flight Operations. Flight operations expenses increased 14.3% to $161,544,000 as compared to $141,316,000, and were 15.0% and 15.5% of total mainline revenues, for the year ended March 31, 2007 and 2006, respectively. Flight operations expenses increased due to an increase in mainline block hours from 202,300 for the year ended March 31, 2006 to 234,965 for the year ended March 31, 2007, an increase of 16.1%. Flight operations expenses include all expenses related directly to the operation of the aircraft excluding depreciation of owned aircraft and aircraft lease expenses and including insurance expenses, pilot and flight attendant compensation, in-flight catering, crew overnight expenses, flight dispatch and flight operations administrative expenses.

Pilot and flight attendant salaries before payroll taxes and benefits increased 15.1% to $95,020,000 compared to $82,566,000, and were 8.8% and 9.1% of total mainline revenue for the year ended March 31, 2007 and 2006, respectively. We employed approximately 1,865 full time equivalent pilots and flight attendants at March 31, 2007 as compared to 1,614 at March 31, 2006, an increase of 15.6%. We increased the number of pilots and flight attendants over the prior year to support the 16.1% increase in block hours and the 12.2% increase in the average aircraft in service.

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Aircraft insurance expenses totaled $9,819,000 (0.9% of total mainline revenue) and $9,896,000 (1.1% of total mainline revenue) for the years ended March 31, 2007 and 2006, respectively. Aircraft insurance expenses were $1.07 per passenger and $1.27 per passenger for the years ended March 31, 2007 and 2006, respectively, a decrease on a per passenger basis of 15.7%. Our aircraft hull and liability coverage renewed on January 1, 2006 to December 31, 2006 at rates that were reduced by 9.9%. Our rates were further reduced by 33.4% for the policy that covers January 1, 2007 to December 31, 2007. In December 2002, through authority granted under the Homeland Security Act of 2002, the U.S. government expanded its insurance program to enable airlines to elect either the government's excess third-party war risk coverage or for the government to become the primary insurer for all war risks coverage. We elected to take primary government coverage in February 2003 and dropped the commercially available war risk coverage. The current government war risk policy is in effect until August 31, 2007. We do not know whether the government will extend the coverage beyond August 31, 2007 and if it does how long the extension will last. We expect that if the government stops providing excess war risk coverage to the airline industry, the premiums charged by aviation insurers for this coverage will be substantially higher than the premiums currently charged by the government or the coverage will not be available from reputable underwriters.

Aircraft Fuel. Aircraft fuel costs of $343,082,000 for 161,616,000 gallons used and $281,906,000 for 141,474,000 gallons used and resulted in an average fuel cost of $2.12 and $1.99 per gallon for the year ended March 31, 2007 and 2006, respectively, an increase of 6.5% per gallon. Aircraft fuel costs, excluding hedging losses and gains, were $2.18 and $2.02 per gallon for the year ended March 31, 2007 and 2006, respectively, an increase of 7.9%. Aircraft fuel expenses represented 31.9% and 31.0% of total mainline revenue for the years ended March 31, 2007 and 2006, respectively. Fuel prices are subject to change weekly as we purchase a very small portion in advance for inventory. Fuel consumption for the years ended March 31, 2007 and 2006 averaged 688 and 699 gallons per block hour, respectively, a decrease of 1.6%. Fuel consumption per block hour decreased during the year ended March 31, 2007 from the prior year due to the implementation of several fuel conservation initiatives.

Our aircraft fuel expenses for the year ended March 31, 2007 include a non-cash mark to market derivative gain of $12,753,000 recorded as a decrease to fuel expense offset by cash settlements of $3,925,000 paid to a counter-party recorded as an increase in fuel expense. Our aircraft fuel expenses for the year ended March 31, 2006 include a non-cash mark to market derivative loss of $2,163,000 recorded an increase to fuel expense offset by cash settlements of $5,338,000 received from a counter-party recorded as a decrease in fuel expense.

Aircraft and Engine Lease. Aircraft lease expenses totaled $108,623,000 (10.1% of total mainline revenue) and $94,229,000 (10.4% of total mainline revenue) for the years ended March 31, 2007 and 2006, respectively, an increase of 15.3%. The increase in lease expense is due to an increase in the average number of leased aircraft from 32.7 to 36.7, or 12.2%, and increases in lease rates for four of our aircraft that have variable rents based on LIBOR.

Aircraft and Traffic Servicing. Aircraft and traffic servicing expenses were $166,525,000 and $138,492,000, an increase of 20.2%, for the years ended March 31, 2007 and 2006, respectively, and represented 15.5% and 15.2% of total mainline revenues. Aircraft and traffic servicing expenses will increase with the addition of new cities to our route system. Aircraft and traffic servicing expenses include all expenses incurred at airports including landing fees, facilities rental, station labor, ground handling expenses, and interrupted trip expenses associated with delayed or cancelled flights. Interrupted trip expenses are amounts paid to other airlines to protect passengers on cancelled flights as well as hotel, meal and other incidental expenses. During the year ended March 31, 2007, our departures increased to 97,554 from 82,878 for the year ended March 31, 2006, an increase of 17.7%. Aircraft and traffic servicing expenses were $1,707 per departure for the year ended March 31, 2007 as compared to $1,671 per departure for the year ended March 31, 2006, an increase of 2.2%. Aircraft and traffic servicing during the year ended March 31, 2007 included an increase in glycol expenses of $3,300,000, or 83.6%, over the prior year primarily related to the significant snow storms in Denver in December 2006 and January 2007. In addition, we had additional operating costs of $5,106,000 during the year ended March 31, 2007 as compared to the fiscal year ended March 31, 2006 primarily related to our Los Angeles to San Francisco shuttle, which operated five times a day, and an increase in the rates charged by the Los Angeles airport.

Maintenance. Maintenance expenses of $87,978,000 and $77,238,000 were 8.2% and 8.5% of total revenue for the years ended March 31, 2007 and 2006, respectively, an increase of 13.9% as compared to the year ended March 31, 2006. Maintenance expenses include all labor, parts and supplies expenses related to the maintenance of the aircraft. Maintenance cost per block hour was $374 and $382 for the years ended March 31,

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2007 and 2006, respectively, a decrease of 2.1%, primarily related to several leased aircraft in which supplemental rent amounts reached the maximum reserve amount required during the year and increases in maintenance labor performed in which we receive reimbursement against these reserves.

Promotion and Sales. Promotion and sales expenses totaled $115,536,000 and $89,751,000 and were 10.7% and 9.9% of total mainline revenues for the years ended March 31, 2007 and 2006, respectively, an increase of 28.7%. These expenses include advertising expenses, telecommunications expenses, wages and benefits for reservation agents and related supervision as well as marketing management and sales personnel, credit card fees, travel agency commissions and computer reservations costs. During the year ended March 31, 2006, promotion and sales expense was reduced by $4,444,000 due to the favorable resolution of a sales and use tax credit on the taxation of ticketing services that related to the period September 2001 to March 2005. During the year ended March 31, 2007, promotion and sales expenses, per mainline passenger increased to $12.64 from $12.13 (excluding the sales and use tax credit) for the year ended March 31, 2006. Promotion and sales expenses per mainline passenger increased primarily as a result of an increase in the commission rates paid to external travel websites, an increase in advertising expenses and the inclusion of the favorable tax ruling in the fiscal year 2006 promotion and sales expense.

General and Administrative. General and administrative expenses for the years ended March 31, 2007 and 2006 totaled $56,019,000 and $48,979,000, respectively, an increase of 14.4%, and were 5.2% and 5.4% of total mainline revenues, respectively. General and administrative expenses include the wages and benefits for our executive officers and various other administrative personnel including legal, accounting, information technology, corporate communications, training and human resources and other expenses associated with these departments. General and administrative expenses also include employee health benefits, accrued vacation, and general insurance expenses including worker's compensation for all of our employees. General and administrative expenses increased due to increases in our worker's compensation expense, consulting and legal expenses (primarily related to the start-up of Lynx Aviation) offset by a reduction in our health insurance expense as compared to the year ended March 31, 2006.

Depreciation. Depreciation expenses were $34,702,000 and $28,372,000 and were approximately 3.2% and 3.1% of total mainline revenue for the years ended March 31, 2007 and 2006, respectively, an increase of 22.3%. These expenses include depreciation of aircraft and aircraft components, office equipment, ground station equipment, and other fixed assets. The increase in depreciation is primarily due to an increase in the average number of purchased aircraft in service to 17.7 during the year ended March 31, 2007 as compared to 15.5 purchased aircraft in service for the year ended March 31, 2006, an increase of 14.2%. The increase in depreciation expense is also due to accelerated depreciation on our aircraft seats which we are replacing over the next two fiscal years and investments in rotable aircraft components, aircraft improvements and ground equipment to support the 14.4% increase in our capacity during the year ended March 31, 2007.

Business interruption insurance proceeds. We recorded insurance proceeds of $868,000 as a result of final settlements of business interruption claims that covered lost profits when our service to Cancun, Mexico and New Orleans, Louisiana were disrupted by hurricanes during the fiscal year ended March 31, 2006.

Nonoperating (Income) Expense. Net nonoperating expense totaled $15,162,000 for the year ended March 31, 2007 as compared to net nonoperating expense of $12,571,000 for the year ended March 31, 2006, an increase of 20.6%.

Interest income increased to $14,982,000 from $9,366,000 during the year ended March 31, 2007 from the year ended March 31, 2006 as a result of an increase in short-term interest rates earned on investments and an increase in our average cash position during the year ended March 31, 2007 largely as a result of the net proceeds of $88,759,000 from our convertible notes offering in December 2005.

Interest expense, net of capitalized interest, increased to $29,899,000 for the year ended March 31, 2007 from $21,758,000 for the year ended March 31, 2006, an increase of 37.4%. The increase in interest expense was a result of additional debt for the acquisition of three additional purchased aircraft, an increase in the weighted average borrowing rate and additional debt of $92,000,000 from our convertible notes offering in December 2005. Debt related to aircraft increased from $335,756,000 as of March 31, 2006 to $386,755,000 as of March 31, 2007 with an increase in the average weighted interest rate from 6.55% to 7.15% as of March 31, 2006 and 2007, respectively.

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Income Tax Benefit. We recorded an income tax benefit of $4,626,000 during the year ended March 31, 2007, which includes a valuation allowance of $3,980,000 which resulted in an effective tax rate of 18.5%, compared to an income tax benefit of $6,497,000 during the year ended March 31, 2006 at a 31.7% rate. During the year ended March 31, 2007, our tax benefit was at a federal rate of 35.0% plus the blended state rate of 2.7% (net of federal benefit) and was decreased by the tax effect of permanent differences of 3.6%. During the years ended March 31, 2007 and 2006, we recorded valuation allowances of $3,980,000 and $273,000 against federal and certain state net operating loss carryforwards since it was more likely than not that these tax benefits were not going to be realized due to lack of taxable income in these jurisdictions before those net operating loss carryforwards expire.

Regional Partner

Regional partner revenues are derived from Frontier JetExpress operated by Horizon and Republic. Our mainline passenger revenue increases as a result of incremental revenue from passengers connecting to/from regional flights. Operating expenses include all direct costs associated with Frontier JetExpress operated by Horizon and Republic plus payments of performance bonuses if earned under the contract. Certain expenses such as aircraft lease, maintenance and crew costs are included in the operating agreements with Horizon and Republic in which we reimburse these expenses plus a margin. Operating expenses also include other direct costs incurred for which we do not pay a margin. These expenses are primarily composed of fuel, airport facility expenses and passenger related expenses.

Passenger Revenues - Regional Partner. Regional partner revenues, consisting of revenues from Frontier JetExpress operated by Horizon and Republic, totaled $94,164,000 for the year ended March 31, 2007 and $92,826,000 for the year ended March 31, 2006, a 1.4% increase. The increase in revenue is due to an increase in the average fare to $104.72 during the year ended March 31, 2007 from $101.78 during the year ended March 31, 2006, an increase of 2.9%.

Operating Expenses - Regional Partner. Regional partner expense for the year ended March 31, 2007 and 2006 totaled $108,355,000 and $106,866,000, respectively, a 1.4% increase, and was 115.1% of total regional partner revenues for each of the years ended March 31, 2007 and 2006. Regional partner operating expenses include all direct costs associated with Frontier JetExpress operated by Horizon and Republic. The increase in expenses is primarily due to a $1,450,000 increase in fuel expense for the regional partner operations as compared to the prior year.

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Results of Operations - Year Ended March 31, 2006 Compared to Year Ended March 31, 2005

We had a net loss of $13,971,000 or 39¢ per diluted share for the year ended March 31, 2006, as compared to a net loss of $23,430,000 or $0.66 per diluted share for the year ended March 31, 2005. Included in our net loss for the year ended March 31, 2006 were the following items before the effect of income taxes: aircraft lease and facility exit charges of $3,414,000 primarily relating to three leased Boeing 737-300 aircraft that we ceased using during the first quarter and a non-cash mark to market loss on fuel hedges of $2,163,000, offset by gains of $1,144,000 related to the sale of Boeing parts held for sale and other assets. These items, net of income taxes, increased our net loss by 8¢ per share. Also, included in our results is $421,000 in additional federal airport security expenses due to a retroactive assessment by the TSA. We believe this assessment is improper and are vigorously contesting it.

Included in our net loss for the year ended March 31, 2005 were the following items before the effect of income taxes: a write down of $5,123,000 of the carrying value of expendable Boeing 737 inventory and losses on sales of assets of $85,000 which was partially offset by and non-cash mark to market gain on fuel hedges of $2,837,000. These items, net of income taxes, increased our net loss by 4¢ per diluted share.

Mainline Revenues

Passenger Revenues - Mainline. Mainline passenger revenues totaled $878,681,000 for the year ended March 31, 2006 compared to $731,822,000 for the year ended March 31, 2005, an increase of $146,859,000 or 20.0%.

Revenues from ticket sales generated 91.0% of our mainline passenger revenues and increased $119,360,000 or 17.5% over prior year. The increase in ticket sales resulted from an 8.4% increase in ASMs, or $57,476,000, a 4.0% increase in load factor, or $30,274,000, and a 4.1% increase in our yields from ticket sales, or $31,610,000. Revenues generated from other sources and the percentage of mainline passenger revenues are as follows: Administrative fees were 2.4%; revenue recognized for tickets that are not used within one year from issuance were 2.9%, charter revenues were 1.1% and earnings from our co-branded credit card were 1.3%. These sources of revenue increased mainline passenger revenue by $18,737,000 as compared to prior year, or 38.1%, due to our 16.7% increase in passengers and the increased usage of our co-branded credit card.

Other Revenues. Other revenues totaled $24,338,000 for the year ended March 31, 2006 compared to $16,536,000 for the year ended March 31, 2005, an increase of $7,802,000 or 47.2%. The increase in other revenues was primarily due to an increase the revenue received from our co-branded credit card, increased revenue generated from ground handling contracts, increased revenues in excess baggage fees and pay-per-view movies.

Mainline Operating Expenses

Total mainline operating expenses were $902,553,000 and $771,551,000 for the years ended March 31, 2006 and 2005, respectively, and represented 99.3% and 102.4% of total mainline revenues, respectively. Mainline operating expenses decreased as a percentage of mainline revenue during the year ended March 31, 2006 largely a result of a 10.3% increase in our RASM coupled with an increase in our load factors of 2.9 points. This decrease was significantly offset by an increase of 41.1% in our aircraft fuel cost per gallon for the year ended March 31, 2006 as compared to the prior comparable period.

Salaries, Wages and Benefits. We record salaries, wages and benefits within the specific expense category identified in our statements of operations to which they pertain. Salaries, wages and benefits increased 8.4% to $219,380,000 compared to $202,341,000, and were 24.1% and 26.9% of total mainline revenues for the years ended March 31, 2006 and 2005, respectively. Salaries, wages and benefits increased over the prior comparable periods largely as a result of general wage increases, increases in heath insurance costs and increases in workers compensation insurance. Our full time equivalent employee count increased 13.5% from 3,700 at March 31, 2005 to 4,200 at March 31, 2006.

Flight Operations. Flight operations expenses increased 7.0% to $141,316,000 as compared to $132,022,000, and were 15.5% and 17.5% of total mainline revenues, for the year ended March 31, 2006 and 2005, respectively. Flight operations expenses increased due to an increase in mainline block hours from 182,581 for the year ended March 31, 2005 to 202,300 for the year ended March 31, 2006, an increase of 10.8%.

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Pilot and flight attendant salaries before payroll taxes and benefits increased 13.9% to $82,566,000 compared to $72,487,000, and were 9.1% and 9.6% of total mainline revenue for the year ended March 31, 2006 and 2005, respectively. We increased the number of pilots and flight attendants over the prior year by 16.1% to support the 10.8% increase in block hours and the 7.3% increase in the average aircraft in service.

Aircraft insurance expenses totaled $9,896,000 (1.1% of total mainline revenues) and $10,219,000 (1.4% of total mainline revenue) for the year ended March 31, 2006 and 2005, respectively, a decrease of 3.2%. Aircraft insurance expenses were 13¢ and 16¢ per RPM for the year ended March 31, 2006 and 2005, respectively, a decrease of 18.8%. Our aircraft hull and liability coverage was renewed at reduced premium rates twice during the year.

Aircraft Fuel. Aircraft fuel costs of $281,906,000 for 141,474,000 gallons used and $185,821,000 for 131,906,000 gallons used and resulted in an average fuel cost of $1.99 and $1.41 per gallon for the year ended March 31, 2006 and 2005, respectively, an increase of 41.1% per gallon. Aircraft fuel costs, excluding hedging losses and gains, were $2.02 and $1.47 per gallon for the year ended March 31, 2006 and 2005, respectively, an increase of 37.4%. Aircraft fuel expenses represented 31.0% and 24.7% of total mainline revenue for the years ended March 31, 2006 and 2005, respectively. Our results of operations for the year ended March 31, 2006 include a non-cash mark to market derivative loss of $2,163,000 and realized gains of $5,338,000 in cash settlements received from a counter-party recorded as a decrease in fuel expense. Our results of operations for the year ended March 31, 2005 include a non-cash mark to market derivative gain of $2,837,000 and a realized gain of approximately $4,768,000 in cash settlements received from a counter-party recorded as a decreases in fuel expense.

Aircraft Lease. Aircraft lease expenses totaled $94,229,000 (10.4% of total mainline revenues) and $87,096,000 (11.5% of total mainline revenue) for the years ended March 31, 2006 and 2005, respectively, an increase of 8.2%. The increase in lease expense is due to an increase in the average number of leased aircraft from 30.9 to 32.7, or 5.8%, costs associated with the late return of certain Boeing aircraft, increases in lease rates for four of our aircraft that have variable rents based on LIBOR and additional rent related to two spare engine leases.

Aircraft and Traffic Servicing. Aircraft and traffic servicing expenses were $138,492,000 and $129,470,000, an increase of 7.0%, for the years ended March 31, 2006 and 2005, respectively, and represented 15.2% and 17.2% of total mainline revenues. During the year ended March 31, 2006, we added a net of six cities with mainline only service. During the year ended March 31, 2006, our departures increased to 82,878 from 72,888 for the year ended March 31, 2005, an increase of 13.7%. Aircraft and traffic servicing expenses were $1,671 per departure for the year ended March 31, 2006 as compared to $1,776 per departure for the year ended March 31, 2005, a decrease of 5.9%. This decrease in the amount of expenses per departure is related to the realization of economies of scale.

Maintenance. Maintenance expenses of $77,238,000 and $76,679,000 were 8.5% and 10.2% of total mainline revenues for the years ended March 31, 2006 and 2005, respectively, an increase of 0.7%. Maintenance cost per block hour was $382 and $420 for the years ended March 31, 2006 and 2005, respectively, a decrease of 9.0%. Maintenance cost per block hour decreased as a result of our transition to an all Airbus fleet that is less costly to maintain than our older Boeing aircraft, offset slightly by maintenance costs associated with meeting the return condition requirements of five Boeing aircraft during the year. Our mainline average age of aircraft was 2.6 years as of March 31, 2006.

Promotion and Sales. Promotion and sales expenses totaled $89,751,000 and $80,407,000 and were 9.9% and 10.7% of total mainlines revenues for the years ended March 31, 2006 and 2005, respectively, an increase of 11.6%. During the year ended March 31, 2006, promotion and sales expense was reduced by $4,444,000 due to the favorable resolution in the current fiscal year of a sales and use tax credit on the taxation of ticketing services which related to the period September 2001 to March 2005. During the year ended March 31, 2006, promotion and sales expenses, excluding this item, per mainline passenger increased to $12.13 from $12.09 for the year ended March 31, 2005. Promotion and sales expenses per mainline passenger increased primarily as a result of an increase in the commission rates paid to external travel websites.

General and Administrative. General and administrative expenses for the years ended March 31, 2006 and 2005 totaled $48,979,000 and $48,350,000, respectively, an increase of 1.3%, and were 5.4% and 6.4% of total

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mainline revenues respectively. General and administrative expenses remained relatively flat, despite increased rates for health insurance and worker's compensation, due to $2,958,000 of expenses incurred during the fiscal year ended March 31, 2005 for the Sabre implementation .

Aircraft Lease and Facility Exit Costs. In April 2005, we finalized our transition to an all Airbus fleet and ceased using three of our Boeing 737-300 leased aircraft, which had original lease termination dates in September 2005, August 2005 and May 2006. We negotiated an early termination fee for the aircraft with an original termination date of May 2006. As such, we recorded a charge of $3,312,000 to reflect the estimated fair value of the remaining lease payments and a one-time early return payment. We also recorded $102,000 of facility exit costs for a revised estimate of time to obtain a sublease on leased space we ceased using in fiscal year 2005. There were no similar costs incurred during the year ended March 31, 2005.

Gains and Losses on Sales of Assets, Net. During the year ended March 31, 2006, we had net gains totaling $1,144,000, which related primarily to the sale of Boeing spare parts. During the year ended March 31, 2005, we incurred a net loss totaling $85,000 on the sale of Boeing spare parts and other assets.

Depreciation. Depreciation expenses were $28,372,000 and $26,498,000, or approximately 3.1% and 3.5% of total mainline revenues for the years ended March 31, 2006 and 2005, respectively, an increase of 7.1%. The increase in depreciation expense is primarily due to an increase in the average number of owned aircraft from 14.0 to 15.5, or 10.7%.

Nonoperating (Income) Expense. Net nonoperating expense totaled $12,571,000 for the year ended March 31, 2006 as compared to net nonoperating expense of $9,391,000 for the year ended March 31, 2005, an increase of 33.9%.

Interest income increased to $9,366,000 from $3,758,000 during the year ended March 31, 2006 from the prior year as a result of an increase in short-term interest rates earned on investments and an increase in our cash position largely as a result of the net proceeds of $88,759,000 from our convertible notes offering in December 2005.

Interest expense increased to $21,758,000 for the year ended March 31, 2006 from $13,184,000 for the year ended March 31, 2005, an increase of 65.0%. The increase in interest expense was a result of additional debt for the acquisition of two additional purchased aircraft, an increase in the weighted average borrowing rate and additional debt of $92,000,000 from our convertible notes offering in December 2005. Interest on our convertible notes is at a fixed rate of 5.0% and resulted in an increase of $1,651,000 in interest expense. Debt related to aircraft increased from $301,015,000 as of March 31, 2005 to $335,756,000 as of March 31, 2006 with an increase in the average weighted interest rate from 4.82% to 6.55% as of March 31, 2005 and 2006, respectively.

Income Tax Benefit. We recorded an income tax benefit of $6,497,000 during the year ended March 31, 2006 at a 31.7% rate, compared to an income tax benefit of $12,408,000 during the year ended March 31, 2005 at a 34.6% rate. During the year ended March 31, 2006, our tax benefit was at a federal rate of 35.0% plus the blended state rate of 3.0% (net of federal benefit) and was decreased by the tax effect of permanent differences of 3.6%. During the year ended March 31, 2006, we increased our valuation allowance by $273,000 against certain state net operating loss carryforwards since it was more likely than not that the tax benefit was not going to be realized due to lack of taxable income in these jurisdictions before those net operating loss carryforwards expire.

Regional Partner

Passenger Revenues - Regional Partner. Regional partner revenues totaled $92,826,000 for the year ended March 31, 2006 and $84,269,000 for the year ended March 31, 2005, a 10.2% increase. The increase in revenue is due to an increase in our utilization of the aircraft resulting in an increase of 4.6% in passengers coupled with an increase in the average fare to $101.78 from $96.66, an increase of 5.3%.

Operating Expenses - Regional Partner. Regional partner operating expenses for the year ended March 31, 2006 and 2005 totaled $106,866,000 and $92,481,000, respectively, and was 115.1% and 109.7% of total regional partner revenues, respectively. The increase in operating expenses is primarily due to a 47.2% increase in fuel expense for the regional partner operations and an increase in performance bonuses paid.

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Liquidity and Capital Resources

Our liquidity depends to a large extent on the number of passengers who fly with us, advanced ticket sales, the fares they pay, our operating and capital expenditures, our financing activities, and the cost of fuel. We depend on lease or mortgage-style financing to acquire all of our aircraft, including 13 additional Airbus aircraft that as of March 31, 2007 are scheduled for delivery through August 2010 and ten Bombardier aircraft scheduled for delivery through December 2007.

We had cash and cash equivalents of $202,981,000 and $272,840,000 at March 31, 2007 and March 31, 2006, respectively. At March 31, 2007, total current assets were $340,405,000 as compared to $359,326,000 of total current liabilities, resulting in negative working capital of $18,921,000. At March 31, 2006, total current assets were $390,957,000 as compared to $301,011,000 of total current liabilities, resulting in working capital of $89,946,000. The decrease in our working capital from March 31, 2006 to March 31, 2007 is largely a result of an increase in our air traffic liability of $30,091,000 and cash used for aircraft pre-delivery payments for our Airbus and Bombardier aircraft and other capital expenditures.

Operating Activities. Cash provided by operating activities for the year ended March 31, 2007 was $23,227,000 as compared to $79,642,000 for the year ended March 31, 2006. The decrease in operating cash flows was primarily due to an increase in our bankcard and letter of credit collateral requirements of $9,161,000, which increased our restricted cash. We also increased our fuel and expendable inventories by $9,012,000 to support the increase in the number of aircraft in our fleet.

Investing Activities. Cash used in investing activities for the year ended March 31, 2007 was $141,310,000. Capital expenditures of $172,270,000 for the year ended March 31, 2007 included the purchase of three Airbus A319 aircraft, one Airbus A318 aircraft and one spare engine, the purchase of LiveTV equipment, rotable aircraft components, aircraft improvements, information technology enhancements and ground equipment. We received $43,947,000 primarily from the sale of one of the three newly acquired Airbus A319 aircraft and a spare engine in two sale-leaseback transactions and proceeds from the sale of Boeing assets held for sale. Aircraft lease and purchase deposits made during the period were $47,933,000, including $15,276,000 for pre-delivery payments on Bombardier Q400 aircraft, and pre-delivery payments and deposits totaling $34,946,000 were applied against the purchase of four Airbus A319 aircraft, one spare engine and LiveTV equipment.

Cash used in investing activities for the year ended March 31, 2006 was $95,502,000. Capital expenditures were $93,775,000 for the year ended March 31, 2006 and included the purchase of two Airbus A319 aircraft, the purchase of LiveTV equipment, the purchase of one spare engine that was delivered to us and that we sold in a sale-leaseback transaction, rotable aircraft components, aircraft improvements and ground equipment. We received $9,843,000 from the sale of the spare engine that we sold in a sale-leaseback transaction, the sale of Boeing spare parts held for sale and other assets. Aircraft lease and purchase deposits made during the period were $36,117,000, which was offset by pre-delivery payments totaling $19,513,000 applied against the purchase of two Airbus A319 aircraft and LiveTV equipment.

Financing Activities. Cash provided by financing activities for the year ended March 31, 2007 was $48,224,000. During the year ended March 31, 2007, we paid $23,439,000 of debt principal payments on our 19 owned aircraft and we borrowed $74,438,000 to purchase two additional Airbus A319 aircraft and one Airbus A318 aircraft. We were also required to increase our compensation balance at a bank by $750,000 to secure letters of credit.

Cash provided by financing activities for the year ended March 31, 2006 was $116,905,000. On December 7, 2005, we completed the issuance of $92,000,000 principal amount of 5% convertible notes due 2025, raising net proceeds of approximately $88,759,000. The net proceeds from our convertible debt offering are being used for general working capital purposes and capital expenditures related to the purchase of financing of aircraft and expansion of our operations. During the year ended March 31, 2006, we borrowed $54,700,000 for the purchase of two Airbus A319 aircraft, paid $19,959,000 of debt principal payments on 16 owned aircraft and repaid short-term borrowings of $5,000,000 under a revolving line of credit. During the year ended March 31, 2006, we also received $1,551,000 from the exercise of common stock options and paid $1,146,000 of fees for aircraft debt financing.

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Other Items That Impact Our Liquidity

We continue to assess our liquidity position in light of our aircraft purchase commitments and other capital requirements, the economy, our competition, and other uncertainties surrounding the airline industry. In September 2005, we filed a shelf registration statement with the SEC, which will enable us to periodically sell up to $250,000,000 in preferred and common stock and debt and other securities. In December 2005, in the first offering under this shelf registration statement, we issued $92,000,000 of 5% convertible notes due 2025. We intend to continue to examine domestic or foreign bank aircraft financing, bank lines of credit, aircraft sale-leasebacks, and other transactions as necessary to support our capital and operating needs. For further information on our financing plans, activities and commitments, see "Contractual Obligations" and "Commercial Commitments" below.

We have obtained financing for all of our planned Airbus aircraft deliveries until February 2008 and all ten Bombardier aircraft for which we have firm purchase commitments and expect to have adequate liquidity to cover our contractual obligations. However, we cannot predict future trends or predict whether current trends and conditions will continue. Our future liquidity and capital resources may be impacted by many factors, including those described as "Risk Factors" in Item 1A of this report.

We currently sublease a substantial part of a maintenance hangar located at DIA from Continental Airlines. We use this facility to perform our heavy maintenance and some of our line maintenance. The sublease expired in February 2007 and we are currently on a month-to-month lease. The inability to locate an existing facility at similar lease rates may cause us to increase our overall maintenance costs or we may be required to build or lease a new maintenance facility. To the extent these facilities are located at airports other than DIA, we may incur relocation expenses and higher than normal staff attrition.

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Contractual Obligations

The following table summarizes our contractual obligations as of March 31, 2007:

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt - principal payments (1)	$ 478,755	$ 26,847	$ 58,581	$ 82,937	$ 310,390
Long-term debt - interest payments (1)	246,146	31,476	56,923	47,173	110,574
Operating leases (2)	1,690,342	163,982	353,573	334,848	837,939
Unconditional purchase obligations (3) (4) (5)	721,788	353,463	297,896	70,429	-
Total contractual cash obligations	$ 3,137,031	$ 575,768	$ 766,973	$ 535,387	$ 1,258,903

(1) At March 31, 2007, we had 19 loan agreements for 13 Airbus A319 aircraft and six Airbus A318 aircraft. Two of the loans have a term of 10 years and are payable in equal monthly installments, including interest, payable in arrears. These loans require monthly principal and interest payments of $218,000 and $215,000, bear interest with rates of 6.71% and 6.54%, and mature in May and August 2011, at which time a balloon payment totaling $10,200,000 is due with respect to each loan. The remaining 17 loans have interest rates based on LIBOR plus margins that adjust quarterly or semi-annually. At March 31, 2007, interest rates for these loans ranged from 6.63% to 7.99%. Each of these loans has a term of 12 years, and each loan has balloon payments ranging from $2,640,000 to $9,215,000 at the end of the term. All of the loans are secured by the aircraft. Actual interest payments will change based on changes in LIBOR. In July 2005, we also entered into a junior loan in the amount of $4,900,000 on an Airbus A319 aircraft. This loan has a seven-year term with quarterly installments of approximately $250,000. The loan bears interest at a floating rate adjusted quarterly based on LIBOR, which was 9.13% at March 31, 2007.

In December 2005, we issued $92,000,000 of 5% convertible notes due 2025. At any time on or after December 20, 2010, we may redeem any of the convertible notes for the principal amount plus accrued interest. Note holders may require us to repurchase the notes for cash for the principal amount plus accrued interest only on December 15, 2010, 2015 and 2020 or at any time prior to their maturity following a designated event as defined in the indenture for the convertible notes. In the contractual obligations table above, the convertible notes are reflected based on their stated maturity of December 2025 with the corresponding interest payments. However, these notes may be called five years from the date of issuance which would impact the timing of the principal payments and the amount of interest paid.

(2) As of March 31, 2007, we have leased 36 Airbus A319 type aircraft and two Airbus A318 aircraft under operating leases with expiration dates ranging from 2013 to 2019. Under all of our leases, we have made cash security deposits, which totaled $18,205,000 at March 31, 2007. Additionally, we are required to make additional rent

payments to cover the cost of major scheduled maintenance overhauls of these aircraft. These additional rent payments are based on the number of flight hours flown and/or flight departures and are not included as an obligation in the table above. During the years ended March 31, 2007, 2006, and 2005, additional rent expense to cover the cost of major scheduled maintenance overhauls of these aircraft totaled $26,187,000, $24,933,000 and $25,974,000, respectively, and are included in maintenance expense in the statement of operations.

On January 11, 2007, we signed an agreement with Republic, under which Republic will operate up to 17 Embraer 170 aircraft each with capacity of up to 76-seats under our Frontier JetExpress brand. The contract period is for an 11-year period starting on the date the last aircraft is placed in service, which is scheduled for December 2008. The service began on March 4, 2007 and replaces our agreement with Horizon. In the contractual obligations table above, fixed costs associated with the Republic and Horizon agreements are reflected through their respective stated contract periods.

We also lease office space, spare engines and office equipment for our headquarters and airport facilities, and certain other equipment with expiration dates ranging from 2007 to 2015. In addition, we lease certain airport gate facilities and maintenance facilities on a month-to-month basis. Amounts for leases that are on a month-to-month basis are not included as an obligation in the table above.

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(3) As of March 31, 2007, we have remaining firm purchase commitments for 13 additional aircraft from Airbus that have scheduled delivery dates beginning in April 2007 and continuing through August 2010 and one remaining firm purchase commitment for one spare Airbus engine scheduled for delivery in December 2009. We also have ten remaining firm purchase commitments from Bombardier that have scheduled delivery dates all in fiscal year 2008. Included in the purchase commitments are the remaining amounts due Airbus and Bombardier and amounts for spare aircraft components to support the additional aircraft. We are not under any contractual obligations with respect to spare parts.

We have secured financing commitments totaling approximately $225,300,000 for 13 of these additional aircraft, including commitments for all of our scheduled Airbus deliveries until February 2008 and all ten Bombardier aircraft. To complete the purchase of the remaining aircraft, we must secure additional aircraft financing totaling approximately $320,000,000 assuming bank financing was used for the remaining ten aircraft. The terms of the purchase agreement do not allow for cancellations of any of the purchase commitments. If we are unable to secure all the necessary financing it could result in the loss of pre-delivery payments and deposits previously paid to the manufacturer totaling $14,833,000 for these aircraft for which we have not yet secured financing. We expect to finance these remaining firm commitments through various financing alternatives, including, but not limited to, domestic and foreign bank financing, leveraged lease arrangements or sale/leaseback transactions. There can be no assurances that additional financing will be available when required or will be on acceptable terms. Additionally, the terms of the purchase agreement with the manufacturer would require us to pay penalties or damages in the event of any breach of contract with our supplier, including possible termination of the agreement. As of March 31, 2007, we had made pre-delivery payments on future aircraft deliveries totaling $52,453,000 of which $14,833,000 relates to aircraft for which we have not yet secured financing and $37,620,000 relates to aircraft for which we have secured financing.

(4) In October 2002, we entered into a purchase and 12-year services agreement with LiveTV to bring DIRECTV AIRBORNE™ satellite programming to every seatback in our Airbus fleet. We intend to install LiveTV in every new Airbus aircraft we place in service. The table above includes amounts for the installation of DirecTV for the remaining 13 Airbus aircraft we currently expect to purchase, less deposits made of $896,000.

(5) In March 2004, we entered into a services agreement with Sabre, Inc. for its SabreSonic™ passenger solution to power our reservations and check-in capabilities along with a broad scope of technology for streamlining our operations and improving revenues. The table above includes minimum annual system usage fees. Usage fees are based on passengers booked, and actual amounts paid may be in excess of the minimum per the contract terms.

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Commercial Commitments and Off-Balance Sheet Arrangements

Letters of Credit and Cash Deposits

As we enter new markets, increase the amount of space we lease, or add leased aircraft, we are often required to provide the airport authorities and lessors with a letter of credit, bond or cash security deposits. These generally approximate up to three months of rent and fees. We also provide letters of credit for our workers' compensation insurance. As of March 31, 2007, we had outstanding letters of credit, bonds, and cash security deposits totaling $18,996,000, $1,914,000 and $20,850,000 respectively.

We also have an agreement with a financial institution where we can issue letters of credit of up to 60% of certain spare parts inventories less amounts borrowed under the credit facility. As of May 1, 2007, we had $16,500,000 available under this facility, which is reduced by letters of credit issued of $11,300,000.

In July 2005, we entered into an additional agreement with another financial institution for a $5,000,000 revolving line of credit that permits us to issue letters of credit up to $3,500,000. In June 2006, the revolving line of credit was increased to $5,750,000 and it now permits us to issue letters of credit up to $5,000,000. As of March 31, 2007, we have utilized $4,821,000 under this agreement for standby letters of credit that provide credit support for certain facility leases.

We have a contract with a bankcard processor that requires us to pledge a certificate of deposit equal to a certain percentage of our air traffic liability associated with the estimated amount of bankcard transactions. As of March 31, 2007, that amount totaled $39,186,000. The amount is adjusted quarterly in arrears based on our air traffic liability associated with these estimated bankcard transactions. As of June 1, 2007, our requirements results in an increase of approximately $16,016,000.

We use the Airline Reporting Corporation ("ARC") to provide reporting and settlement services for travel agency sales and other related transactions. In order to maintain the minimum bond (or irrevocable letter of credit) coverage of $100,000, ARC requires participating carriers to meet, on a quarterly basis, certain financial tests such as, working capital ratio, and percentage of debt to debt plus equity. As of March 31, 2007, we met these financial tests and presently are only obligated to provide the minimum amount of $100,000 in coverage to ARC. If we failed the minimum testing requirements, we would be required to increase our bonding coverage to four times the weekly agency net cash sales (sales net of refunds and agency commissions). Based on net cash sales remitted to us for the week ended May 18, 2007, the bond coverage would be increased to $5,038,000 if we failed the tests. If we were unable to increase the bond amount as a result of our then financial condition, we could be required to issue a letter of credit that would restrict cash in an amount equal to the letter of credit.

Hedging Transactions

In November 2002, we initiated a fuel hedging program comprised of swap and collar agreements. Under a swap agreement, the cash settlements are calculated based on the difference between a fixed swap price and a price based on an agreed upon published spot price for the underlying commodity. If the index price is higher than the fixed price, we receive the difference between the fixed price and the spot price. If the index price is lower, we pay the difference. A collar agreement has a cap price and a floor price. When the hedged product's index price is above the cap, we receive the difference between the index and the cap. When the hedged product's index price is below the floor we pay the difference between the index and the floor. When the price is between the cap price and the floor, no payments are required. These fuel hedges have been designated as trading instruments, as such realized and mark to market adjustments are included in aircraft fuel expense. The results of operations for the year ended March 31, 2007, 2006 and 2005 include non-cash mark to market derivative gains/(losses) of $12,753,000, $(2,163,000) and $2,837,000, respectively. Cash settlements for fuel derivatives contracts for the year ended March 31, 2007, 2006, and 2005 were payments of $3,925,000, and receipts of $5,338,000 and $4,768,000, respectively. We have entered into the following swap and collar agreements that cover periods during our fiscal years 2007 and 2008:

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Date	Product *	Notional volume ** (barrels per month)	Period covered	Price (per gallon or barrel)	Percentage of estimated fuel purchases
November 2005	Jet A	50,000	April 1, 2006 - June 30, 2006	$1.83 per gallon, with a floor of $1.6925 per gallon	15%
June 2006	Crude Oil	85,000	July 1, 2006 - September 30, 2006	$76.00 per barrel cap, with a floor of $67.15	24%
June 2006	Crude Oil	50,000	October 31, 2006 - December 31, 2006	$77.00 per barrel cap, with a floor of $69.40	14%
September 2006	Jet A	90,000	October 1, 2006 - December 31, 2006	Swap priced at $1.9545 per gallon	26%
September 2006	Jet A	55,000	January 1, 2007 - March 31, 2007	$2.27 per gallon, with a floor of $1.9485 per gallon	15%
September 2006	Jet A	70,000	October 1, 2006 - December 31, 2006	$1.94 per gallon, with a floor of $1.7775 per gallon	20%
January 2007	Jet A	100,000	April 1, 2007 - June 30, 2007	Swap priced at $1.817 per gallon	26%
January 2007	Crude Oil	40,000	July 1, 2007- September 30, 2007	$64.70 per barrel cap, with a floor of $59.15	10%
January 2007	Crude Oil	80,000	October 1, 2007 - December 31, 2007	$65.90 per barrel cap, with a floor of $59.90	20%
January 2007	Crude Oil	80,000	April 1, 2007 - June 30, 2007	$59.30 per barrel cap, with a floor of $49.30	20%
January 2007	Crude Oil	80,000	July 1, 2007- September 30, 2007	$60.75 per barrel cap, with a floor of $50.45	20%
January 2007	Crude Oil	80,000	October 1, 2007 - December 31, 2007	$62.00 per barrel cap, with a floor of $51.10	20%
January 2007	Crude Oil	80,000	January 1, 2008 -	$62.60 per barrel cap, with a floor of $52.10	19%

March 31, 2008

*Jet A is Gulf Coast Jet A fuel. Crude oil is West Texas Intermediate crude oil.
**One barrel is equal to 42 gallons.

In March 2003, we entered into an interest rate swap agreement with a notional amount of $27,000,000 to hedge a portion of our LIBOR based borrowings through March 31, 2007. Under the interest rate swap agreement, we are paying a fixed rate of 2.45% and receive a variable rate based on the three month LIBOR. During the years ended March 31, 2007 and 2006, interest expense was decreased by $187,000 and $216,000, respectively, as a result of this agreement. At March 31, 2007 and 2006, the interest rate swap agreement had estimated values of $0 and $105,000, respectively, which were included in deferred loan fees and other assets.

Changes in the fair value of interest rate swaps designated as hedging instruments are reported in accumulated other comprehensive income included in stockholders' equity. Approximately $105,000 of mark to market gains are included in accumulated other comprehensive income included in stockholders' equity, net of

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income taxes of $40,000, for the year ended March 31, 2007. Approximately $238,000 of mark to market gains are included in accumulated other comprehensive income included in stockholders' equity, net of income taxes of $87,000, for the year ended March 31, 2006.

Maintenance Contracts

Effective January 1, 2003, we entered into an engine maintenance agreement with GE Engine Services, Inc. ("GE") covering the scheduled and unscheduled repair of our aircraft engines used on most of our Airbus aircraft. The agreement was subsequently modified and extended in September 2004. The agreement is for a 12-year period from the effective date for our owned aircraft or May 1, 2019, whichever comes first. For each leased aircraft, the term coincides with the initial lease term of 12 years. This agreement precludes us from using another third party for such services during the term. For owned aircraft, this agreement requires monthly payments at a specified rate multiplied by the number of flight hours the engines were operated during that month. The costs under this agreement for our purchased aircraft for the years ended March 31, 2007, 2006, and 2005 were approximately $6,374,000, $3,545,000 and $2,603,000, respectively. Any unplanned maintenance expenses not otherwise covered by reserves are paid by us. For our leased aircraft that are covered by the agreement, we do not make the flight hour payments to GE under the agreement; instead we make engine maintenance reserve payments which are expensed as paid as required under the applicable lease agreements. At the time a leased engine makes a scheduled shop visit, the lessors pay GE directly for the repair of aircraft engines from reserve accounts established under the applicable lease documents. To the extent actual maintenance expenses incurred exceed these reserves, we are required to pay these amounts.

Fuel Consortia

We participate in numerous fuel consortia with other carriers at major airports to reduce the costs of fuel distribution and storage. Interline agreements govern the rights and responsibilities of the consortia members and provide for the allocation of the overall costs to operate the consortia based on usage. The consortia (and in limited cases, the participating carriers) have entered into long-term agreements to lease certain airport fuel storage and distribution facilities that are typically financed through tax-exempt bonds (either special facilities lease revenue bonds or general airport revenue bonds), issued by various local municipalities. In general, each consortium lease agreement requires the consortium to make lease payments in amounts sufficient to pay the maturing principal and interest payments on the bonds. As of March 31, 2007, approximately $562,757,000 principal amount of such bonds were secured by fuel facility leases at major hubs in which we participate, as to which each of the signatory airlines has provided indirect guarantees of the debt. Our exposure is approximately $24,412,000 principal amount of such bonds based on our most recent consortia participation. Our exposure could increase if the participation of other carriers decreases or if other carriers default. The guarantees will expire when the tax-exempt bonds are paid in full, which ranges from 2011 to 2033. We can exit any of our fuel consortia agreements with limited penalties and certain advance notice requirements. We have not recorded a liability on our consolidated balance sheets related to these indirect guarantees.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Critical accounting policies are defined as those that are both important to the portrayal of our financial condition and results, and require management to exercise significant judgments. Our most critical accounting policies are described briefly below.

Revenue Recognition

Passenger, cargo, and other revenues are recognized when the transportation is provided or after the tickets expire, one year after date of issuance, and are net of excise taxes, passenger facility charges and security fees. Revenues that have been deferred are included in the accompanying consolidated balance sheets as air traffic liability. Included in passenger revenue are change fees which may be imposed on passengers for making schedule

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changes to non-refundable tickets. Change fees are recognized as revenue at the time the change fees are collected from the passenger as they are a separate transaction that occurs subsequent to the date of the original ticket sale.

Aircraft Maintenance

We operate under an FAA-approved continuous inspection and maintenance program. We account for maintenance activities on the direct expense method. Under this method, major overhaul maintenance costs are recognized as expense as maintenance services are performed, as flight hours are flown for nonrefundable maintenance payments required by lease agreements, and as the obligation is incurred for payments made under service agreements. Routine maintenance and repairs are charged to operations as incurred.

Effective January 1, 2003, we executed a 12-year engine services agreement with GE covering the scheduled and unscheduled repair of Airbus engines. This agreement was extended to May 1, 2019 in September 2004. Under the terms of the services agreement, we agreed to pay GE an annual rate per-engine-hour, payable monthly, and GE assumed the responsibility to overhaul our engines on Airbus aircraft as required during the term of the services agreement, subject to certain exclusions. We believe the rate per-engine hour approximates the periodic cost we would have incurred to service those engines. Accordingly, these payments are expensed as the obligation is incurred.

Derivative Instruments

We account for derivative financial instruments in accordance with the provisions of Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS 133”). SFAS 133 requires us to measure all derivatives at fair value and to recognize them in the balance sheet as an asset or liability. For derivatives designated as cash flow hedges, changes in fair value of the derivative are generally reported in other comprehensive income and are subsequently reclassified into earnings when the hedged item affects earnings. Changes in fair value of derivative instruments not designated as hedging instruments and ineffective portions of hedges are recognized in earnings in the current period.

We enter into derivative instruments to hedge the interest payments associated with a portion of our LIBOR-based borrowings and fuel purchases. We designate certain interest rate swaps as qualifying cash flow hedges. We also enter into derivative instruments to reduce exposure to the effect of fluctuations in fuel prices. These transactions are accounted for as trading instruments under SFAS 133. As a result, we record these instruments at fair market value and recognize realized and mark to market gains and losses in aircraft fuel expense.

Customer Loyalty Program

In 2001, we established *EarlyReturns*®, a frequent flyer program to encourage travel on our airline and foster customer loyalty. We account for the *EarlyReturns*® program under the incremental cost method whereby travel awards are valued at the incremental cost of carrying one passenger based on expected redemptions. Those incremental costs are based on expectations of expenses to be incurred on a per passenger basis and include food and beverages, fuel, liability insurance, and ticketing costs. The incremental costs do not include allocations of overhead expenses, salaries, aircraft cost or flight profit or losses. We do not record a liability for mileage earned by participants who have not reached the level to become eligible for a free travel award. We do not record a liability for the expected redemption of miles for non-travel awards since the cost to us of these awards is negligible.

As of March 31, 2007 and 2006, we estimated that approximately 324,000 and 193,000 round-trip flight awards, respectively, were eligible for redemption by *EarlyReturns*® members who have mileage credits exceeding the 15,000-mile free round-trip domestic ticket award threshold. As of March 31, 2007 and 2006, we had recorded a liability of approximately $4,249,000 and $2,776,000, respectively, for these rewards.

We sell points in *EarlyReturns*® to third parties. The portion of the sale that is for travel is deferred and recognized as passenger revenue when we estimate transportation is provided. The remaining portion, referred to as the marketing component, is recognized in the month received and included in other revenue.

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Co-Branded Credit Card Arrangement

We entered into a co-branded credit card arrangement with a MasterCard issuing bank in March 2003. In May 2007, this agreement was amended to extend the contract to December 2014 with enhanced financial terms. The terms of this affinity agreement provide that we will receive a fixed fee for each new account, which varies based on the type of account, and a percentage of the annual renewal fees that the bank receives. We receive an increased fee for new accounts solicited by us. We also receive fees for the purchase of frequent flier miles awarded to the credit card customers.

We account for all fees received under the co-branded credit card program by allocating the fees between the portion that represents the estimated value of the subsequent travel award to be provided, and the portion which represents a marketing fee to cover marketing and other related costs to administer the program. This latter portion (referred to as the marketing component) represents the residual after determining the value of the travel component. The component representing travel is determined by reference to an equivalent restricted fare, which is used as a proxy for the value of travel of a frequent flyer mileage award. The travel component is deferred and recognized as revenue over the estimated usage period of the frequent flyer mileage awards of 20 months. We have estimated the period over which the frequent flier mileage awards will be used based on the history of usage of the frequent flier mileage awards. We record the marketing component of the revenue earned under this agreement in other revenue in the month received.

For the year ended March 31, 2007, we earned total fees of $36,917,000. Of that amount, $25,219,000 was deferred as the travel award component, with the remaining marketing component of $11,698,000 recognized as other revenue. For the year ended March 31, 2006, we earned total fees of $24,986,000. Of that amount, $19,686,000 was deferred as the travel award component, with the remaining marketing component of $5,300,000 recognized as other revenue. For the year ended March 31, 2005, we earned total fees of $12,227,000. Of that amount, $8,455,000 was deferred as the travel award component, and the remaining marketing component of $3,772,000 was recognized as other revenue. Amortization of deferred revenue recognized in earnings during the years ended March 31, 2007, 2006 and 2005 was $20,158,000, $11,059,000 and $4,396,000, respectively.

Income Taxes

We account for income taxes using the asset and liability method. Under that method, deferred income taxes are recognized for the tax consequences of “temporary differences” by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax bases of existing assets and liabilities and net operating losses (“NOL’s”) and tax credit carryforwards. A valuation allowance is provided to the extent that it is more likely than not that deferred tax assets will not be realized.

During the year ended March 31, 2007, we recorded additional valuation allowances of $3,980,000 against our net deferred tax asset related to state and federal net operating loss carryforwards. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We considered the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The NOL’s that have been generated are due in large part to the accelerated depreciation over a shorter useful life for tax purposes. While we continue to take delivery of new aircraft, we expect our fleet acquisitions to be substantially complete by fiscal 2009. Since our NOL’s do not begin to expire until 2023, we expect these NOL’s to be available in future periods when tax depreciation is at a minimal level, and taxable income is high. However, based upon the level of historical book losses, we provided a valuation allowance in fiscal 2007 for the net deferred tax asset. Based upon the projections for future taxable income over the periods in which the deferred tax assets become deductible, and available tax planning strategies, we believe it is more likely than not that we will realize the benefits of the deductible differences, net of our existing valuation allowances at March 31, 2007. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

Self-Insurance

We are self insured for the majority of our group health insurance costs, subject to specific retention levels. We rely on claims experience and the advice of consulting actuaries and administrators in determining an adequate liability for self-insurance claims. Our self-insurance healthcare liability represents our estimate of claims that have been incurred but not reported as of March 31, 2007. This liability, which totaled $1,639,000 at March 31, 2007, was estimated based on our claims experience. We determine the actual average claims cost per employee and the number of days between the incurrence of a claim and the date it is paid. The estimate of our liability for employee healthcare represents our estimate of unreported claims with an increase in claims based on trend factors.

We are also self-insured for the majority of our workers' compensation cost. Our liability for workers' compensation claims is the estimated total cost of the claims on a fully-developed basis, up to a maximum amount, based on reserves for these claims that are established by a third-party administrator. The liability at March 31, 2007 totaled $7,178,000.

While we believe that the estimate of our self-insurance liabilities are reasonable, significant differences in our experience or a significant change in any of our assumptions could materially affect the amount of healthcare and workers compensation expenses we have recorded.

Stock-Based Compensation.

We estimate the fair value of stock options and stock appreciation rights granted using the Black-Scholes-Merton option pricing model and the assumptions shown in Note 12 to our consolidated financial statements. We estimate the expected term of options granted using our historical exercise patterns, which we believe are representative of future exercise behavior. We estimate volatility of our common stock using the historical closing prices of our common stock using the period equal to the expected term of the options, which we believe is representative of the future behavior of our common stock. Our risk-free interest rate assumption is determined using the Federal Reserve nominal rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued. We have never paid any cash dividends on our common stock and we do not anticipate paying any cash dividends in the foreseeable future. Therefore, we assumed an expected dividend yield of zero. Stock-based compensation expense for restricted stock units ("RSU") are based on the fair value of our common stock on the date of grant and is amortized over the vesting period, generally five years. Each RSU is settled in shares of our common stock after the vesting period. We record stock-based compensation expense only for those options and awards expected to vest using an estimated forfeiture rate based on our historical pre-vesting forfeiture data and periodically will revise those estimates in subsequent periods if actual forfeitures differ from those estimates.

New Accounting Standards Not Yet Adopted

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Interpretation is effective for fiscal years beginning after December 15, 2006. We have not yet reached a final determination of the potential financial statement impact of the adoption of FIN 48 but we do not expected it to have a material impact on the Company's financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, ("FAS 157"). This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We have not yet determined the impact of the adopting FAS 157.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159*, The Fair Value Option for Financial Assets and Financial Liabilities* ("FAS 159"). This standard permits companies to choose to measure many financial instruments and certain other items at fair value, following the provisions of SFAS No. 157.
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