

Frontier Airlines Holdings, Inc.
Form 10-K
June 30, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2008

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

Commission file number: **000-51890**

FRONTIER AIRLINES HOLDINGS, INC.

(DEBTOR AND DEBTOR-IN-POSSESSION as of April 10, 2008)

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporated or organization)

20-4191157

(I.R.S. Employer Identification No.)

7001 Tower Road, Denver, CO

(Address of principal executive offices)

80249

(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	

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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

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

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 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, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer or accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer Non-accelerated filer
(Do not check if a smaller reporting company) Smaller reporting company

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

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, 2007 was \$226,812,395.

The number of shares of the Company's common stock outstanding as of June 23, 2008 is 36,945,744.

Documents Incorporated By Reference. Part III of this Form 10-K will be filed with the Securities and Exchange Commission as an amendment to this Form 10-K in accordance with General Instruction G(3).

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PART I

Item 1: Business

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 its subsidiaries 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.

You should understand that many important factors, in addition to those discussed or incorporated by reference in this report, could cause our results to differ materially from those expressed in the forward-looking statements. Potential factors that could affect our results include, in addition to others not described in this report, those described in Item 1A of this report under Risks Related to Frontier and Risks Associated with the Airline Industry. In light of these risks and uncertainties, the forward-looking events discussed in this report might not occur. 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 report

In this report, references to us, we, or the company refer to Frontier Airlines Holdings, Inc. unless the context requires otherwise.

Chapter 11 Bankruptcy Filings

On April 10, 2008 (the Petition Date), Frontier Airlines Holdings, Inc. (Frontier Holdings) and its subsidiaries Frontier Airlines, Inc. (Frontier Airlines) and Lynx Aviation, Inc. (Lynx), filed voluntary petitions for reorganization under Chapter 11 of Title 11 of the United States Code (the Bankruptcy Code) in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court). The cases are being jointly administered under Case No. 08-11298 (RDD). We cannot provide any assurance as to what values, if any, will be ascribed in our bankruptcy proceedings to our various pre-petition liabilities, common stock and other securities. We believe that our currently outstanding common stock will have no value and will be canceled under any plan of reorganization we might propose and that the value of our various pre-petition liabilities and other securities is highly speculative. Accordingly, caution should be exercised with respect to existing and future investments in any of these liabilities or securities. In addition, trading of our common stock on the NASDAQ Stock Exchange was suspended on April 22, 2008, and our common stock was delisted from the NASDAQ Stock Exchange on May 22, 2008. Additional information about our Chapter 11 filing is available on the internet at www.frontierairlines.com/restructure and Bankruptcy Court filings and claims information are also available at www.frontier-restructuring.com.

Chapter 11 Process

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Frontier Holdings, Frontier Airlines and Lynx (collectively the Debtors) are currently operating as debtors in possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. In general, as debtors in possession, we are authorized under Chapter 11 to continue to operate as an ongoing business, but may not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court. In several recent bankruptcies in our industry, the airline ceased operations, and we can give no assurance that we will be able to continue to operate our business or successfully reorganize.

The Bankruptcy Court has approved various motions for relief designed to allow us to continue normal operations. The Bankruptcy Court's orders authorize us, among other things, in our discretion to: (a) pay pre-petition and post-petition employee wages, salaries, benefits and other employee obligations; (b) pay certain vendors and other providers in the ordinary course for goods and services received from and after the Petition Date; (c) honor

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customer service programs, including our *Early Returns* frequent flyer program and our ticketing programs; (d) honor certain obligations arising prior to the Petition Date related to our interline, clearinghouse, code sharing and other similar agreements; and (e) continue maintenance of existing bank accounts and existing cash management systems.

Shortly after the Petition Date, the Debtors began notifying all known current or potential creditors of the Chapter 11 filing. Subject to certain exceptions under the Bankruptcy Code, the Debtors' Chapter 11 filing automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against the Debtors or their property to recover on, collect or secure a claim arising prior to the Petition Date. Thus, for example, most creditor actions to obtain possession of property from the Debtors, or to create, perfect or enforce any lien against the property of the Debtors, or to collect on monies owed or otherwise exercise rights or remedies with respect to a pre-petition claim are enjoined unless and until the Bankruptcy Court lifts the automatic stay. Vendors are being paid for goods furnished and services provided after the Petition Date in the ordinary course of business.

As required by the Bankruptcy Code, the United States Trustee for the Southern District of New York appointed an official committee of unsecured creditors (the Creditors' Committee). The Creditors' Committee and its legal representatives have a right to be heard on all matters that come before the Bankruptcy Court with respect to the Debtors. The Creditors' Committee has been generally supportive of the Debtors' positions on various matters; however, there can be no assurance that the Creditors' Committee will support the Debtors' positions on matters to be presented to the Bankruptcy Court in the future or on any plan of reorganization, once proposed. Disagreements between the Debtors and the Creditors' Committee could protract the Chapter 11 proceedings, negatively impact the Debtors' ability to operate and delay the Debtors' emergence from the Chapter 11 proceedings.

Under Section 365 and other relevant sections of the Bankruptcy Code, we may assume, assume and assign, or reject certain executory contracts and unexpired leases, including, without limitation, leases of real property, aircraft and aircraft engines, subject to the approval of the Bankruptcy Court and certain other conditions. Any description of an executory contract or unexpired lease in this Form 10-K, including where applicable our express termination rights or a quantification of our obligations, must be read in conjunction with, and is qualified by, any overriding rejection rights we have under Section 365 of the Bankruptcy Code.

Notwithstanding the general discussion above of the impact of the automatic stay, under Section 1110 of the Bankruptcy Code (Section 1110), certain secured parties, lessors and conditional sales vendors may have extra rights regarding taking possession of certain qualifying aircraft, aircraft engines and other aircraft-related equipment that are leased or subject to a security interest or conditional sale contract pursuant to their agreement with the Debtors. Section 1110 provides that, unless the Debtors agree to perform under the agreement and cure all defaults within 60 days after the Petition Date, such financing party can take possession of such equipment.

Section 1110 effectively shortens the automatic stay period to 60 days with respect to Section 1110-eligible aircraft, engines and related equipment subject to the following two conditions. First, the debtor may extend the 60-day period by agreement of the relevant financier, with Bankruptcy Court approval. Alternatively, the debtor may agree, with court approval, to perform all of the obligations under the applicable financing and cure any defaults thereunder as required by the Bankruptcy Code (which does not preclude later rejecting any related lease). On June 9, 2008, we agreed to perform our obligations under our applicable financings, and we believe we have cured the defaults under these financings. We have resolved all cure issues with a majority of our aircraft financiers. We are, however, negotiating with respect to a few remaining aircraft obligations, primarily related to our Airbus 318 aircraft, and the ultimate outcome of these negotiations cannot be predicted with certainty. To the extent we are unable to reach agreements with these aircraft financiers, those parties may seek to take action with respect to the related aircraft, including taking possession of the aircraft.

In order to successfully exit Chapter 11, the Debtors will need to propose, and obtain confirmation by the Bankruptcy Court of a plan of reorganization that satisfies the requirements of the Bankruptcy Code. A plan of reorganization would, among other things, resolve the Debtors

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pre-petition obligations, set forth the revised capital structure of the newly reorganized entity and provide for corporate governance subsequent to exit from bankruptcy.

The Debtors have the exclusive right for 120 days after the Petition Date to file a plan of reorganization and, if we do so, 60 additional days to obtain necessary acceptances of our plan. We will likely file one or more

motions to request extensions of these time periods. If the Debtors' exclusivity period lapsed, any party in interest would be able to file a plan of reorganization for any of the Debtors. In addition to being voted on by holders of impaired claims and equity interests, a plan of reorganization must satisfy certain requirements of the Bankruptcy Code and must be approved, or confirmed, by the Bankruptcy Court in order to become effective.

A plan of reorganization has been accepted by holders of claims against and equity interests in the Debtors if (1) at least one-half in number and two-thirds in dollar amount of claims actually voting in each impaired class of claims have voted to accept the plan and (2) at least two-thirds in amount of equity interests actually voting in each impaired class of equity interests has voted to accept the plan. Under certain circumstances set forth in Section 1129(b) of the Bankruptcy Code, however, the Bankruptcy Court may confirm a plan even if such plan has not been accepted by all impaired classes of claims and equity interests. A class of claims or equity interests that does not receive or retain any property under the plan on account of such claims or interests is deemed to have voted to reject the plan. The precise requirements and evidentiary showing for confirming a plan notwithstanding its rejection by one or more impaired classes of claims or equity interests depends upon a number of factors, including the status and seniority of the claims or equity interests in the rejecting class (i.e., secured claims or unsecured claims, subordinated or senior claims, preferred or common stock). Generally, with respect to common stock interests, a plan may be "crammed down" even if the stockholders receive no recovery if the proponent of the plan demonstrates that (1) no class junior to the common stock is receiving or retaining property under the plan and (2) no class of claims or interests senior to the common stock is being paid more than in full.

The timing of filing a plan of reorganization by us will depend on the timing and outcome of numerous other ongoing matters in the Chapter 11 proceedings. There can be no assurance at this time that a plan of reorganization will be confirmed by the Bankruptcy Court, or that any such plan will be implemented successfully.

We have incurred and will continue to incur significant costs associated with our reorganization. The amount of these costs, which are being expensed as incurred commencing in April 2008, are expected to significantly affect our results of operations.

Under the priority scheme established by the Bankruptcy Code, unless creditors agree otherwise, pre-petition liabilities and post-petition liabilities must be satisfied in full before stockholders are entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or stockholders, if any, will not be determined until confirmation of a plan or plans of reorganization. No assurance can be given as to what values, if any, will be ascribed in the Chapter 11 cases to each of these constituencies or what types or amounts of distributions, if any, they would receive. A plan of reorganization could result in holders of our liabilities and/or securities, including our common stock, receiving no distribution on account of their interests and cancellation of their holdings. As discussed above, if the requirements of Section 1129(b) of the Bankruptcy Code are met, a plan of reorganization can be confirmed notwithstanding its rejection by the holders of our common stock and notwithstanding the fact that such holders do not receive or retain any property on account of their equity interests under the plan. Because of such possibilities, the value of our liabilities and securities, including our common stock, is highly speculative. We urge that appropriate caution be exercised with respect to existing and future investments in any of the liabilities and/or securities of the Debtors. At this time there is no assurance we will be able to restructure as a going concern or successfully propose, or implement a plan of reorganization.

Item 1: Business

General

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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. We offer our customers a differentiated product, with new Airbus and Bombardier aircraft, comfortable passenger cabins that we configure with one class of seating, ample leg room, affordable pricing, and in-seat DirectTV with 24 channels of live television entertainment and four additional channels of current-run pay-per-view movies on our mainline routes. In January 2007, the U.S. Department of Transportation (DOT) designated us as a major carrier. As of June 23, 2008, we (including our wholly owned subsidiary Lynx) operated routes linking our Denver hub to 52 U.S. cities spanning the nation from coast to coast, five cities in Mexico, one city in Canada and one city in Costa Rica.

In December 2007, Lynx obtained its operating certificate to provide scheduled air transportation service

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from the Federal Aviation Administration (FAA). The aircraft are operated by Lynx Aviation under its operating certificate. Lynx Aviation began revenue service on December 7, 2007 upon receiving FAA certification. As of June 23, 2008, Lynx Aviation has taken delivery of ten Q400 aircraft. Lynx Aviation currently provides service to 12 destinations.

As of June 23, 2008, we operated a mainline fleet of 60 jets (38 of which we lease and 22 of which we own), consisting of 47 Airbus A319s, 11 Airbus A318s and two Airbus A320s, and a regional fleet of 10 Bombardier Q400 turboprop aircraft operated by Lynx. During the years ended March 31, 2008 and 2007, we increased year-over-year mainline capacity by 12.0% and 14.4%, respectively, and we increased year-over-year mainline passenger traffic by 19.3% and 14.7%, respectively.

On January 11, 2007, we entered into an agreement with Republic Airlines, Inc. (Republic) for Republic to operate 17 Embraer 170 aircraft with capacity of 76-seats. On April 23, 2008, as part of our bankruptcy proceeding, we announced a mutual agreement with Republic Airlines on the terms under which Frontier would reject the agreement as of June 22, 2008. Republic Airlines retains their rights to file claims in the bankruptcy proceedings as a result of this rejected agreement. The agreement provided for a structured reduction and gradual phase-out of Republic 's 12 aircraft which had been delivered to us from our daily operation. The phase-out was completed on June 22, 2008.

In order to increase connecting traffic, we have a code share agreement with Great Lakes Aviation Ltd. We expect Lynx to provide additional connecting traffic to markets where regional jet service would not be as economically feasible to operate or would be operationally restricted. We also have interline agreements with 33 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.

In September 2007, we signed a limited-term contract with ExpressJet Airlines, Inc. (ExpressJet) to operate two to four 50-seat Embraer 145XR jets on routes intended to be serviced by Lynx Aviation. ExpressJet provided this service between November 15, 2007 and December 6, 2007, until Lynx Aviation received their FAA certificate. These routes are now serviced by Lynx Aviation.

Our filings with 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 and are also available at the SEC 's website, <http://www.sec.gov>. 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 with or furnish the SEC, and are made available as soon as reasonably practicable after we file or furnish the materials with the SEC.

We were incorporated in 2006 under the laws of the State of Delaware to become a holding company for Frontier Airlines. Frontier Airlines and Lynx Aviation are incorporated under the laws of the State of Colorado. 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.

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See Risk Factors Relating to Frontier and Risk Factors Relating to the Airline Industry in Item 1A and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 for additional discussion of trends and factors affecting us and our industry.

Business Strategy

Our business strategy is to provide air service at affordable fares to high volume markets from our Denver hub and limited point-to-point routes outside of our Denver 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*®.
- Continue filling gaps in flight frequencies to current markets from our Denver hub.
- Continue to successfully defend our position in Denver against new entrants.

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 DOT's Origin and Destination Market Survey. As of June 23, 2008, we operate routes linking our Denver hub to 59 destinations including Mexico, Costa Rica and Canada.

We believe we have created a widely recognized brand that distinguishes us from our competitors and identifies us as a safe, reliable, low-fare airline focused on customer service and providing a high quality travel experience. Similarly, we believe that customer awareness of our brand has contributed to our ability to leverage our brand preference in marketing efforts and positions us to be a preferred marketing partner with companies across many different industries. We have a strong company culture and will continue to focus on differentiating the product and service we provide to our passengers. 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 (35,000 miles to Costa Rica and 25,000 miles to Alaska or any of our destinations in Mexico). 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 FAA Diamond Award for Excellence for nine straight years – an award that recognizes our commitment to the ongoing training and education of our maintenance staff.

Airline Industry

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.

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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. United recently announced that it intends to eliminate Ted as a separate carrier.

In January 2006, Southwest Airlines, the largest low-cost U.S. airline, introduced service at DIA. Southwest Airlines currently has 82 flights out of DIA to 25 destinations, and has announced plans to add another five destinations out of DIA with 92 scheduled daily flights in September 2008. 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 require us to respond in similar fashion.

During March 2008, United, Ted, and its commuter affiliates had a total market share at DIA of approximately 49.8%, down from 55.4% during March 2007. During March 2008, Southwest had a total market share at DIA of approximately 6.6%, up from 4.6% during March 2007. Our market share at DIA, including our

codeshare affiliates and Lynx Aviation, during March 2008 was 26.7%, up from 21.0% during March 2007. As of June 2008, our seat share was 23.9%, United's seat share was 47.4% and Southwest's seat share was 11.9%. We compete with United and Southwest primarily on the basis of fares, fare flexibility, the number of markets in which we operate 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 six of these slots to operate three daily round-trip flights between DIA and LaGuardia. At Washington Ronald Reagan National Airport, we currently hold and are using eight beyond perimeter slots for four round-trip flights between DIA and Reagan National.

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 currently hold and use six arrival and departure slots at SNA, for three daily round-trips between DIA and SNA.

The Open Skies Agreement between the U.S. and the European Union, or E.U., which took effect in March 2008, allows any U.S. or European carrier to fly any route between any city in the E.U. and any city in the U.S. We believe that this new accord will result in increased competition in the U.S. airline industry by providing customers with an even greater choice of airlines to fly.

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 in 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. The sublease for the facility expired in February 2007, and we are currently on a month-to-month lease. We also maintain line maintenance facilities in Phoenix, Arizona and Kansas City, Missouri. FAA approved outside 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 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 our 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 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. For our owned aircraft, we pay GE directly.

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 payments to the lessors based on usage. Supplemental payments, 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 payments 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 mainline completion factors for the years ended March 31, 2008, 2007, and 2006, excluding cancellations that were not related to maintenance, averaged 99.6%, 99.9% and 99.9%, 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 the record of excellence in our maintenance department.

For nine 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 one of 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, 2008, 2007, and 2006, jet fuel, including hedging activities and our regional partner operations, accounted for 35.3%, 31.8% and 31.1%, 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:

Fiscal Year Ended	Average Fuel Price per Gallon	Monthly Low Price per Gallon	Monthly High Price per Gallon
March 31, 2008	\$ 2.45	\$ 2.04	\$ 3.04
March 31, 2007	\$ 2.12	\$ 1.57	\$ 2.47
March 31, 2006	\$ 1.99	\$ 1.66	\$ 2.65

As of June 23, 2008, the average price per gallon was approximately \$4.22. Due to our Chapter 11 filing, all fuel hedge contracts outstanding as of March 31, 2008 were terminated in May 2008 and subsequently settled, which resulted in cash receipts of \$23,409,000. We do not currently have any further hedging contracts in place.

Increases in fuel prices have had and could continue to 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 approximately \$1,900,000 on an annualized basis. This number will increase or decrease if we change our capacity. 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.

Employees

As of June 23, 2008, we had approximately 6,170 employees, including 5,035 full-time and 1,135 part-time and on-call personnel. Our employees include 806 pilots, 1,121 flight attendants, 1,512 customer service agents, 193 scouts and on-call personnel, 749 ramp service agents, 449 reservations agents, 151 aircraft appearance agents, 100 catering agents, 533 mechanics and related personnel, and 558 general management and administrative personnel. We consider our relations with our employees to be good.

Approximately 20% of our employees are represented by unions. Our relations with our labor unions are governed by the Railway Labor Act. Under the Railway Labor Act, a labor union seeking to represent an

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unrepresented craft or class of employees is required to file with the National Mediation Board (NMB) an application alleging a representation dispute, along with authorization cards signed by at least 35% of the employees in that craft or class. The NMB then investigates the dispute and, if it finds the labor union has obtained a sufficient number of authorization cards, conducts an election to determine whether to certify the labor union as the collective bargaining representative of that craft or class. Under the NMB 's usual rules, a labor union will be certified as the representative of the employees in a craft or class only if more than 50% of those employees vote for union representation. A certified labor union then enters into a collective bargaining agreement with the employer. Under the Railway Labor Act, a collective bargaining agreement between an airline and a labor union does not expire, but instead becomes amendable as of a stated date. Either party may request the NMB to appoint a federal mediator to participate in the negotiations for a new or amended agreement.

The following table reflects our principal collective bargaining agreements, and their respective amendable dates:

Employee Group	Approximate Number of Employees	Representing Union	Contract Amendable Date
Pilots	714	Frontier Airline Pilots Association (FAPA)	March 2011
Mechanics	301	Teamsters Airline Division	January 2009
Dispatchers	19	Transport Workers Union	September 2012
Aircraft appearance agents and maintenance cleaners	151	Teamsters Airline Division	September 2015
Material Specialist	32	International Brotherhood of Teamsters	January 2009

In May and June 2008, we successfully negotiated temporary wage and benefit concessions from all represented employee groups. We also took wage and benefit concessions from non-represented employee groups as we attempt to restructure under the Bankruptcy Code. We will reexamine all employee concessions in September 2008 based on our financial condition at that time and the then current economic conditions.

Government Regulation

All interstate air carriers are subject to regulation by the DOT, the FAA and other state and federal government agencies. The DOT has authority to issue certificates of public convenience and necessity required for airlines to provide domestic air 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.

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 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 . 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 and obtained this blanket authority in April 2007.

The Transportation Security Administration and U.S. Customs and Border Protection, divisions of the Department of Homeland Security, are responsible for certain civil aviation security matters, including passenger and baggage screening at U.S. airports and international passenger prescreening prior to entry into or departure from the United States. 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.

Airlines are also subject to various other federal, state, local and foreign laws and regulations. The U.S. Department of Justice (DOJ) has jurisdiction over airline competition matters. The U.S. Postal Service has authority over certain aspects of the transportation of mail. Labor relations in the airline industry are generally governed by the Railway Labor Act. Environmental matters are regulated by various federal, state, local and foreign governmental entities. Privacy of passenger and employee data is regulated by domestic and foreign laws and regulations.

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 *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 filed for protection under Chapter 11 of the Bankruptcy Code on April 10, 2008.

During our Chapter 11 proceedings, our operations, including our ability to execute our business plan, are subject to the risks and uncertainties associated with bankruptcy. Risks and uncertainties associated with our Chapter 11 proceedings include the following:

- actions and decisions of our creditors and other third parties with interests in our Chapter 11 proceedings may be inconsistent with our plans;
- our ability to obtain court approval with respect to motions in the Chapter 11 proceedings prosecuted from time to time;
- our ability to develop, prosecute, confirm and consummate a plan of reorganization with respect to the Chapter 11 proceedings;
- our ability to retain management and other key individuals;
- our ability to obtain and maintain normal terms with bank card processors and credit card companies, vendors and service providers;
- our ability to maintain contracts that are critical to our operations; and

- risks associated with third parties seeking and obtaining court approval to terminate or shorten the exclusivity period for us to propose and confirm a plan of reorganization, to appoint a Chapter 11 trustee or to convert the cases to Chapter 7 cases.

These risks and uncertainties could affect our business and operations in various ways. For example, negative events or publicity associated with our Chapter 11 proceedings could adversely affect our sales of tickets and the relationship with our customers, as well as with vendors and employees, which in turn could adversely affect our operations and financial condition, particularly if the Chapter 11 proceedings are protracted. Also, transactions outside of the ordinary course of business are subject to the prior approval of the Bankruptcy Court, which may limit our ability to respond timely to certain events or take advantage of certain opportunities.

Because of the risks and uncertainties associated with our Chapter 11 proceedings, the ultimate impact that events that occur during these proceedings will have on our business, financial condition and results of operations cannot be accurately predicted or quantified, and there is substantial doubt about our ability to continue as a going concern.

We face significant liquidity challenges which could impact our ability to continue our operations.

We have substantial liquidity needs in the operation of our business and face significant liquidity challenges due to historically high aircraft fuel prices, low passenger yields, credit card processor holdbacks and cash reserves and other cost pressures. Accordingly, we believe that our cash and cash equivalents and short-term investments will

remain under pressure during 2008 and thereafter. We are uncertain we will be able to obtain debtor in possession financing during our Chapter 11 proceedings. Accordingly, as we continue to seek debtor in possession financing, we will also attempt to address our liquidity concerns through the sale of aircraft and other assets, the sale and leaseback of aircraft and other assets, rejection of Republic Airlines contract, negotiations with our credit card processors and other liquidity enhancement opportunities. We cannot guarantee that these efforts to raise cash and improve our liquidity will be successful, in which case we could be forced to discontinue our operations

The implementation of our business plan cannot keep pace with fuel costs.

During the last year, we implemented cost and profit improvement initiatives. We have increased passenger revenue by 17.4% over the prior year and our passenger yields by 4.5%. The increase in our passenger yields can be primarily attributed to the increase in our load factor year-over-year by 4.9 points and an increase of our average fare from \$102.59 to \$103.71 or 1.1%. We are reviewing our plan and anticipate reducing capacity in September 2008 related to the sale of aircraft. The cost reduction and revenue improvement benefits we are realizing under our plan are, however, being outpaced by historically high aircraft fuel prices. We continue to operate in a weak pricing environment, which limits our ability to increase fares to offset high fuel costs. We cannot assure you that we will achieve the targeted benefits under our business plan or that these benefits, even if achieved, will be adequate for us to maintain financial viability due to fuel costs.

We are vulnerable to increases in aircraft fuel costs.

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 of 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. Because fuel costs are a significant portion of our operating costs, substantial changes in fuel costs materially affect our operating results. Fuel prices continue to be susceptible to, among other factors, speculative trading in the commodities market, political unrest in various parts of the world, Organization of Petroleum Exporting Countries policy, the rapid growth of economies in China and India, the levels of inventory carried by industries, the amounts of reserves built by governments, refining capacity, and weather. These and other factors that impact the global supply and demand for aircraft fuel may affect our financial performance due to its high sensitivity to fuel prices. A one cent change in the cost of each gallon of fuel would impact operating expenses by approximately \$1.9 million per year (based on our current fleet and aircraft fuel consumption). Our liquidity will be negatively impacted by the record high price of fuel, which as of June 23, 2008, was \$4.22 per gallon

Fuel is a major component of our operating expenses, accounting for 35.3% of our total operating expenses for the year ended March 31, 2008, up from 31.8% for the year ended March 31, 2007. On an actual basis, mainline fuel costs including the impact of hedging increased to \$446.8 million, representing an average cost of \$2.45 per gallon, from \$343.1 million, or \$2.12 per gallon, over the same periods. Our ability to pass on increased fuel costs has been and may continue to be limited by economic and competitive conditions.

Although we implemented a fuel hedging program in 2002, under which we entered into Gulf Coast jet fuel and West Texas Intermediate crude derivative contracts that partially protected us against significant increases in fuel prices, we currently do not hold any hedge positions because all outstanding hedges were settled in May 2008 due to our Chapter 11 proceedings.

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, 99% of our flights originate or depart from DIA (this does not include seasonal non-hub flying to Mexico). 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 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. 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 and United's regional airline affiliates are the dominant carriers out of DIA, accounting for approximately 49.8% of all revenue passengers out of DIA for March 2008. In addition, Southwest Airlines started service to and from Denver in January 2006 and currently has 82 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 revenue and 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 and 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.

Our all-Airbus mainline fleet creates certain concentration risks.

As of March 31, 2008, we operated 62 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.

Since we operate only Airbus aircraft and GE engines on our mainline routes, 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, 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 aircraft is likely to be 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.

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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 due to an accident or other incident involving an Airbus aircraft of the type we fly.

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 Airbus aircraft is approximately 3.9 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.

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 amounts 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 specialists and aircraft appearance agents. In addition, since 1997 union organizing attempts were defeated by our flight attendants and ramp service agents. The collective bargaining agreement with our mechanics union, IBT, expires in January 2009. In February 2007, FAPA pilot 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. In September 2007, the material specialists approved a four year agreement. In September 2006, the contract with our dispatchers, who are represented by the TWU, expired. In September 2007, our dispatchers signed a five year collective bargaining agreement. The Aircraft Appearance Agents and Maintenance Cleaners contract became effective September 2005 and is in effect until September 2015.

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If we are unable to reach agreements with any of the represented work groups when their contracts open for renegotiation, or if currently non-represented 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 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.

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

We are dependent on the experience and industry knowledge of our officers and other key employees to execute our business plans. Our deteriorating financial performance, along with our Chapter 11 proceedings, create uncertainty that has led to a significant increase in unwanted attrition. We are at risk of losing management talent critical to the successful reorganization and ongoing operation of our business. If we continue to experience a substantial turnover in our leadership and other key employees, including as a result of planned overhead reductions required by our business plan, our performance could be materially adversely impacted. Furthermore, we may be unable to attract and retain additional qualified executives as needed in the future.

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 revenue 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.

Any ownership change could limit our ability to utilize our net operating loss carryforwards.

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Under federal income tax law, a corporation is generally permitted to deduct from taxable income in any year net operating losses carried forward from prior years. As of March 31, 2008, we had approximately \$421,100,000 of federal and state net operating loss (NOL) carryforwards. Our ability to deduct net operating loss carryforwards could be subject to a significant limitation if we were to undergo an ownership change for purposes of Section 382 of the Internal Revenue Code of 1986, as amended, during or as a result of our Chapter 11 proceedings.

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.

Risks Associated with the Airline Industry

The airline industry has incurred significant losses resulting in airline restructurings 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 liquidated and ceased operations. Others are seeking reorganization under Chapter 11 of the Bankruptcy Code, which permits them to reduce labor rates, restructure debt, terminate pension plans and generally reduce their cost structure. As the industry encounters continued financial losses and high fuel costs, airlines 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.

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

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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, 2008. We do not know whether the government will extend the coverage beyond August 31, 2008 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.

We are in a high fixed cost business, and any unexpected decrease in revenue 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 yields 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.

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

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. For example, the FAA issues directives and other regulations on the maintenance and operation of aircraft that necessitate significant expenditures. We expect to continue incurring expenses to comply with the FAA's regulations.

Other laws, regulations, taxes and airport rates and charges have also been imposed significantly increasing the cost of airline operations or reduce revenue. For example, the Aviation and Transportation Security Act mandates the federalization of certain airport security procedures and imposes additional security requirements on airports and airlines, most of which are funded by a per ticket tax on passengers and a tax on

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airlines. The TSA has also attempted to impose an additional annual Security Infrastructure Fee on certain airlines, including us. 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 the necessary authority from the DOT and the FAA to conduct flight operations, 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.

Item 2: Properties**Aircraft**

We currently operate 47 Airbus A319 aircraft, 11 Airbus A318 aircraft and two Airbus A320 in all-coach seating configurations. Our Lynx Aviation subsidiary operates 10 Bombardier Q400 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	136	2013 - 2019
A319	11	2001 - 2006	136	Owned
A318	2	2004	114	2016
A318	9	2003 - 2007	114	Owned
A320	2	2007	162	Owned
Q400	5	2007	74	2022
Q400	5	2007	74	Owned

In March 2000, we entered into a purchase agreement with Airbus, as subsequently amended in April 2006, to purchase 38 Airbus aircraft. We have taken delivery of 30 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. We have remaining firm purchase commitments for eight Airbus aircraft.

On January 24, 2008, we announced our intent to sell four of our owned Airbus aircraft. This will allow us to slow capacity growth and increase our cash position. On March 20, 2008, we announced that we had entered into a Letter of Agreement with VTB Leasing to sell two of our Airbus A318 aircraft and two of our Airbus A319 aircraft. As of June 23, 2008, VTB Leasing has taken delivery of two Airbus A319 aircraft. Depending upon our efforts to improve liquidity during our Chapter 11 proceedings, we may sell additional aircraft to improve our cash position.

The table above does not include any of 10 Bombardier Q400 aircraft for which we have purchase options. Our last option expires in July 2010, subject to additional extension rights.

Facilities

We lease approximately 70,000 square feet of space for 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 for office space to accommodate our projected needs.

Our Denver, Colorado reservations facility is a 16,000 square foot facility that 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. Because our overall rates and charges will be based on 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

As discussed above, Frontier Holdings and its subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York and their cases are being jointly administered under Case No. 08-11298 (RDD). The Debtors continue to operate their business as debtors-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. As of the date of the Chapter 11 filing, virtually all pending litigation was stayed, and absent further order of the Bankruptcy Court, no party, subject to certain exceptions, may take any action, also subject to certain exceptions, to recover on pre-petition claims against the Debtors. At this time, it is not possible to predict the outcome of the Chapter 11 cases or their effect on our business.

From time to time, we are engaged in routine litigation incidental to our business. Other than our Chapter 11 proceeding, 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

PART II

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

Until April 22, 2008, our common stock was traded on the NASDAQ Stock Exchange under the symbol FRNT. As a result of our Chapter 11 bankruptcy proceedings, trading of our common stock on the NASDAQ Stock Exchange was suspended on April 22, 2008, and our common stock was delisted from the NASDAQ Stock Exchange on May 22, 2008. Our common stock has been quoted since its suspension from the NASDAQ on the Pink Sheets Electronic Quotation Service (Pink Sheets) maintained by Pink Sheets LLC for the National Quotation Bureau, Inc. The ticker symbol FRNTQ has been assigned to our common stock for over-the-counter quotations.

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 2008 Quarter Ended		
June 30, 2007	\$ 6.75	\$ 5.51
September 30, 2007	\$ 6.32	\$ 4.51
December 31, 2007	\$ 7.46	\$ 5.20
March 31, 2008	\$ 5.44	\$ 2.05
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

As of March 31, 2008, there were 1,727 holders of record of the Company's stock. The Company does not anticipate paying dividends on its common stock in the foreseeable future.

We believe that our currently outstanding common stock will have no value and will be canceled under any plan of reorganization that we propose. Accordingly, we urge that caution be exercised with respect to existing and future investments in our common stock and other securities.

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For Equity Compensation Plan Information, see Part III, Item 12 Security Ownership of Certain Beneficial Owners and Managers.

Performance Graph

The following graph shows the cumulative total shareholder return on our 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). Midwest Express Airlines became a private company and ceased trading in February 2008, and is not included in the Peer Group Index in fiscal year 2008. The graph shows the value at the end of each of the last five fiscal years of \$100 invested in our common stock or the indices on March 31, 2003, assumes reinvestment of dividends, and takes into account stock splits. Historical stock price performance is not necessarily indicative of future stock price performance.

	Mar-03	Mar-04	Mar-05	Mar-06	Mar-07	Mar-08
Frontier Airlines Holdings, Inc.	100	209.66	210.87	154.93	120.93	50.91
NASDAQ Market Index	100	67.25	149.07	174.46	180.56	168.89
Peer Group Index	100	218.09	141.19	289.25	431.11	72.58

Item 6: Selected Financial Data

The following selected financial and operating data as of and for each of the years ended March 31, 2008, 2007, 2006, 2005, and 2004 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,				
	2008	2007	2006	2005	2004
	(Amounts in thousands except per share amounts)				
Consolidated Statement of Operations Data:					
Total operating revenue	\$ 1,398,981	\$ 1,170,949	\$ 1,001,522	\$ 837,585	\$ 644,739
Total operating expenses	1,434,311	1,181,651	1,009,419	864,032	617,257
Operating income (loss)	(35,030)	(9,834)	(7,897)	(26,447)	27,482
Income (loss) before income tax expense (benefit) and cumulative effect of change in accounting principle	(60,354)	(24,996)	(20,468)	(35,838)	20,457
Income tax expense (benefit)	(101)	(4,626)	(6,497)	(12,408)	7,822
Net income (loss)	(60,253)	\$ (20,370)	\$ (13,971)	\$ (23,430)	\$ 12,635
Net income (loss) per share:					
Basic	\$ (1.64)	\$ (0.56)	\$ (0.39)	\$ (0.66)	\$ 0.39
Diluted	\$ (1.64)	\$ (0.56)	\$ (0.39)	\$ (0.66)	\$ 0.36
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	\$ 120,837	\$ 202,981	\$ 272,840	\$ 174,795	\$ 190,609
Current assets	306,286	340,405	390,957	275,550	269,733
Total assets	1,249,971	1,042,868	970,432	792,011	769,706
Current liabilities	449,367	359,326	301,011	233,850	181,659
Long-term debt	624,086	451,908	405,482	282,792	280,001
Total liabilities	1,097,852	833,372	741,656	554,090	511,764
Stockholders' equity	152,119	209,496	228,776	237,920	257,942
Working capital (deficit)	(143,081)	(18,921)	89,946	41,700	88,074

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Frontier Holdings includes the following operations: our mainline operations, which currently consist of 60 Airbus aircraft; our Regional Partners operations operated by Republic, Horizon and ExpressJet (Regional Partners); and Lynx Aviation, which was in its start-up phase of operations until December 7, 2007 when it began revenue operations. Lynx Aviation and our Regional Partners services are separate from our mainline operations.

To evaluate the separate segments of our operations, management has segregated the revenue and costs of our operations as follows: Passenger revenue for our Regional Partners and for Lynx Aviation represents the revenue collected for flights operated by these carriers. Operating expenses for Regional Partner flights include all direct costs associated with the flights 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 our Regional Partners in which we reimburse these expenses plus a margin. Operating expenses for Lynx Aviation include all direct costs associated with the flights and the aircraft including aircraft lease and depreciation, maintenance and crew costs. Operating expenses for both Regional Partners and Lynx Aviation 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. We also allocate indirect expenses between mainline, Regional Partners and Lynx Aviation operations by using departures, available seat miles, or passengers as a percentage of system combined departures, available seat miles or passengers.

The following table provides certain of our financial and operating data for the years ended March 31, 2008, 2007, 2006, 2005, and 2004. Mainline and combined data exclude the expenses of Lynx Aviation prior to receiving FAA approval to fly. The start-up costs excluded were \$8,454,000 and \$3,139,000 for the years ended March 31, 2008 and 2007, respectively. Lynx Aviation began revenue service on December 7, 2007. We do not believe that the results of Lynx Aviation during the year ended March 31, 2008 are indicative of future results because the fleet was flown in sub-optimal routes, additional crew were required for training and Lynx Aviation had low completion factors. The costs of operations of Lynx Aviation for the year ended March 31, 2008 were \$25,742,000.

	Year Ended March 31,				
	2008	2007	2006	2005	2004
Selected Operating Data - Mainline:					
Passenger revenue (000s) (1)	\$ 1,218,242	\$ 1,037,302	\$ 878,681	\$ 731,822	\$ 615,390
Revenue passengers carried (000s)	10,622	9,140	7,764	6,653	5,569
Revenue passenger miles (RPMs) (000s) (3)	10,175,220	8,532,577	7,436,830	6,587,589	5,120,587
Available seat miles (ASMs) (000s) (4)	12,666,316	11,310,070	9,885,599	9,115,868	7,153,740
Passenger load factor (5)	80.3%	75.4%	75.2%	72.3%	71.6%
Break-even load factor (6)	81.1%	76.0%	75.8%	75.0%	68.8%
Block hours (7)	264,468	234,965	202,300	182,581	142,466
Departures	104,548	97,554	82,878	72,888	61,812
Average seats per departure	129.2	129.6	129.4	130.1	132.2
Average stage length	938	895	922	961	875
Average length of haul	958	934	958	990	919
Average daily block hour utilization (8)	12.1	11.9	11.5	11.1	10.4
Passenger yield per RPM (cents) (9)	11.83	12.05	11.68	11.03	11.96
Total yield per RPM (cents) (10), (11)	12.45	12.62	12.22	11.44	12.37
Passenger yield per ASM (RASM) (cents) (12)	9.50	9.09	8.79	7.97	8.56
Total yield per ASM (cents) (13)	10.00	9.52	9.19	8.26	8.86
Cost per ASM (cents) (CASM)	9.90	9.46	9.13	8.46	8.42
Fuel expense per ASM (cents)	3.53	3.03	2.85	2.04	1.52
Cost per ASM excluding fuel (cents) (14)	6.37	6.43	6.27	6.43	6.90

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Average fare (15)	\$	103.71	\$	102.59	\$	103.05	\$	102.31	\$	103.54
Average aircraft in service		59.7		54.1		48.2		44.9		37.3
Aircraft in service at end of period		62		57		50		47		38
Average age of aircraft at end of period		3.9		3.2		2.6		2.5		3.9
Average fuel cost per gallon (16)	\$	2.45	\$	2.12	\$	1.99	\$	1.41	\$	1.04
Fuel gallons consumed (000 s)		182,793		161,616		141,474		131,906		104,799

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	2008	2007	Year Ended March 31,		2005	2004
			2006			
Selected Operating Data - Lynx Aviation						
Passenger revenue (000s) (1)	\$	18,989				
Revenue passengers carried (000s)		234				
Revenue passenger miles (RPMs) (000s) (3)		103,196				
Available seat miles (ASMs) (000s) (4)		169,721				
Passenger load factor (5)		60.8%				
Passenger yield per RPM (cents) (9)		18.40				
Passenger yield per ASM (cents) (12)		11.19				
Cost per ASM (cents)		15.17				
Average fare	\$	81.30				
Aircraft in service at end of period		10				

	2008	2007	Year Ended March 31,		2005	2004				
			2006							
Selected Operating Data - Regional Partners (2):										
Passenger revenue (000s) (1)	\$	113,196	\$	94,164	\$	92,826	\$	84,269	\$	11,191
Revenue passengers carried (000s)		1,135		899		912		872		115
Revenue passenger miles (RPMs) (000s) (3)		763,415		576,431		591,787		527,205		75,974
Available seat miles (ASMs) (000s) (4)		1,030,916		799,914		821,244		736,287		111,144
Passenger load factor (5)		74.1%		72.1%		72.1%		71.6%		68.4%
Passenger yield per RPM (cents) (9)		14.83		16.34		15.69		15.98		14.73
Passenger yield per ASM (cents) (12)		10.98		11.77		11.30		11.45		10.07
Cost per ASM (cents)		14.18		13.55		13.01		12.56		13.17
Average fare	\$	99.74	\$	104.72	\$	101.78	\$	96.66	\$	97.03
Aircraft in service at end of period		11		9		9		9		7

	2008	2007	Year Ended March 31,		2005	2004				
			2006							
Selected Operating Data - Combined:										
Passenger revenue (000s) (1)	\$	1,350,427	\$	1,131,466	\$	971,507	\$	816,091	\$	626,581
Revenue passengers carried (000s)		11,991		10,039		8,676		7,525		5,684
Revenue passenger miles (RPMs) (000s) (3)		11,041,831		9,109,008		8,028,617		7,114,794		5,196,561
Available seat miles (ASMs) (000s) (4)		13,866,953		12,109,984		10,706,843		9,852,155		7,264,884
Passenger load factor (5)		79.6%		75.2%		75.0%		72.2%		71.5%
Passenger yield per RPM (cents) (9)		12.10		12.32		11.98		11.39		12.01
Total yield per RPM (cents) (10), (11)		12.67		12.85		12.47		11.77		12.41
Yield per ASM (cents) (12)		9.63		9.27		8.98		8.23		8.59
Total yield per ASM (cents) (13)		10.09		9.67		9.35		8.50		8.87
Cost per ASM (cents)		10.34		9.76		9.43		8.77		8.50

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- (1) Passenger revenue includes revenue for reduced rate stand-by passengers, charter revenue, 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 on our Regional Partners and Lynx Aviation to mainline flights is included in our mainline passenger revenue.
- (2) Regional Partners operating data includes the operations of Republic, Horizon, ExpressJet and Mesa Airlines. In September 2007, we signed a limited-term contract with ExpressJet Airlines, Inc. to operate two to four 50-seat Embraer 145XR jets on behalf of Frontier. The ExpressJet service started on November 15, 2007 and terminated on December 6, 2007 upon our commencement of Lynx Aviation service. On January 11, 2007, we signed an agreement with Republic under which Republic would 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 replaced our agreement with Horizon, which expired on return of the last aircraft in November 2007. In September 2003, we signed an agreement with Horizon, under which Horizon operated 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, Republic and ExpressJet agreements contain leases because 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 revenue and expenses related to these agreements on a gross basis. Under the Mesa agreement, we recorded JetExpress revenue reduced by related expenses net in other revenue. 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 revenue for Mesa for the year ended March 31, 2004 were \$25.2 million, net of operating expenses of \$23.4 million, for a net amount included in other revenue of \$1.7 million. Mesa's RPMs and ASMs for the year ended March 31, 2004 were 148,163,000 and 174,435,000, respectively.

- (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 revenue being equal to operating expenses, assuming constant revenue per passenger mile and expenses.

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

	2008	2007	Year Ended March 31, 2006 (in thousands)	2005	2004
Net loss (income)	\$ 60,253	\$ 20,370	\$ 13,971	\$ 23,430	\$ (12,635)
Income tax (expense) benefit	101	4,626	6,497	12,408	(7,822)
Passenger revenue Mainline	1,218,242	1,037,302	878,681	731,822	615,390
Passenger revenue Regional Partners	113,196	94,164	92,826	84,269	11,191
Passenger revenue Lynx Aviation	18,989				
Regional partner expense	(146,211)	(108,355)	(106,866)	(92,481)	(14,634)
Lynx Aviation expenses	(34,196)	(3,139)			
Charter revenue	(14,539)	(8,861)	(10,011)	(5,381)	(2,724)
Passenger revenue - mainline (excluding charter) required to break even	\$ 1,215,835	\$ 1,036,107	\$ 875,098	\$ 754,067	\$ 588,766

The calculation of the break-even load factor:

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	Year Ended March 31,				
	2008	2007	2006	2005	2004
Passenger revenue - mainline (excluding charter) (\$000s)	\$ 1,215,835	\$ 1,036,107	\$ 875,098	\$ 754,067	\$ 588,766
Mainline yield per RPM (cents)	11.83	12.05	11.68	11.03	11.96
Mainline revenue passenger miles (000s) to break even assuming constant yield per RPM	10,277,557	8,598,398	7,492,277	6,836,510	4,922,793
Mainline ASMs (000 s)	12,666,316	11,310,070	9,885,599	9,115,868	7,153,740
Mainline break-even load factor	81.1%	76.0%	75.8%	75.0%	68.8%

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- (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 revenue (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 Securities and Exchange Commission. 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,				
	2008	2007	2006	2005	2004
Passenger revenue - as reported	\$ 1,350,427	\$ 1,131,466	\$ 971,507	\$ 816,091	\$ 626,581
Less: Passenger revenue - Regional Partners	113,196	94,164	92,826	84,269	11,191
Less: Passenger revenue - Lynx Aviation	18,989				
Passenger revenue - mainline service	1,218,242	1,037,302	878,681	731,822	615,390
Less: charter revenue	14,539	8,861	10,011	5,381	2,724
Passenger revenue - mainline (excluding charter, Regional Partners and Lynx Aviation)	1,203,703	1,028,441	868,670	726,441	612,666
Add: Passenger revenue - Regional Partners	113,196	94,164	92,826	84,269	11,191
Add: Passenger revenue - Lynx Aviation	18,989				
Passenger revenue, system combined	\$ 1,335,888	\$ 1,122,605	\$ 961,496	\$ 810,710	\$ 623,857

- (11) Total yield per RPM is determined by dividing total revenue 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 revenue (excluding charter revenue) by available seat miles.
- (13) Total yield per ASM is determined by dividing total revenue 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 \$1,847,000, \$12,753,000, \$(2,163,000), \$2,837,000, and \$469,000 for the years ended March 31, 2008, 2007, 2006, 2005, and 2004, respectively.

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The break-out of our mainline, Regional Partners and Lynx Aviation operations from our consolidated statement of operations for the years ended March 31, 2008, 2007 and 2006 is as follows (in thousands):

	2008	Year Ended March 31, 2007 (in thousands)		2006
Revenue:				
Passenger- Mainline	\$ 1,218,242	\$ 1,037,302	\$ 878,681	
Passenger - Regional Partners	113,196	94,164	92,826	
Passenger - Lynx Aviation	18,989			
Cargo	6,091	6,880	5,677	
Other	42,463	32,603	24,338	
Total revenue	1,398,981	1,170,949	1,001,522	
Operating expenses:				
Flight operations	179,304	161,144	141,316	
Aircraft fuel	446,791	343,082	281,906	
Aircraft lease	112,856	108,623	94,229	
Aircraft and traffic servicing	183,239	166,409	138,492	
Maintenance	102,384	87,733	77,238	
Promotion and sales	129,625	115,516	89,751	
General and administrative	60,713	53,674	48,979	
Operating expenses - Regional Partners	146,211	108,355	106,866	
Operating expenses - Lynx Aviation	34,196	3,139		
Employee separation costs and other charges (reversals)	442	(57)	3,414	
Loss (gains) on sales of assets, net	1,791	(656)	(1,144)	
Post-retirement liability curtailment gain	(6,361)			
Depreciation	43,120	34,689	28,372	
Total operating expenses	1,434,311	1,181,651	1,009,419	
Business interruption insurance proceeds	300	868		
Operating loss	\$ (35,030)	\$ (9,834)	\$ (7,897)	

Small fluctuations in our RASM or CASM can significantly affect operating results because we, like other airlines, have high fixed costs in relation to revenue. Airline operations are highly sensitive to various factors, including the actions of competing airlines and general economic factors, which can adversely affect our liquidity, cash flows and results of operations.

The following table provides our operating revenue and expenses for our mainline operations expressed as cents per total mainline ASMs and as a percentage of total mainline operating revenue, as rounded, for years ended March 31, 2008, 2007, and 2006. Regional Partners and Lynx Aviation revenue, expenses and ASMs were excluded from this table to provide comparable amounts to the prior periods presented. This data should be read in conjunction with Selected Financial Data contained in Item 6 of this report.

	2008		2007		2006	
	Revenue/Cost Per ASM	% Of Total Revenue	Revenue/Cost Per ASM	% Of Total Revenue	Revenue/Cost Per ASM	% Of Total Revenue
	(in cents)		(in cents)		(in cents)	
Revenue:						
Passenger - mainline	9.62	96.2%	9.17	96.3%	8.89	96.7%
Cargo	0.05	0.5%	0.06	0.7%	0.06	0.6%
Other	0.33	3.3%	0.29	3.0%	0.24	2.7%
Total revenue	10.00	100.0%	9.52	100.0%	9.19	100.0%
Operating expenses:						
Flight operations	1.42	14.2%	1.42	15.0%	1.43	15.5%
Aircraft fuel expense	3.53	35.3%	3.03	31.9%	2.85	31.0%
Aircraft lease expense	0.89	8.9%	0.96	10.1%	0.95	10.4%
Aircraft and traffic servicing	1.45	14.5%	1.47	15.5%	1.40	15.2%
Maintenance	0.81	8.1%	0.78	8.1%	0.78	8.5%
Promotion and sales	1.02	10.2%	1.02	10.7%	0.91	9.9%
General and administrative	0.48	4.8%	0.48	5.0%	0.50	5.4%
Employee separation and other exit costs					0.03	0.4%
Loss (gain) on sales of assets, net	0.01	0.1%	(0.01)	(0.1)%	(0.01)	(0.1)%
Post-retirement liability curtailment gain	(0.05)	(0.5)%				
Depreciation	0.34	3.4%	0.31	3.2%	0.29	3.1%
Total operating expenses	9.90	99.0%	9.46	99.4%	9.13	99.3%

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

Overview

On April 10, 2008, Frontier Holdings, Frontier Airlines, and Lynx (collectively, the Debtors) filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court for the Southern District of New York. The Debtors' cases are being jointly administered under Case No. 08-11298 (RDD). The Debtors will continue to operate their businesses as debtors-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. In several recent bankruptcies in our industry, however, the airline ceased operations, and we can give no assurance that we will be able to continue to operate our business or successfully reorganize.

Our Chapter 11 filings followed an unexpected attempt by our principal credit card processor to substantially increase a holdback of customer receipts from the sale of tickets. This change in established practices would have represented a material negative change to our cash forecasts and business plan, put severe restraints on our liquidity and made it impossible for us to continue normal operations. Due to historically high aircraft fuel prices, continued low passenger mile yields, cash holdbacks instituted by our other credit card processor, and the threatened new holdback, we determined that we could not continue to operate without the protections provided by Chapter 11.

During the year ended March 31, 2008, we had a net loss of \$60,253,000 or \$1.64 per diluted share, as compared to a net loss of \$20,370,000 or 56¢ per diluted share for the year ended March 31, 2007. Included in our net loss for the year ended March 31, 2008 were the following items: (i) a decrease in fuel expense for non-cash mark to market derivative gains of \$1,847,000 and realized cash settlements of \$30,740,000 on fuel hedging contracts; (ii) a post-retirement liability curtailment gain of \$6,361,000; (iii) \$8,454,000 of start-up costs for Lynx Aviation; (iv) \$3,339,000 in accelerated depreciation for our seat replacement project; (v) \$1,791,000 in net losses on sales of assets; and (vi) \$442,000 in employee separation cost. Included in our net loss for the year ended March 31, 2007 were the following items: (i) a decrease in fuel expense for non-cash mark to market derivative gains of \$12,753,000 and an increase in fuel expense of \$3,925,000 paid to counter-party for fuel hedge settlements; (ii) \$656,000 in gains on Boeing parts held for sale; (iii) \$3,139,000 of start-up costs for Lynx Aviation; and (iv) a tax valuation allowance of \$3,980,000.

We increased passenger revenue by 17.4% in the year ended March 31, 2008, over the prior year which is a result of increasing our capacity (as measured by ASM's) by 12.0% while increasing our passenger yields by 4.5%. The increase in our passenger revenue can be primarily attributed to the increase in our load factor year-over-year by 4.9 points and an increase of our average fare from \$102.59 to \$103.71 or 1.1%.

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, 2008 and 2007 was 9.90¢ and 9.46¢, respectively, an increase of 4.7%. The increase in mainline CASM was largely due to an increase in fuel expense to 3.53¢ per ASM from 3.03¢ per ASM for the years ended March 31, 2008 and 2007, respectively, an increase of 16.5%. Mainline CASM excluding fuel was 6.37¢ per ASM as compared to 6.43¢ per ASM for the years ended March 31, 2008 and 2007, respectively, a decrease of 0.9%. This decrease in mainline CASM excluding fuel is partially due to a one-time gain on a curtailment of a pension plan of \$6,361,000, or 0.05¢ per ASM, and lower aircraft lease expense per ASM, or a reduction of 0.07¢ per ASM over prior year, primarily as a result of an increase in utilization rates of our fleet.

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Despite our improvements in passenger yields and decrease in mainline CASM excluding fuel, historically high aircraft fuel prices continue to have a material adverse effect on our financial performance. 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 2005, and fuel costs may continue to increase or remain at these historically high levels. Our average fuel cost per gallon, including hedging activities, was \$2.45 for the year ended March 31, 2008 compared to \$2.12 for the year ended March 31, 2007, an increase of 15.6%. Since March 31, 2008, our aircraft fuel expense has increased by approximately 60% excluding the benefits of hedging, which would have equated to an estimated \$325,000,000 increase in fuel expense on an annualized basis to our March 31, 2008 results. Additionally, we continue to operate in a highly competitive pricing environment, which limits our ability to increase fares to offset high fuel costs.

As of April 10, 2008 (the date we filed for relief under the Bankruptcy Code), we had in excess of \$108 million in unrestricted cash, cash equivalents and short-term investments. Our ability, both during and after the Chapter 11 case, to continue as a going-concern is dependent upon, among other things, our ability (i) to successfully achieve required cost savings to complete our restructuring; (ii) to maintain adequate liquidity; (iii) to generate cash from operations; (iv) to secure financing; (v) to negotiate favorable terms with our bankcard processors and credit card companies; (vi) to confirm a plan of reorganization under the Bankruptcy Code; and (vii) to achieve profitability. Uncertainty as to the outcome of these factors raises substantial doubt about our ability to continue as a going-concern. The accompanying consolidated financial statements do not include any adjustments that might result should we be unable to continue as a going-concern. A plan of reorganization could materially change the amounts currently disclosed in the consolidated financial statements.

Our Business Plan

As a result of the continuing drastic escalation in fuel costs and our Chapter 11 proceeding, we are continuing an aggressive examination of many aspects of our business. We are implementing a comprehensive restructuring effort to achieve cost competitiveness by attempting to obtain economic concessions from key stakeholders, such as employees and vendors, in order to allow us to reduce costs, create financial flexibility and restore its long-term viability and profitability.

Our evaluation has encompassed our network, cost structure, fleet composition, both mainline and regional, and balance sheet.

Network Adjustments

In November 2007, we announced our plan to reinforce capacity to our top destinations to support the start-up of Lynx Aviation by closing unprofitable routes and increasing frequencies and capacity in several markets served through our hub at DIA. In January 2008, we discontinued service to Mexico from several of our non-hub markets, discontinued service to Guadalajara, Mexico from DIA, and discontinued service from Memphis, Tennessee to Ft. Lauderdale and Orlando, Florida, and Las Vegas, Nevada. In April 2008, we discontinued service to Baton Rouge, Louisiana, Palm Beach, Florida, and Ixtapa/Zihuatanejo, Mexico. We also further discontinued service to Mexico from several of our non-hub markets. We also adjusted seasonal service in several markets that we serve.

Throughout our December 2007 fiscal quarter we continued to make several network adjustments to better align to our strengths. We implemented more constrained day of week capacity deployment and reduced capacity or eliminated service in several non-Denver domestic markets, non-Denver point-to-point flying to Mexico, and red-eye flying. These changes resulted in a more modest year-over year mainline growth rate of five to six percent for our fiscal fourth quarter versus the originally scheduled 15 percent growth. System-wide capacity growth for our fiscal fourth quarter was a 13 percent increase, as compared to a planned 21 percent increase. The termination of the agreement with Republic Airlines for regional jet service in April 2008 resulted in us reducing our capacity in our fiscal first quarter 2009. We are finalizing more adjustments that will further rationalize our network and leverage our position in Colorado and the Western marketplace.

In May 2008, we closed on the sale of two Airbus A319 aircraft, finalized documentation to sell an additional two A318 aircraft in August 2008 and in September 2008 we are further reducing our capacity with route adjustments and the sale of aircraft. We are currently negotiating agreements to sell an additional seven Airbus A319 aircraft for a total of 11 aircraft. With these reductions in our fleet, in September 2008 we will implement reductions in our personnel and operations to achieve the cost savings associated with this reduction in our fleet and routes.

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In June 2008, United Airlines, our primary competitor in the Denver marketplace, announced (i) further cuts that will result in the retirement of 100 mainline jets and a one-time reduction of domestic capacity by up to 18% and (ii) discontinuation of their discount carrier, TED. Many other airlines have announced similar reductions in fleet and capacity. We will continue to monitor how this impacts our position in the market place.

With the route adjustments, termination of the Republic contract and the planned sale of a total of 11 aircraft, we anticipate system-wide capacity to decline by approximately 8% in our fiscal quarter ending September

30, 2008 over the same period last year and system-wide capacity to decline by 20% in the fiscal quarter ending December 31, 2008 as compared to the same period last year.

Cost Structure

In December 2007, we announced that we were reducing our indirect labor work force by 10%. The jobs eliminated were corporate jobs not directly related to flight operations and resulted in a severance accrual of \$442,000 with annual savings of \$2,900,000. The sale of the additional aircraft in September and October, if completed, this will force us to reevaluate our exiting workforce and adjust accordingly.

In May 2008, the Company reached agreements with the pilot and dispatchers unions on temporary wage and benefit concessions. In June 2008, the Teamsters Union, which represents approximately 450 mechanics, tool room employees and others, also agreed to temporary wage and benefit concessions. All other employees were given wage reductions effective June 1, 2008.

One of the key elements to keeping our mainline costs low is maintaining the same family of Airbus aircraft. 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. The addition of the Bombardier Q400 turboprop aircraft operated through our Lynx Aviation subsidiary will allow us to add routes to under-served markets in Colorado and elsewhere in the Rocky Mountain region using the economically correct gauge of equipment and operating performance. We also keep our operating costs low by operating a single class of service, which simplifies our operations, enhances productivity, increases our capacity and offers an operating cost advantage.

Managing Our Capacity

For fiscal 2009, we expect to reduce mainline capacity by approximately 10% versus fiscal 2008. After a thorough fleet analysis and taking account of the dramatic increases in the price of fuel and the potential impacts of a slowing economy, we have elected to sell an additional seven of our 22 owned Airbus aircraft, in addition to the four aircraft being sold to VTB Leasing for a total of 11. The additional sale of these aircraft allows us to slow our capacity growth and improve our cash position. The first two Airbus 319 aircraft were sold to VTB Leasing in May 2008.

On April 23, 2008, we announced that we reached a mutual agreement with Republic Airways on the terms under which Frontier would reject the capacity purchase agreement. There was a structured reduction and gradual phase-out of Republic's 12 aircraft from our daily operation which was completed in mid-June 2008. In conjunction with the termination of service by Republic, we stopped service to six markets.

The airline industry continues to operate in an intensely competitive environment. We expect competition will remain intense, as over-capacity in the industry continues to exist. 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.

Results of Operations Year Ended March 31, 2008 Compared to Year Ended March 31, 2007

We had a consolidated net loss of \$60,253,000 or \$1.64 per diluted share for the year ended March 31, 2008, as compared to a consolidated net loss of \$20,370,000 or 56¢ per diluted share for the year ended March 31, 2007.

Mainline Revenue

Industry fare pricing behavior has a significant impact on our revenue. 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 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 revenue in these markets.

Passenger Revenue - Mainline. Mainline passenger revenue totaled \$1,218,242,000 for the year ended March 31, 2008 compared to \$1,037,302,000 for the year ended March 31, 2007, an increase of 17.4%. Mainline passenger revenue includes revenue 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.

Revenue from passenger tickets flown generated 90.4% of our mainline passenger revenue and increased \$163,894,000 or 17.5% over the prior year. The increase in flown ticket sales resulted from a 12.0% increase in ASMs, or \$112,446,000, an increase of 4.9 points in load factor, or \$68,078,000, offset by a decrease of 1.5% in our yields from ticket sales, or \$16,630,000. The percentage of revenue generated from other sources compared to total mainline passenger revenue is as follows: Administrative fees were 2.8%, revenue recognized for tickets that were not used within one year from issuance were 3.1%, charter revenues were 1.2% and revenue from the travel component of our co-branded credit card were 2.0%. These sources of revenue increased total mainline passenger revenue by \$23,461,000 as compared to the prior year, an increase of 26.6%. This increase is primarily due to our 16.2% increase in passengers and the increased usage of our co-branded credit card.

Other Revenue. Other revenue, 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 \$42,463,000 and \$32,603,000 for the years ended March 31, 2008 and March 31, 2007, respectively, an increase of 30.2% and were 3.3% and 3.0% of total mainline operating revenue for the years ended March 31, 2008 and 2007, respectively. The increase in other revenue was primarily due to the increase in the revenue earned from carrying excess baggage, ground handling services provided to other carriers, and the marketing component of our co-branded credit card agreement and other partnership agreements.

Mainline Operating Expenses

Total mainline operating expenses were \$1,253,904,000 and \$1,070,157,000 for the years ended March 31, 2008 and 2007, respectively, an increase of 17.2%, and represented 99.0% and 99.4% of total mainline revenue, respectively.

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 13.5% to \$278,955,000 compared to \$245,750,000, and were 22.0% and 22.8% of total mainline revenue for the years ended March 31, 2008 and 2007, 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 8.3% from approximately 4,800 at March 31, 2007 to 5,200 at March 31, 2008. The increase in employees and related salaries, wages and benefits supported the 12.0% increase in mainline capacity.

Flight Operations. Flight operations expenses increased 11.3% to \$179,304,000 as compared to \$161,144,000, and were 14.2% and 15.0% of total mainline revenue, for the year ended March 31, 2008 and 2007, respectively. Flight operations expenses increased due to an increase in mainline block hours from 234,965 for the year ended March 31, 2007 to 264,468 for the year ended March 31, 2008, an increase of 12.6%. Flight operations expenses include all

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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 10.1% to \$104,543,000 compared to \$94,953,000, and were 8.3% and 8.8% of total mainline revenue for the year ended March 31, 2008 and 2007, respectively. We employed approximately 1,707 active mainline pilots and flight attendants at March 31, 2008 as compared to 1,586 at March 31, 2007, an increase of 7.6%.

Aircraft insurance expenses totaled \$8,118,000 (0.7% of total mainline revenue) and \$9,819,000 (0.9% of total mainline revenue) for the years ended March 31, 2008 and 2007, respectively. Aircraft insurance expenses were 76¢ and \$1.07 per passenger for the years ended March 31, 2008 and 2007, respectively. 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 covered January 1, 2007 to December 31, 2007. Our rates were further reduced by almost 18% for the policy that covered January 1, 2008 to December 31, 2008. 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. 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 expenses include both the direct cost of fuel including taxes as well as the cost of delivering fuel into the aircraft. Aircraft fuel expenses also include cash settlements and non-cash mark to market hedge adjustments related to our fuel hedging activities. Aircraft fuel expense of \$446,791,000 for 182,793,000 gallons used and \$343,082,000 for 161,616,000 gallons used, resulted in an average fuel expense of \$2.45 and \$2.12 per gallon for the years ended March 31, 2008 and 2007, respectively, an increase of 15.6% per gallon. Aircraft fuel expense, excluding hedging losses and gains, were \$2.62 and \$2.18 per gallon for the year ended March 31, 2008 and 2007, respectively, an increase of 20.2%. Aircraft fuel expenses represented 35.3% and 31.9% of total mainline revenue for the years ended March 31, 2008 and 2007, 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, 2008 and 2007 averaged 691 and 688 gallons per block hour, respectively, an increase of 0.4%. The fuel burn increased largely as a result of the 4.9 point increase in our load factor during the year ended March 31, 2008 which was partially offset by the delivery of four more fuel efficient A318 aircraft as compared to the year ended March 31, 2007.

Our aircraft fuel expenses for the year ended March 31, 2008 was reduced by non-cash mark to market derivative gains of \$1,847,000 and cash settlements of \$30,740,000 received from a counter-party. 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.

Aircraft and Engine Lease. Aircraft lease expenses totaled \$112,856,000 (8.9% of total mainline revenue) and \$108,623,000 (10.1% of total mainline revenue) for the years ended March 31, 2008 and 2007, respectively, an increase of 3.9%. The increase in lease expense is due to an increase in the average number of leased aircraft from 36.7 to 38.0, or 3.5%.

Aircraft and Traffic Servicing. Aircraft and traffic servicing expenses were \$183,239,000 and \$166,409,000, for the years ended March 31, 2008 and 2007, respectively, an increase of 10.1%, and represented 14.5% and 15.5% of total mainline revenue. Aircraft and traffic servicing expenses include all expenses incurred at airports including landing fees, facilities rental, station labor, ground handling expenses, glycol de-icing expense, 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. Aircraft and traffic servicing expenses will increase with the addition of new cities to our route system or as rates and charges at airports where we operate are increased. During the year ended March 31, 2008, our departures increased to 104,548 from 97,554, an increase of 7.2%. Aircraft and traffic servicing expenses were \$1,753 per departure for the year ended March 31, 2008 as compared to \$1,706 per departure for the year ended March 31, 2007, an increase of \$47 per departure or 2.8%. This increase was primarily due to rent increases for the additional six gates at DIA and \$2,668,000 of additional glycol expenses incurred during the year ended March 31, 2008.

Maintenance. Maintenance expenses of \$102,384,000 and \$87,733,000 were 8.1% of total mainline revenue for the years ended March 31, 2008 and 2007, and increased by 16.7%. Maintenance expenses include the costs of all labor, parts and supplies related to the maintenance of the aircraft. Maintenance cost per block hour was \$387 and \$373 for the years ended March 31, 2008 and 2007, respectively, an increase of 3.8%. During the year ended March 31, 2008, our engine maintenance reserve payments increased by \$4,400,000 due to an increase in our rates under the applicable lease and also due to two major unscheduled maintenance events that were not covered by maintenance agreements which increased maintenance expenses by \$1,315,000. Maintenance expenses will increase as the average age of our aircraft increases and our aircraft require more scheduled maintenance events. The average age of our aircraft was 3.9 years as of March 31, 2008 as compared to 3.2 as of March 31, 2007.

Promotion and Sales. Promotion and sales expenses totaled \$129,625,000 and \$115,516,000, an increase of 12.2%, and were 10.2% and 10.7% of total mainline revenue for the years ended March 31, 2008 and 2007,

respectively. 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, 2008, promotion and sales expenses per mainline passenger decreased to \$12.20 from \$12.64 for the year ended March 31, 2007. Promotion and sales expenses decreased per passenger primarily due to a reduction in spending on promotions and advertising.

General and Administrative. General and administrative expenses for the years ended March 31, 2008 and 2007 totaled \$60,713,000 and \$53,674,000, respectively, an increase of 13.1%, and were 4.8% and 5.0% of total mainline revenue, 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 primarily due to general wage rate increases, expenses due to changes in management, an increase in our vacation liability, offset by a decrease in our workers compensation expense as compared to the same period last year.

Depreciation. Depreciation expenses were \$43,120,000 and \$34,689,000, an increase of 24.3%, and were approximately 3.4% and 3.2% of total mainline revenue for the years ended March 31, 2008 and 2007, respectively. 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 21.6 during the year ended March 31, 2008 as compared to 17.7 purchased aircraft in service for the year ended March 31, 2007, an increase of 22.0%. The increase in depreciation expense is also due to a project to replace our Airbus seats with new lighter weight leather seats, which resulted in accelerated depreciation of \$3,339,000 on the replaced Airbus aircraft seats. This project was completed in May 2008. The increase is also due to investments in rotatable aircraft components, aircraft improvements and ground equipment to support the 12.0% increase in our capacity during the year ended March 31, 2008.

Post-Retirement Liability Curtailment Gain. In December 2007, the *Fair Treatment for Experienced Pilots Act* (the Pilots Act), was enacted. This act increased the retirement age for commercial pilots to 65 from 60. Pilots that have not reached age 60 will now be allowed to work for five more years, provided they pass regular medical and piloting exams. Pursuant to our collective bargaining agreement with our pilots, if pilots are forced to retire due to FAA requirements, the retired pilots and their dependents could retain medical benefits under the terms and conditions of the Health and Welfare Plan for Employees of Frontier Airlines, Inc. until age 65. However, as a result of the Pilots Act, this retirement health benefit is no longer required. It is only required for pilots who reached mandatory retirement age prior to the effective date of the Pilots Act. As such, we recorded a one-time post-retirement liability curtailment gain of \$6,361,000 to reflect the impact of the Pilots Act, which was the reduction in post-retirement liability for pilots who had not yet attained the age of 60.

Business Interruption Insurance Proceeds. During the year ended March 31, 2008, we recorded insurance proceeds of \$300,000 as a result of final settlements of business interruption claims. During the year ended March 31, 2007 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 was disrupted by hurricanes during the

fiscal year ended March 31, 2006.

Consolidated Nonoperating Expenses

Nonoperating Expense. Net nonoperating expense totaled \$25,324,000 for the year ended March 31, 2008 as compared to net nonoperating expense of \$15,162,000 for the year ended March 31, 2007, an increase of 67.0%.

Interest Income. Interest income decreased to \$12,048,000 from \$14,982,000 during the year ended March 31, 2008 from the year ended March 31, 2007, a decrease of 19.6%, as a result of a decrease in our average cash position as compared to the prior year.

Interest Expense. Interest expense increased to \$36,444,000 for the year ended March 31, 2008 from \$29,899,000 for the year ended March 31, 2007, an increase of 26.1%. Debt related to aircraft increased from \$386,755,000 as of March 31, 2007 to \$567,318,000 as of March 31, 2008 with a decrease in the average weighted interest rate from 7.15% to 5.50% as of March 31, 2007 and 2008, respectively. The increase in interest expense

was due to additional debt for the increase in the average number of owned aircraft during the year from 17.7 to 21.6, offset by a 23.1% decrease in the weighted average borrowing rate.

Income Tax Benefit. We recorded an income tax benefit of \$101,000 during the year ended March 31, 2008, comprised of current state refunds. We have a valuation allowance for all deferred tax assets that are not realizable through the reversal of existing taxable temporary differences as of March 31, 2008 and 2007, accordingly, deferred tax expense is zero during the fiscal year ended March 31, 2008. 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%. During the year ended March 31, 2008 we increased our valuation allowance by \$21,418,000 against deferred tax assets 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 and concerns about our ability to continue as a going concern.

Loss on Early Extinguishment of Debt. Prior to the closing of the five sale-leaseback transactions for Bombardier Q400 aircraft during the year ended March 31, 2008, we had temporary financing for the aircraft which we repaid and wrote off \$283,000 of debt issuance fees.

Regional Partners

Regional Partner revenue were derived from flights operated by Republic, Horizon and ExpressJet. Our mainline passenger revenue increased as a result of incremental revenue from passengers connecting to/from regional flights. Regional Partner operating expense include all direct costs associated with Regional Partners flights plus a margin and 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 our Regional Partners, and we reimbursed these expenses plus a margin. Regional Partner 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 Revenue Regional Partner. Regional Partner revenue totaled \$113,196,000 for the year ended March 31, 2008 and \$94,164,000 for the year ended March 31, 2007, a 20.2% increase. The increase in revenue is due to a 26.3% increase in passengers offset by a decrease in the average fare to \$99.74 from \$ 104.72, a decrease of 4.8%. The decrease in average fare is largely due to the increase in connecting traffic over the year ended March 31, 2007, which results in a lower fare than local traffic.

Operating Expenses Regional Partner. Regional partner expense for the year ended March 31, 2008 and 2007 totaled \$146,211,000 and \$108,355,000, respectively, a 34.9% increase, and were 129.2% and 115.1% of total regional partner revenue, respectively. The increase in Regional Partner expenses as compared to revenue was primarily related to the transition of our regional jet service from Horizon to Republic, which caused both airlines to operate with a sub-optimal number of aircraft during the year and an increase in fuel costs to \$51,817,000 for the year ended March 31, 2008 as compared to \$33,163,000 during the same period in the prior year.

Lynx Aviation

Passenger Revenue Lynx Aviation. Passenger revenue from flights operated by Lynx Aviation after obtaining its operating certificate on December 6, 2007 totaled \$18,989,000 for the year ended March 31, 2008.

Lynx Aviation Expenses. Lynx Aviation was in the start-up phase of operations until December 7, 2007 when it began revenue service. For the year ended March 31, 2008, operating expenses were \$34,196,000. We do not believe that the results of Lynx Aviation during the year ended March 31, 2008 are indicative of future results because the fleet was flown in sub-optimal routes, additional crew were required for training and Lynx Aviation had low completion factors.

During the year ended March 31, 2008, Lynx Aviation incurred \$8,454,000 of start-up expense related to flight operation expenses primarily related to pilot salaries and training, maintenance expenses related to salaries and wages for material specialists personnel, line maintenance performed on aircraft and training for our Lynx Aviation mechanics and general and administrative costs primarily related to costs of constructing our internal manual and procedures to FAA standards and the FAA certification process. After obtaining an operating certificate in December 2007, additional direct and allocated costs of \$25,742,000 were incurred related to 5,228 departures.

During the year ended March 31, 2007, Lynx Aviation incurred \$3,139,000 of start-up costs primarily related to consulting and legal expenses incurred in conjunction with signing the purchase agreement with Bombardier, Inc. for Q400 aircraft and the formation of the subsidiary.

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

We had a consolidated net loss of \$20,370,000 or 56¢ per diluted share for the year ended March 31, 2007, as compared to a consolidated 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 were the following items: (i) a decrease in fuel expense for non-cash mark to market derivative gains of \$12,753,000 and an increase in fuel expense of \$3,925,000 paid to counter-party for fuel hedge settlements; (ii) \$656,000 in gains on Boeing parts held for sale (iii) \$3,139,000 of start-up costs for Lynx Aviation; and (iv) a tax valuation allowance of \$3,980,000.

Included in our net loss for the year ended March 31, 2006 were the following items before the effect of income taxes: (i) 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; (ii) gains of \$1,144,000 related to the sale of Boeing parts held for sale and other assets; and (iii) an increase in fuel expense for non-cash mark to market losses on fuel hedges of \$2,163,000 and a decrease of \$5,338,000 for net receipts for fuel hedge settlements.

Mainline Revenue

Passenger Revenue - Mainline. Mainline passenger revenue 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 revenue include revenue 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.

Revenue from ticketed passenger sales generated 90.4% of our mainline passenger revenue 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 revenue 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 revenue were 0.9% and revenue from the travel component of our co-branded credit card were 1.9%. These sources of revenue increased total mainline passenger revenue by \$20,317,000 as compared to the year ended March 31, 2006.

Other Revenue. Other revenue, 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 revenue for the years ended March 31, 2007 and 2006. The increase in other revenue was primarily due to the increase of \$6,646,000 in the revenue earned for the marketing component of our co-branded credit card agreement and other partnership agreements.

Mainline Operating Expenses

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Total mainline operating expenses were \$1,070,157,000 and \$902,553,000 for the years ended March 31, 2007 and 2006, respectively, an increase of 18.6%, and represented 99.4% and 99.3% of total mainline revenue, 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. Salaries, wages and benefits increased 12.0% to \$245,750,000 compared to \$219,380,000, and were 22.8% and 24.1% of total mainline revenue 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 14.0% to \$161,144,000 as compared to \$141,316,000, and were 15.0% and 15.5% of total mainline revenue, 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%.

Pilot and flight attendant salaries before payroll taxes and benefits increased 15.0% to \$94,953,000 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.

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.

Aircraft Fuel. Aircraft fuel expense 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 expense, 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 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 \$166,409,000 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 revenue. Aircraft and traffic servicing expenses will increase with the addition of new cities to our route system. 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 \$1,706 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 2.1%. 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

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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 \$87,733,000 and \$77,238,000 were 8.1% and 8.5% of total revenue for the years ended March 31, 2007 and 2006, respectively, an increase of 13.7% as compared to the year ended March 31, 2006. Maintenance cost per block hour was \$373 and \$382 for the years ended March 31, 2007 and 2006, respectively, a decrease of 2.4%, 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 \$115,516,000 and \$89,751,000 and were 10.7% and 9.9% of total mainline revenue for the years ended March 31, 2007 and 2006, respectively, an increase of 28.7%. 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 \$53,674,000 and \$48,979,000, respectively, an increase of 9.6%, and were 5.0% and 5.4% of total mainline revenue, respectively. 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 \$34,689,000 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 rotatable 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 for the year ended March 31, 2007 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.

Consolidated Nonoperating Expenses

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. 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. 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 because 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

Passenger Revenue Regional Partner. Regional partner revenue 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 revenue for each of the years ended March 31, 2007 and 2006. 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.

Liquidity and Capital Resources

The matters described herein, to the extent that they relate to future events or expectations, may be significantly affected by our Chapter 11 proceedings. Those proceedings will involve, or may result in, various restrictions on our activities, limitations on financing, the need to obtain Bankruptcy Court approval for various matters and uncertainty as to relationships with vendors, suppliers, customers and others whom we may conduct or seek to conduct business.

Our liquidity depends to a large extent on the number of passengers who fly with us, the fares they pay, our operating and capital expenditures, our financing activities, the amount of cash holdbacks imposed by our credit card processors, and the cost of fuel. Our liquidity will be negatively impacted by the record high price of fuel which as of June 23, 2008 was \$4.22 per gallon, and an increase in the cash holdbacks by our credit card processors. On May 16, 2008, we closed on the sale of two Airbus 319 aircraft to VTB Leasing, for proceeds of \$59,000,000. This resulted in retirement of debt of \$33,754,000 related to the mortgage on the sold aircraft and a book gain of \$9,200,000 on the transactions. We are currently pursuing a number of liquidity improvement alternatives, including debtor in possession financing, additional sales or sale-leasebacks of aircraft and other assets, and negotiation of the cash holdbacks or letters of credit associated with our Visa/MasterCard credit card processing agreement. While we are negotiating many of these alternatives, the ultimate outcome of these negotiations and our resulting liquidity improvement cannot be predicted with certainty. If these efforts to raise cash and improve liquidity are not successful, we could be forced to discontinue our operations.

We had cash and cash equivalents of \$120,837,000 and \$202,981,000 at March 31, 2008 and March 31, 2007, respectively. At March 31, 2008, total current assets were \$306,286,000 as compared to \$449,367,000 of total current liabilities, resulting in a working capital deficit of \$143,081,000. At March 31, 2007, total current assets were \$340,405,000 as compared to \$359,326,000 of total current liabilities, resulting in a working capital deficit of \$18,921,000. The decrease in working capital is primarily due to additional pre-delivery payments made of \$28,332,000 future aircraft deliveries, an increase in the current portion of long-term debt of \$11,385,000 as a result of additional debt for aircraft purchases, capital expenditures for aircraft and other assets in excess of financings and payments on long-term debt of \$113,961,000 offset by cash provided by operating activities of \$30,673,000.

Operating Activities. Cash provided by operating activities for the year ended March 31, 2008 was \$30,673,000 as compared to cash provided by operating activities of \$23,227,000 for the year ended March 31, 2007, an increase of \$7,446,000. The increase in operating cash flows was primarily due to an increase in our air traffic liability and an increase in our accounts payable balance, offset by the use of cash for our restricted investments. During the year ended March 31, 2008, a \$42,263,000 increase in our air traffic liability was due to a 25% increase in our number of segments booked as compared to March 31, 2007. Accounts payable increased due to slower payments to our vendors. These were offset by a \$22,114,000 increase in restricted investments to \$31,275,000 as compared to an increase of \$9,161,000 during the year ended March 31, 2007, primarily due to increased hold-back provisions from our credit card processors and an increase in our air traffic liability over prior year.

Investing Activities. Cash used in investing activities for the year ended March 31, 2008 was \$294,534,000. Capital expenditures were \$350,844,000 for the year ended March 31, 2008, which included the purchase of three Airbus A318 aircraft, two Airbus A320 aircraft and ten Bombardier Q400 aircraft, new leather seat sets for 53 aircraft, the purchase of LiveTV equipment, rotatable aircraft components, aircraft improvements, information technology enhancements, and ground equipment. Aircraft lease and purchase deposits made for aircraft deliveries during the period were \$28,332,000. We also received \$92,525,000 primarily from the sale of five of the 10 newly acquired Bombardier Q400 aircraft in sale-leaseback transactions.

Cash used in investing activities for the year ended March 31, 2007 was \$141,310,000. Capital expenditures were \$137,324,000 for the year ended March 31, 2007, which included the purchase of three Airbus A319 aircraft, one Airbus A318 aircraft and one spare engine, the purchase of LiveTV equipment, rotatable aircraft components, aircraft improvements, information technology enhancements, and ground

equipment. 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. We also received \$41,933,000 primarily from the sale of one of three newly acquired Airbus A319 aircraft and a spare engine in two sale-leaseback transactions.

Financing Activities. Cash received from financing activities for the year ended March 31, 2008 was \$181,717,000. During the year ended March 31, 2008, we borrowed \$297,525,000 for the purchase of three Airbus A318, two Airbus A320 and 10 Bombardier Q400 aircraft. These were offset by debt principal payments of \$113,961,000 on 29 of our owned Airbus and Bombardier aircraft and \$2,603,000 in financing fees.

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 19 owned aircraft and we borrowed \$74,438,000 for two additional Airbus A319 aircraft and one Airbus A318 aircraft. We also were required to increase our compensating balance at a bank by \$750,000 to secure letters of credit.

Other Items That Impact Our Liquidity

We continue to assess our liquidity position in light of record high fuel prices, significant legal and professional fees associated with our Chapter 11 bankruptcy proceeding, our aircraft purchase commitments and other capital requirements, the economy, our competition, and other uncertainties surrounding the airline industry. For further information on our financing plans, activities and commitments, see Contractual Obligations and Commercial Commitments and Off Balance Sheet Arrangements below.

Our purchase rights for 17 Airbus aircraft expired on July 1, 2007. We have options to purchase 10 Bombardier aircraft, the last of which expires in July 2010, subject to additional extension rights. If we are unable to secure all the necessary financing it could result in the loss of pre-delivery payments and deposits (see discussion in the Contractual Obligations section below).

Contractual Obligations

The following table summarizes our contractual obligations as of March 31, 2008, for debt; operating leases; aircraft order commitments; capital leases; interest and related payments; other material, noncancelable purchase obligations; other liabilities. We are in the process of evaluating our executory contracts in order to determine which contracts will be assumed in our Chapter 11 proceedings. Therefore, obligations as currently quantified in the table below and in the text immediately following the footnotes to the table will continue to change:

	Total	Less than 1 year	2-3 Years	4-5 years	After 5 years
Long-term debt - principal (1)	\$ 662,318	\$ 38,144	\$ 86,350	\$ 106,305	\$ 431,519
Long-term debt - interest (1)	281,189	36,362	65,534	53,442	125,851
Short-term borrowings principal and interest (2)	3,308	3,308			
Operating leases (3)	1,136,390	157,244	275,613	253,307	450,226
Unconditional purchase obligations (4) (5) (6)	374,044	88,748	247,544	37,752	
Total contractual cash obligations	\$ 2,457,249	\$ 323,806	\$ 675,041	\$ 450,806	\$ 1,007,596

(1) At March 31, 2008, we had loans covering 13 Airbus A319 aircraft, nine Airbus A318 aircraft, five Bombardier Q400 aircraft and two Airbus A320 aircraft. Two of the loans have a term of ten 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 at 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 22 loans have

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interest rates based on LIBOR plus margins that adjust quarterly or semi-annually. At March 31, 2008, interest rates for these loans ranged from 3.88% to 6.79%. Each of these loans has a term of 12 years, and each loan has balloon payments ranging from \$2,640,000 to \$9,312,000 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 8.06% at March 31, 2008.

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. Holders may convert the notes into shares of our common stock at a conversion rate of 96.7352 shares per \$1,000 principal amount (representing a conversion price of approximately \$10.34 per share). 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 at the earlier times discussed above, which would impact the timing of the principal payments.

(2) In November 2007, we entered into a pre-delivery deposit facility (PDP Facility) for the purpose of financing obligations to make pre-delivery payments on eight A320 aircraft. The PDP Facility allows us to draw amounts up to \$22,200,000 for aircraft deliveries through August 2010. As of March 31, 2008, we had \$3,139,000 outstanding under the PDP Facility for A320 aircraft deliveries scheduled for February 2009. As such, the amount outstanding is classified as short-term borrowings on the consolidated balance sheet.

(3) As of March 31, 2008, we leased 36 Airbus A319 type aircraft, two Airbus A318 aircraft, and five Bombardier Q400 aircraft under operating leases with expiration dates ranging from 2013 to 2022. Under all of our leases, we have made cash security deposits, which totaled \$23,090,000 at March 31, 2008. 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, 2008, 2007 and 2006, additional rent expense to cover the cost of major scheduled maintenance overhauls of these aircraft totaled \$27,583,000, \$26,187,000 and \$24,933,000, respectively, and are included in maintenance expense in the statements of operations. On January 11, 2007, we signed an agreement with Republic, under which Republic would operate up to 17 Embraer 170 aircraft each with capacity of up to 76 seats. The contract period was for an 11-year period starting on the date the last aircraft is placed in service, which was scheduled for December 2008. The service began on March 4, 2007 and replaced our agreement with Horizon. On April 23, 2008, we announced that we reached a mutual agreement with Republic on the terms under which Frontier would reject the agreement. A structured reduction and gradual phase-out of Republic's 12 aircraft from our daily operation was completed in mid-June 2008. In the contractual obligations table above, only the amounts to be paid during the negotiated wind-down period of approximately \$7,600,000 are included.

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 2008 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. The table above also excludes lease payments for a new headquarters building which we terminated during the bankruptcy process in May 2008.

(4) As of March 31, 2008, we have remaining firm purchase commitments for eight additional aircraft from Airbus that have scheduled delivery dates beginning in February 2009 and continuing through November 2011 and one remaining firm purchase commitment for one spare Airbus engine scheduled for delivery in December 2009. Included in the purchase obligations are the remaining amounts due Airbus, amounts for spare aircraft components to support the additional aircraft and remaining new leather aircraft seats for one additional ship set yet to be purchased. We are not under any contractual obligations with respect to spare parts or the new aircraft seats.

We have not secured financing for the purchase of our remaining eight Airbus aircraft. To complete the purchase of the remaining eight Airbus aircraft scheduled for delivery starting in February 2009, we must secure additional aircraft financing totaling approximately \$280,000,000 assuming bank financing was used for these remaining aircraft. The terms of the purchase agreements 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 manufacturers. 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 manufacturers 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, 2008, we had made pre-delivery payments on future aircraft deliveries totaling \$12,738,000 which relates to aircraft for which we have not secured financing.

(5) 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 eight Airbus aircraft we currently expect to purchase. In January 2008, we signed a hardware agreement under which LiveTV agreed to repurchase LiveTV equipment installed and make payments over a specified period for this equipment. The table does not include payments to be received under our new hardware agreement with LiveTV.

(6) 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 revenue. 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.

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. We also provide letters of credit for our workers' compensation insurance. As of March 31, 2008, we had outstanding letters of credit, bonds and cash security deposits totaling \$21,939,000, \$2,616,000 and \$25,123,000, respectively.

We also have an agreement with a financial institution where we can issue letters of credit of up to an agreed upon percentage of spare parts inventories less amounts borrowed under the credit facility. As of March 31, 2008, we had \$18,187,000 available under this facility. We have reduced the amount available for borrowings by letters of credit issued of \$14,560,000 and cash draws of \$3,000,000.

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 and matured in June 2008. As of March 31, 2008, we have utilized \$4,534,000 under this agreement for standby letters of credit that provide credit support for certain facility leases. In June 2008, we entered into a stipulation with the financial institution, which was approved by the bankruptcy court, and which resulted in the financial institution releasing its liens on our working capital in exchange for cash collateral. This stipulation also provided for the issuance of new letters of credit going forward. The amount of cash collateral required was for full cash collateralization of letters of credit outstanding, less the \$2,750,000 already cash secured.

We have a contract with a bankcard processor that requires a holdback of bankcard funds equal to a certain percentage of our air traffic liability associated with the estimated amount of bankcard transactions. As of March 31, 2008, that amount totaled \$54,500,000. In June 2008, we reached a revised agreement with this bankcard processor that requires adjustments to the reserve account on a monthly basis based on our current and projected air traffic liability associated with these estimated bankcard transactions. As of June 20, 2008, this revised agreement results in an increase to the holdback to approximately \$61,940,000. The Company and the creditors committee continue to negotiate the terms of the revised agreement. In addition, a credit card company began a holdback during the fiscal year ending March 31, 2008 which totaled \$15,500,000 at March 31, 2008. As of June 20, 2008, our requirements resulted in an increase to \$22,655,000 for this credit card company.

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, 2008, we met these financial tests and presently are only obligated to provide the minimum amount of \$100,000 in coverage to ARC. If we fail 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 June 20, 2008, the bond coverage would be increased to \$5,985,000 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. In May 2008, ARC started requiring a holdback which was equal to \$1,280,000 as of June 23, 2008.

Hedging Transactions

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In November 2002, we initiated a fuel hedging program using a variety of financial derivative instruments. These fuel hedges do not qualify for hedge accounting under SFAS 144, and, as such, realized and non-cash mark to market adjustments to the fair value of the hedge contracts, are included in aircraft fuel expense. The results of operations for the years ended March 31, 2008, 2007 and 2006 include non-cash mark to market derivative gains/(losses) of \$1,847,000, \$12,753,000 and \$(2,163,000), respectively. Cash settlements for fuel derivatives contracts for the year ended March 31, 2008, 2007, and 2006 were receipts of \$30,740,000, payments of \$3,925,000, and receipts of \$5,338,000, respectively.

Due to our Chapter 11 filing, all fuel hedge contracts outstanding as of March 31, 2008 were terminated in