FRONTIER AIRLINES INC /CO/
Form 10-K
May 31, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2006

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

Commission file number: **000-51890**

FRONTIER AIRLINES HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

Common Stock, Par Value of $0.001 per share

Title of Class

Indicate by check mark whether the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

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 x No o

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

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. o

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

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

The aggregate market value of common stock held by non-affiliates of the Company computed by reference to the last quoted price at which such stock sold on such date as reported by the Nasdaq National Market as of September 30, 2005 was $349,965,517.

The number of shares of the Company s common stock outstanding as of May 24, 2006 is 36,589,705.

Documents incorporated by reference

Certain information required by Parts II and III is incorporated by reference to the Company s 2006 Proxy Statement.

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PART I

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

Item 1: Business

General

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

Now in our 12th year of operations, we are a low cost, affordable fare airline operating primarily in a hub and spoke fashion connecting cities coast to coast through our hub at Denver International Airport (DIA). We are the second largest jet service carrier at DIA based on departures. As of May 25, 2006, we, in conjunction with Frontier JetExpress operated by Horizon Air Industries, Inc. (Horizon), operate routes linking our Denver hub to 47 U.S. cities spanning the nation from coast to coast, seven cities in Mexico and Calgary in Alberta, Canada. During the year ended March 31, 2005, we began certain point-to-point routes to Mexico from non-hub cities. As of May 25, 2006, we provided jet service to Cancun, Mexico directly from five non-hub cities and service to Puerto Vallarta, Mexico from Kansas City, Missouri.

We were organized in February 1994, and we began flight operations in July 1994 with two leased Boeing 737-200 jets. We have since expanded our fleet in service to 52 jets as of May 25, 2006 (36 of which we lease and 16 of which we own), consisting of 45 Airbus A319s and seven Airbus A318s. In April 2005, we completed our plan to replace our Boeing aircraft with new purchased and leased Airbus jet aircraft. During the years ended March 31, 2006 and 2005, we increased year-over-year capacity by 8.4% and 27.4%, respectively. During the years ended March 31, 2006 and 2005, we increased mainline passenger traffic by 12.9% and 28.6%, respectively, over the prior comparable periods, outpacing our increase in capacity during both periods. We intend to continue our growth strategy and will add frequency to new markets and existing markets that we believe are underserved.

In September 2003, we signed a 12-year agreement with Horizon, under which Horizon operates up to nine 70-seat CRJ 700 aircraft under our Frontier JetExpress brand. The service began on January 1, 2004 with three aircraft. We increased JetExpress aircraft to a total of eight aircraft in service and one spare aircraft as of June 1, 2004. We control the scheduling of this service. We reimburse Horizon for its expenses related to the operation plus a margin. The agreement provides for financial incentives, penalties and changes to the margin based on the performance of Horizon and our financial performance. As of May 25, 2006, Frontier JetExpress provides service to Boise, Idaho; Billings, Montana; Dayton, Ohio; El Paso, Texas; Fresno, California; Little Rock, Arkansas; Oklahoma City, Oklahoma; Tucson, Arizona; Tulsa, Oklahoma; and Calgary, Alberta, Canada and supplements our mainline service to Albuquerque, New Mexico; Austin, Texas; Omaha, Nebraska, and San Jose, California. Our mainline operations will provide service to Spokane, Washington from May 2006 to mid-August 2006, at which time Spokane will return to Frontier JetExpress service.

We currently operate on 16 gates on Concourse A at DIA on a preferential basis. We use these 16 gates and share use of up to four common use regional jet parking positions to operate approximately 267 daily mainline flight departures and arrivals and 54 Frontier JetExpress daily system flight departures and arrivals.

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

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 800-432-1359.

Overview of Operations and the Industry

We intend to continue our focused growth strategy while keeping our operating costs low. One of the key elements to keeping our costs low was the completion of the fleet transition from a Boeing fleet to an all Airbus fleet in April 2005. This strategy produces cost savings because crew training is standardized for aircraft of a common type, maintenance issues are simplified, spare parts inventory is reduced, and scheduling is more efficient. We also keep our operating costs low by operating only two types of Airbus aircraft with a single class of service. Operating a single class of service simplifies our operations, enhances productivity, increases our capacity and offers an operating cost advantage.

As of May 25, 2006, we have remaining firm purchase commitments for 17 aircraft from Airbus (three Airbus 319 aircraft, four Airbus 318 aircraft and ten Airbus 320 aircraft), and we intend to take delivery of one additional leased A319 aircraft in February 2007. We intend to use these additional aircraft to provide service to new markets and to add frequencies to existing markets that we believe are underserved.

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

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

During the year ended March 31, 2006, our services to Cancun, Mexico, New Orleans, Louisiana and certain of our markets in Florida were disrupted by hurricanes and other extreme weather, impacting our service levels to these destinations and also impacting our revenues and cost of doing business. We are always at risk of severe weather in any destination we serve. Although we believe we have developed sound strategies for addressing operational issues created by severe weather, we remain exposed to significant operational interruptions. The two Gulf Coast hurricanes also severely damaged crude oil production and refinery capacity in the region. As a result of these disruptions, in October 2005, the cost of jet aviation fuel increased within weeks by nearly $1.00 per gallon and caused fuel shortages at several airports that we serve. Since that time, aviation fuel prices have remained elevated, with further increases taking place due to instability in the Middle East and uncertainty as to future supplies of crude oil compared to predicted worldwide demand.

In addition, with respect to our Mexico service, the U. S. and Mexico recently amended their bilateral agreement relating to commercial air service. In the markets we serve, only two U.S. based airlines were permitted to provide air service between that U.S. city and certain cities in Mexico, primarily the resort destinations we serve. In many cases, we were one of the two U.S. based airlines providing service to the cities we serve in Mexico. The recent amendments to the bilateral agreement expanded the authorized service levels to three U.S. based airlines per identified city pair. It is therefore highly likely that other airlines will seek to add service to some of the Mexico destinations we serve, which would increase competition and perhaps place downward pressure on air fares in these markets.

Business Strategy and Markets

Our business strategy is to provide air service at affordable fares to high volume markets from our DIA hub and limited point-to-point routes outside of our DIA hub. Our strategy is based on the following factors:

- Stimulate demand by offering a combination of low fares, quality service and frequent flyer credits in our frequent flyer program, *EarlyReturns*.
- Expand our Denver hub operation and increase connecting traffic by adding additional high volume markets to our current route system and by code sharing agreements and other relationships with other airlines.
- Continue filling gaps in flight frequencies to current markets from our DIA hub.
- Evaluate other opportunities for additional non-hub point-to-point routes.

Route System Strategy

Our route system strategy encompasses connecting our Denver hub to top business and leisure destinations. We currently serve 44 of the top 50 destinations from Denver, as defined by the U.S. Department of Transportation s, (DOT) Origin and Destination Market Survey. During the year ended March 31, 2006 and as of May 25, 2006, we added departures to the following cities with commencement dates as follows:

Destination	Commencement Date
DIA to Detroit, Michigan	May 8, 2005
DIA to Tulsa, Oklahoma (1)	May 22, 2005
DIA to Akron-Canton, Ohio	June 15, 2005
DIA to San Antonio, Texas	June 26, 2005
DIA to Dayton, Ohio (1)	August 31, 2005
DIA to Fresno, California (1)	August 31, 2005

Kansas City, Missouri to Puerto Vallarta, Mexico	December 17, 2005
DIA to Cozumel, Mexico	December 17, 2005
DIA to Acapulco, Mexico (2)	December 18, 2005
Indianapolis, Indiana to Cancun, Mexico	March 6, 2006
DIA to Calgary, in Alberta, Canada (1)	May 25, 2006

(1) Operated exclusively by Frontier JetExpress.

(2) We discontinued seasonal service to Acapulco on April 16, 2006.

In September 2005, we suspended our one daily flight to New Orleans, Louisiana due to Hurricane Katrina.

In addition to the 47 U.S. cities and one Canadian destination served from DIA, we currently have non-stop service from non-hub cities to our Mexico destinations as follows:

Destination	Commencement Date
Indianapolis, Indiana to Cancun, Mexico	March 2006
Kansas City, Missouri to Cancun, Mexico	July 2004
Nashville, Tennessee to Cancun, Mexico	November 2004
Salt Lake City, Utah to Cancun, Mexico	July 2004
St. Louis, Missouri to Cancun, Mexico	February 2005
Kansas City, Missouri to Puerto Vallarta, Mexico	December 2005

We also have submitted applications to the DOT for authority to provide round-trip jet transportation between Los Angeles International Airport and Cabo San Lucas, Mexico.

On May 2, 2006, we announced new mainline service between Los Angeles International Airport and San Francisco International Airport. We plan on commencing service on June 29, 2006 with five daily flights between these two airports.

Fleet and Operational Upgrades

In October 2004, the FAA authorized us to conduct Category II and limited Category III instrument approaches with our Airbus fleet. This reduces the previous landing minimums from 200 feet decision height and 1,800 feet runway visual range (RVR) to 100 feet decision height and 1,200 feet RVR for Category II approaches and 100 feet decision height and 1,000 feet RVR for Category III approaches. In March 2005, the approach minimums for Category III were further reduced to 700 feet RVR and in October 2005 we received authority to conduct Category III approaches to 300 feet RVR. We expect these new landing minimum criteria to reduce the number of diversions required because of low visibility, a condition that occurs with some regularity at a number of the cities we serve.

We have entered into separate agreements with CFMI and Airbus to increase the engine thrust and maximum take-off weight on ten of our owned A319 aircraft to improve the operational performance of these aircraft. The agreement with CFMI calls for an increase in the maximum rated thrust from a base of 22,000 to 23,500 pounds per engine. The agreement with Airbus calls for an increase in the maximum take-off weight from a base of 70 tons to 75.5 tons. The improved operational performance allows us to serve longer haul markets such as Denver to Anchorage, Alaska or to depart from airports with shorter runways while carrying a full passenger load. In addition, two of the A319 aircraft to be delivered to us in the next year will include over-water configurations.

Marketing and Sales

Our sales efforts target value conscious leisure and business travelers. Value conscious customers are price-sensitive; however, we believe their travel decisions are also balanced with other aspects of our product offering such as our frequent flyer program, non-stop service, advanced seat assignments, service level and live television entertainment. In the leisure market, we offer discounted fares marketed through the Internet, newspaper, radio and television advertising along with special promotions and travel packages. In May 2003, we launched a new brand strategy and advertising campaign designed to identify Frontier as A Whole Different Animal and to set us apart from our competition. The campaign includes television, print and radio components that began running in the Denver market and have since expanded to additional markets along our routes. We have gathered extensive customer and employee feedback that has allowed us to identify elements of service that are important to our customers who have the potential to fly with us more often.

On May 23, 2006, we launched a new version of our website as part of our strategic initiative to reduce commissions paid to external travel websites by increasing our website bookings from our current rate of 36% of total bookings. We began a phased improvement of our website shortly after we converted our reservation and ticketing automation to Sabre by March 2005.

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

In order to increase connecting traffic, we entered into two code share agreements, one with Great Lakes Aviation Ltd. in July 2001 and one with Mesa Air Group operating as Frontier JetExpress in February 2002. Mesa was replaced with Horizon in January 2004. We also have interline agreements with 105 domestic and international airlines serving cities on our route system. Generally, these agreements include joint ticketing and baggage services and other conveniences designed to expedite the connecting process.

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

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

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

LiveTV

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

Customer Loyalty Program

We have operated EarlyReturns®, our frequent flyer program, since February 2001. Our frequent flyer program won the following awards at the 2006 Freddie Awards for frequent flyer programs: second place for best award redemption, fourth place for program of the year, and fourth place for best award numbers for our 15,000 miles ticket redemption. We believe that our frequent flyer program offers some of the most generous benefits in the industry, including a free round-trip after accumulating only 15,000 miles (25,000 miles to our destinations in Mexico). There are no blackout dates for award travel. Additionally, members who earn 25,000 or more Frontier flight miles annually attain Summit Level status, which includes a 50% mileage bonus on each paid Frontier flight, priority check-in and boarding, complimentary on-board alcoholic beverages and DIRECTV, extra allowance on checked baggage and priority baggage handling, guaranteed reservations on any Frontier flight when purchasing an unrestricted coach class ticket at least 72 hours prior to departure, standby at no charge on return flights the day before, the day of, and the day after the originally scheduled flight, and access to an exclusive customer service toll-free phone number. Members who earn 15,000 24,999 Frontier flight miles annually attain Ascent Level status, which includes a 25% mileage bonus on each Frontier flight, priority check-in and boarding, complimentary DIRECTV service, and access to an exclusive customer service toll-free phone number. Members earn one mile for every mile flown on Frontier. Members can also earn additional miles through our program partners, which presently include: Hertz Rental Car, 1-800-FLOWERS.com, Diners Club International, Qwest Communications, SuperShuttle, Millennium Hotels and Resorts and Frontier Airline Cruises. To apply for the EarlyReturns® program, customers may visit our Web site at www.frontierairlines.com;obtain an EarlyReturns® enrollment form at any of our airport counters or call our EarlyReturns® Service Center toll-free hotline at 866-26-EARLY, or our reservations at 800-432-1FLY.

In March 2003, we entered into a co-branded credit card arrangement with a MasterCard issuing bank. Credit card users earn miles on their credit card purchases. We receive fees for new accounts, the purchase of frequent flier miles awarded to credit card customers and a percentage of the annual renewal fees.

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

In June 2005, we launched the More Store (www.frontiermorestore.com), which is an online miles shopping experience designed to provide Ascent and Summit level EarlyReturns® members with the ability to purchase merchandise online with frequent flyer miles in an auction-style bidding process or with a stated amount of miles. Approximately 10 million points have been redeemed for merchandise since the launch.

Product Pricing

We offer a range of fares, including 21-day, 14-day, 7-day and 3-day advanced purchase fares, and a walk-up fare. In addition to our regular fare structure, we frequently offer sale fares in the markets we serve and match the sale fares offered by other airlines. We offer both one-way and round-trip fares not requiring a Saturday night stay.

Competition and Market Barriers

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

We compete principally with United, the dominant carrier at DIA. United has a competitive advantage due to its larger number of flights from DIA, its significantly broader domestic and international route system, 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. At DIA, United has implemented capacity reductions and shifted certain routes from mainline service aircraft to regional jets such that 33% of all United departures from Denver are currently flown by regional aircraft.

In January 2006, Southwest Airlines, the largest low-fare major U.S. airline, introduced service at DIA. Southwest Airlines currently has 20 frequencies out of DIA to five destinations. 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, which has impacted our yields in the five routes in which we compete with Southwest. It is likely that further expansion by Southwest into other markets we serve would cause the same result.

During the month of March 2006, United, Ted, and its commuter affiliates had a total market share at DIA of approximately 55.9%, down from 56.1% during the month of March 2005. During the month of March 2006, Southwest had a total market share at DIA of approximately 3.1%. Our market share at DIA, including our codeshare affiliates, during the month of March 2006 was 20.5%, up from 19.3% during the month of March 2005. As of May 1, 2006, we directly compete with United and United regional jet affiliates on 87.6% of the cities we serve out of DIA and with Southwest on 9.3% of the cities we serve. We compete with United and Southwest primarily on the basis of fares, fare flexibility, the number of markets we operate in and the number of frequencies within a market, our frequent flyer programs, brand recognition (particularly in Denver market), the level of passenger entertainment available on our aircraft and the quality of our customer service.

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

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

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

Maintenance and Repairs

All of our aircraft maintenance and repairs are accomplished in accordance with our maintenance program approved by the FAA. Since mid-1996, we have trained, staffed and supervised our own maintenance work force at Denver, Colorado. We sublease a portion of Continental Airlines hangar at DIA where we currently perform most of our own maintenance through the D check level. We also maintain line maintenance facilities at Phoenix, Arizona and Kansas City, Missouri. Outside FAA approved contractors perform other major maintenance, such as 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). 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 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 monthly payments at a specified rate multiplied by the number of flight hours the engine operated during that month. For our 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. Currently, engines on all of our owned and leased aircraft are subject to the GE agreement.

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

Our monthly completion factors for the years ended March 31, 2006, 2005, and 2004, excluding cancellations that were not related to maintenance, averaged 99.9%, 99.8% and 99.8%, respectively. The completion factor is the percentage of our scheduled flights that were operated by us, whether or not delayed (i.e., not canceled). We believe that our high monthly completion factors are attributable to the reliability of our new Airbus fleet and our record of excellence in our maintenance department.

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

Fuel

Fuel prices increased significantly in fiscal 2005 and 2006. During the years ended March 31, 2006, 2005, and 2004, jet fuel, including hedging activities and our regional partner operations, accounted for 31.3%, 24.1% and 18.1%, 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 unrealized 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, 2006	$ 1.99	$ 1.66	$ 2.65
March 31, 2005	$ 1.41	$ 1.19	$ 1.64
March 31, 2004	$ 1.04	89¢	$ 1.20

As of May 22, 2006, the average price per gallon was approximately $2.39 excluding the impact of fuel hedges. We implemented a fuel-hedging program in November 2002, under which we entered into crude oil or Gulf Coast jet fuel option contracts to partially protect us against significant increases in fuel prices. Our fuel-hedging program is limited in fuel volume and duration. As of March 31, 2006, we had hedged approximately 16% of our projected fuel requirements for the quarter ending June 30, 2006.

Increases in fuel prices or a shortage of supply could have a material adverse effect on our operations and financial results. Based on our current fleet and operations, we estimate that a 1¢ increase in the price of fuel per gallon increases our operating expenses by $1,700,000 on an annualized basis. This number will increase as our capacity increases. Our ability to pass on increased fuel costs to passengers through price increases or fuel surcharges may be limited, particularly because of our affordable fare strategy and intense competition.

Insurance

We carry $1.0 billion per aircraft per occurrence in property damage insurance and passenger and third-party liability insurance, and insurance for aircraft loss or damage with deductible amounts as required by our aircraft lease agreements, and customary coverage for other business insurance. While we believe such insurance is adequate, there can be no assurance that such coverage will adequately protect us against all losses that we might sustain. Our aircraft hull and liability coverage renewed on January 1, 2006 for one year at reduced year-over-year rates.

In December 2002, through authority granted under the Homeland Security Act of 2002, the U.S. government expanded its insurance program to enable airlines to elect either the government s excess third-party war risk coverage or for the government to become the primary insurer for all war risks coverage. We elected to take primary government coverage in February 2003 and dropped the commercially available war risk coverage. The Appropriations Act of 2002 authorized the government to offer both policies through August 31, 2004. The Emergency Wartime Supplemental Appropriations Act extended the government s mandate to provide war-risk insurance until March 31, 2005. Pursuant to the Consolidated Appropriations Act of 2005, Congress further extended the government s mandate to provide war-risk insurance until August 31, 2006, at the discretion of the Secretary of Transportation. We cannot assure that any further extensions will occur, or if they do, how long they will last. We expect that if the government stops providing 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.

Employees

As of May 1, 2006, we had 4,770 employees, including 3,851 full-time and 919 part-time personnel. Our employees included 619 pilots, 901 flight attendants, 1,149 customer service agents, 478 ramp service agents, 322 reservations agents, 120 aircraft appearance agents, 74 catering agents, 320 mechanics and related personnel, and 787 general management and administrative personnel. We consider our relations with our employees to be good.

Approximately 21% of our employees are represented by unions. The following table reflects the principal collective bargaining agreements, and their respective amendable dates:

Employee Group	Approximate Number of Employees	Representing Union	Contract Amendable Date
Pilots	619	Frontier Airline Pilots Association	May 2005
Mechanics	250	Teamsters Airline Division	July 2008
Dispatchers	15	Transport Workers Union	September 2006
Aircraft appearance agents and maintenance cleaners	120	Teamsters Airline Division	October 2013

The first bargaining agreement for the pilots, which has a five-year term, was ratified and became effective in May 2000. Negotiations for a new agreement with the pilots began in May 2005 and are still in process. In March 2006, our material specialists voted for union representation by the International Brotherhood of Teamsters effecting approximately 22 employees. Since 1997, we have had other union organizing attempts that were defeated by our flight attendants and ramp service agents.

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

Effective in May 2000, we enhanced our 401(k) Retirement Savings Plan by announcing an increased matching contribution by the company. Participants may receive a 50% company match for contributions up to 10% of salary. This match is discretionary and is approved on an annual basis by our Board of Directors. The Board of Directors has approved the continuation of the match through the plan year ending December 31, 2006.

For the plan years ended December 31, 2006, 2005 and 2004, the Board of Directors contributed 400,000, 346,400, and 298,174 shares of stock to the ESOP, respectively. These shares are allocated to eligible employees at the end of the plan year. Employees become vested in shares allocated to their account 20% per year and may obtain a distribution of vested shares upon leaving the company. We believe that the 401(k) match, the ESOP and the related vesting schedules of 20% per year may reduce our employee turnover rates.

In March 2005, we adopted a new annual bonus and long-term incentive plan for our officers and directors. The long-term incentive plan included the issuance of stock-only stock appreciation rights, restricted stock units and a three-year cash incentive pool for the fiscal year ending March 31, 2006. On March 9, 2006, we adopted the annual bonus targets for fiscal year ending March 31, 2007 with the same bonus structure as fiscal year 2006. Annual bonuses and three-year cash incentive pools are paid out based upon the company reaching targeted pre-tax profits and may also be adjusted based on our annual pre-tax profit performance relative to peer group companies.

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

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

Government Regulation

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

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

Transportation Security Administration. On November 19, 2001, in response to the terrorist acts of September 11, 2001, the President of the United States signed into law the Aviation and Transportation Security Act (ATSA). The ATSA created the Transportation Security Administration (TSA), an agency within the DOT, to oversee, among other things, aviation and airport security. The ATSA provided for the federalization of airport passenger, baggage, cargo, mail, employee and vendor screening processes. The ATSA also enhanced background checks, provided federal air marshals aboard flights, improved flight deck security, and enhanced security for airport perimeter access. In addition, the ATSA required that all checked baggage be screened by explosive detection systems by December 31, 2002. Funding for airline and airport security under the ATSA is primarily provided by a $2.50 per enplanement ticket tax, with authority granted to the TSA to impose additional fees on the air carriers if necessary to cover additional federal aviation security costs. Since 2002, the TSA has imposed an Aviation Security Infrastructure Fee on all airlines to assist in the cost of providing aviation security. The fees assessed are based on airlines actual 2000 security costs. Pursuant to authority granted to the TSA to impose additional fees on air carriers if necessary to cover additional federal aviation security costs, the TSA has imposed an additional annual Security Infrastructure Fee on certain airlines, including us. The industry has opposed and disagrees with the higher assessment and is working with the TSA on a resolution.

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

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

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

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

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

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

Item 1A. Risk Factors

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

Risks Related to Frontier

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

As of May 25, 2006, we have remaining firm purchase commitments for 17 aircraft from Airbus (three Airbus 319 aircraft, four Airbus 318 aircraft and ten Airbus 320 aircraft), and we intend to take delivery of one additional leased A319 aircraft in February 2007. We have secured financing commitments for eight of these additional aircraft, including commitments for all of our Airbus deliveries through June 2007. To complete the purchase of the remaining aircraft, we must secure aircraft financing, which we may not be able to obtain on terms acceptable to us, if at all. The amount of financing required will depend on the required down payment on mortgage-financed aircraft and the extent to which we lease as opposed to purchase the aircraft. We are exploring various financing alternatives, including, but not limited to, domestic and foreign bank financing, leveraged lease arrangements or sale/leaseback transactions. There can be no guarantee that additional financing will be available when required or will be on acceptable terms. Our inability to secure the financing could have a material adverse effect on our cash balances or result in delays in or our inability to take delivery of Airbus aircraft that we have agreed to purchase. The failure to take these future deliveries would impair our strategy for long-term growth and could result in the loss of pre-delivery payments and deposits previously paid to the manufacturer, and the imposition of other penalties or the payment of damages in accordance with the terms of the purchase agreement with the manufacturer.

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

As of March 31, 2006, our total debt was $427.8 million, including $92.0 million of convertible debt due in December 2025 that was issued in December 2005. Maturities of our long-term debt are $22.3 million in fiscal year 2007, $23.5 million in fiscal year 2008, $24.9 million in fiscal year 2009, $26.3 million in 2010, $27.9 million in 2010, and an aggregate of $302.8 million for the years thereafter. After accounting for the effect of our interest rate derivative hedge, 69.8% of our total existing long-term debt bears floating interest rates and the remaining 30.2% bears fixed rates. In addition to long-term debt, we have a significant amount of other fixed obligations under operating leases related to our aircraft, airport terminal space, other airport facilities and office space. As of March 31, 2006, future minimum lease payments under non-cancelable operating leases were approximately $138.9 million in fiscal year 2007, $139.1 million in fiscal year 2008, $138.6 million in fiscal year 2009, $137.2 million in fiscal year 2010, $126.1 million in fiscal year 2011 and an aggregate of $617.4 million for the years thereafter. Future minimum lease payments include signed lease agreements representing an obligation to lease three additional aircraft in the next fiscal year, which, subject to the satisfaction of certain contingencies, represent lease payments of $109.3 million in the aggregate. Approximately 87.6% of our minimum lease payments related to aircraft and leased engines are fixed in nature, and the remaining 12.4% are adjusted periodically based on floating interest rates. As of March 31, 2006, we had commitments of approximately $670.8 million to purchase 17 additional aircraft over approximately the next four years, including estimated amounts for contractual price escalations, spare parts to support these aircraft and to equip the aircraft with LiveTV, and obligations relating to a service agreement with Sabre Travel Network. We expect to incur additional debt or long-term lease obligations as we take delivery of new aircraft and other equipment and continue to expand into new markets.

Many of our financial obligations contain cross-default provisions.

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

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

Our growth strategy involves adding 18 additional Airbus aircraft, which we could choose to increase to 35 additional Airbus aircraft (including the exercise of 17 additional purchase rights), increasing the frequency of flights to markets we currently serve, expanding the number of markets served and increasing flight connection opportunities. It is critical that we achieve our growth strategy in order for our business to attain economies of scale and to sustain or improve our results of operations. Increasing the number of markets we serve depends on our ability to access suitable airports located in our targeted geographic markets in a manner that is consistent with our cost strategy. At this time, we believe we will have sufficient access to gates to accommodate our growth at our Denver hub for the foreseeable future. We may also need to obtain additional gates and other operational facilities at our Denver hub. Any condition that would deny, limit or delay our access to airports we seek to serve in the future will constrain our ability to grow. Additionally, traffic may not materialize in new markets. Opening new markets requires us to commit a substantial amount of resources, even before the new services commence. Expansion will also require additional skilled personnel, equipment and facilities. An inability to hire and retain skilled personnel or to secure the required equipment and facilities efficiently and cost-effectively may negatively affect our ability to achieve our growth strategy. We cannot assure you that we will be able to successfully expand our existing markets or establish new markets, and our failure to do so could harm our business.

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

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

We face intense competition and market dominance by United Airlines and other airlines at DIA, and Southwest Airlines recently announced service to and from Denver, which will increase competition on certain of our routes.

The airline industry is highly competitive, primarily due to the effects of the Airline Deregulation Act of 1978, which substantially eliminated government authority to regulate domestic routes and fares and increased the ability of airlines to compete with respect to flight frequencies and fares. We compete with United in our hub in Denver, and we anticipate that we will compete with United in any additional markets we elect to serve in the future. United, Ted, and United s regional airline affiliates are the dominant carriers out of DIA, accounting for approximately 55.9% of all revenue passengers out of DIA for the month of March 31, 2006. In addition, Southwest Airlines recently started service to and from Denver in January 2006, currently with 20 daily departures. Southwest s introductory fares were significantly below the fares we were able to obtain prior to its arrival. Fare pressure exerted by Southwest on its announced routes and on any future expansion in Denver by Southwest will require us to be fare competitive, and may place additional downward pressure on our yields. In addition, in the last four years Alaska Airlines, JetBlue Airways and AirTran Airways have commenced service at DIA. These airlines have offered low introductory fares and compete on several of our routes. Fare wars, predatory pricing, capacity dumping, in which a competitor places additional aircraft on selected routes, and other competitive activities could adversely affect us. The future activities of United, Southwest and other carriers may have a material adverse effect on our revenues and results of operations.

United currently operates 19 flights a week to Mexico that compete with our current routes to Mexico. Most of our current and potential competitors have significantly greater financial resources, larger route networks, and superior market identity. Denver is also a hub for United s low-cost operation Ted, which began in February 2004. United s low-cost venture, and United s ability to lower the costs of its mainline operations through the bankruptcy process, including its ability to shed itself of significant financial obligations under its pension plans, may continue to place downward pressure on airfares charged in the Denver market and adversely affect our market share at DIA and our ability to maintain yields required for profitable operations. The uncertainty regarding United s business plan and the potential for United and Southwest to place downward pressure on airfares charged in the Denver market may impair our ability to maintain yields required for profitable operations.

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

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

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

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

We currently have access to a sufficient number of gates and other facilities at DIA to accommodate our level of service, but our DIA operation may become constrained later this year unless we obtain additional gates. DIA recently announced an agreement with United Airlines under which United will be returning to DIA six gates on Concourse A, the concourse from which we operate. We have reached verbal agreement with DIA to lease all of these six gates at the time they are returned by United. Assuming this transaction is completed as anticipated, we will have sufficient gates to accommodate our planned expansion in Denver for the foreseeable future.

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

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

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

Our all-Airbus fleet creates risks.

We currently operate 52 Airbus aircraft. We completed our transition from Boeing aircraft to operating only Airbus aircraft 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. However, during our transition period we incurred additional costs associated with retraining our Boeing crews in the Airbus aircraft, and we cannot assure you that we will achieve all of the cost savings we anticipated from the fleet transition.

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

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

We rely on one vendor to provide our LiveTV service.

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

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

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

Because the average age of our aircraft is approximately 2.7 years, our aircraft require less maintenance now than they will in the future. We have incurred lower maintenance expenses because most of the parts on our aircraft are under multi-year warranties. Our maintenance costs will increase significantly, both on an absolute basis and as a percentage of our operating expenses, as our fleet ages and these warranties expire.

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

We currently sublease a substantial part of a maintenance hangar located at DIA from Continental Airlines. We use this facility to perform our heavy maintenance and some of our line maintenance. The sublease expires in February 2007. If we are not able to extend this lease or otherwise reach agreement with Continental, we may be forced to locate alternative maintenance facilities, which may or may not be at DIA, or to construct a new maintenance facility. The inability to procure a new maintenance facility in a timely fashion may cause us to increase our overall maintenance costs. Further, the lease or financing costs of a new facility may be higher than those of our current sublease with Continental.

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

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

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

Unionization affects our costs and may affect our operations.

Four of our employee groups are represented by unions: our pilots, dispatchers, mechanics and aircraft appearance agents. We finalized negotiations with our mechanics for a new contract in November 2005. In addition, since 1997 we have had union organizing attempts that were defeated by our flight attendants and ramp service agents. The collective bargaining agreement with our pilots union, Frontier Airlines Pilots Association (FAPA), expired in May 2005. We are currently negotiating a replacement contract with FAPA. In March 2006, our material specialists voted for union representation by the International Brotherhood of Teamsters which affects approximately 22 employees.

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

The lack of marketing alliances could harm our business.

Many airlines have marketing alliances with other airlines, under which they market and advertise their status as marketing alliance partners. Among other things, they share the use of two-letter flight designator codes to identify their flights and fares in the computerized reservation systems and permit reciprocity in their frequent flyer programs. We do not have a 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.

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

Airlines require substantial liquidity to operate. We have a line of credit with a maximum borrowing amount of $13.0 million based on 50% of the value of certain spare parts inventory. As of March 31, 2006, based on our eligible spare parts inventory, we could borrow up to $11.3 million, which was reduced by letters of credit issued of $9.5 million. We also have an additional revolving line of credit for $5.0 million, and we can issue letters of credit for up to $3.5 million, $2.5 million of which had been issued as of March 31, 2006. Our limited borrowing capacity means we rely primarily on operating cash flows to provide working capital. Unless we secure additional borrowing capacity under lines of credit, borrowing facilities or other financing, we will be dependent upon our existing cash and operating cash flows to fund our operations and to make scheduled payments on our debt and other fixed obligations. If we deplete our existing cash, fail to generate sufficient funds from operations to meet these cash requirements and are unable to secure a line of credit, borrowing facility or other financing, we could default on our debt and other fixed obligations. Our inability to meet our obligations as they become due would seriously harm our business and financial results, particularly, as discussed earlier, in light of the cross-default clauses contained in many of our financing arrangements.

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

Our business is labor intensive, with labor costs totaling $219.4 million, $202.3 million and $160.3 million for the years ended March 31, 2006, 2005 and 2004, respectively. We expect salaries, wages and benefits to increase on a gross basis. These costs could increase as a percentage of our overall costs, which could harm our business. Our growth plans will require us to hire, train and retain a significant number of new employees in the future. From time to time, the airline industry has experienced a shortage of personnel licensed by the FAA, especially pilots and mechanics. We compete against the major U.S. airlines for labor in these highly skilled positions. Many of the major U.S. airlines offer wage and benefit packages that exceed our wage and benefit packages. As a result, in the future, we may have to increase significantly wages and benefits in order to attract and retain qualified personnel or risk considerable employee turnover. If we are unable to hire, train and retain qualified employees at a reasonable cost, we may be unable to complete our growth plans and our business could be harmed.

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

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

We implement improvements to our website and reservations system from time to time. Implementation of changes to these systems may cause operational and financial disruptions if we experience transition or system cutover issues, if the new systems do not perform as we expect them to, or if vendors do not deliver systems upgrades or other components on a timely basis. For example, we experienced systems cutover problems when we implemented major revisions to our reservation system and website in February 2005. Any such disruptions may have the effect of discouraging some travelers from purchasing tickets from us and increasing our reservations staffing.

Risks Associated with the Airline Industry

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

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

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

On September 11, 2001, four commercial aircraft were hijacked by terrorists and crashed into The World Trade Center in New York City, the Pentagon in Northern Virginia and a field in Pennsylvania. These terrorist attacks resulted in an overwhelming loss of life and extensive property damage. Immediately after the attacks, the FAA closed U.S. airspace, prohibiting all flights to, from and within the United States of America. Airports reopened on September 13, 2001, except for Washington D.C. Ronald Reagan International Airport, which partially reopened on October 4, 2001.

The September 11, 2001 terrorist attacks and the war in Iraq created fear among consumers and resulted in significant negative economic impacts on the airline industry. Primary effects were substantial loss of revenue and flight disruption costs, increased security and insurance costs, increased concerns about the potential for future terrorist attacks, airport shutdowns and flight cancellations and delays due to additional screening of passengers and baggage, security breaches and perceived safety threats, and significantly reduced passenger traffic and yields due to the subsequent drop in demand for air travel.

Given the magnitude and unprecedented nature of the September 11 attacks, the uncertainty and fear of consumers resulting from the war in Iraq, and the potential for other hostilities in other parts of the world, it is uncertain what long-term impact these events will or could have on the airline industry in general and on us in particular. These factors could affect our operating results and financial condition by creating weakness in demand for air travel, increased costs due to new security measures and the potential for new or additional government mandates for security related measures, increased insurance premiums, increased fuel costs, and uncertainty about the continued availability of war risk coverage or other insurances.

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

Increases in fuel costs affect our operating costs and competitiveness.

Fuel is a major component of our operating expenses, accounting for 31.3% of our total operating expenses for the year ended March 31, 2006, up from 24.1% for the year ended March 31, 2005. On an actual basis, fuel costs including the impact of hedging increased to $281.9 million, representing an average cost of $1.99 per gallon, from $185.8 million, or $1.41 per gallon, over the same periods. Both the cost and availability of fuel are influenced by many economic and political factors and events occurring in oil-producing countries throughout the world, which causes fuel costs to fluctuate widely. Recently, the price per barrel of oil has been at an all-time high, due to the current geopolitical environment and limited refining capacity available. High oil prices have had a significant adverse impact on our results of operations over the past two fiscal years. We cannot predict our future cost and availability of fuel, or the impact or further disruptions in oil supplies or refinery productivity based on natural disasters, which affect our ability to compete. The unavailability of adequate fuel supplies could have a material adverse effect on our operations and profitability. In addition, larger airlines may have a competitive advantage because they pay lower prices for fuel. We generally follow industry trends by imposing a fuel surcharge in response to significant fuel price increases. However, our ability to pass on increased fuel costs have been and may continue to be limited by economic and competitive conditions. Although we implemented a fuel hedging program in 2003, under which we enter into Gulf Coast jet fuel and West Texas Intermediate crude derivative contracts that are intended to partially protect us against significant increases in fuel prices, this program is limited in fuel volume and duration. As of March 31, 2006, we had hedged approximately 16% of our projected fuel requirements for the quarter ending June 30, 2006. We have no fuel hedges in place after June 30, 2006. Other airlines, such as Southwest Airlines, may have substantial fuel hedges that give them a competitive advantage.

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

Because the airline industry is seasonal and cyclical, our liquidity and earnings will fluctuate and be unpredictable. Our operations primarily depend on passenger travel demand and seasonal variations. Our weakest travel periods are generally during the quarters ending in March and December. The airline industry is also a highly cyclical business with substantial volatility. Airlines frequently experience short-term cash requirements. These requirements are caused by seasonal fluctuations in traffic, which often reduce cash during off-peak periods, and various other factors, including price competition from other airlines, national and international events, fuel prices, and general economic conditions including inflation. Our operating and financial results are likely to be negatively impacted by the continued stagnation in 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, under the Homeland Security Act of 2002, the U.S. government expanded its insurance program to permit airlines to elect either the government s excess third-party coverage or for the government to become the primary insurer for all war risks coverage. We elected the latter in February 2003 and discontinued the commercially available war risk coverage. The Appropriations Act authorized the government to offer both policies through August 31, 2004. Since then, Congress has further extended the government s mandate to provide war risk insurance on multiple occasions, most recently through August 31, 2006, at the discretion of the Secretary of Transportation. We cannot assure that this coverage will continue. We expect that if the government stops providing 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. Significant increases in insurance premiums would harm our financial condition and results of operations.

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

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

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

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

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

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

Recently, we have suffered from the effects of hurricanes on the Gulf Coast and resort areas along the Yucatan Peninsula and the Riviera Maya. These hurricanes disrupted our ability to serve Cancun, Mexico, and the destruction or damage to hotels and resorts severely impacted tourist demand. Flights to resort destinations in Mexico have represented a significant portion of our vacation-oriented operations. Prior to Hurricane Wilma, we anticipated operating 232 departures to Cancun, Mexico from our various originating cities during the calendar quarter ending March 31, 2006. Due to the effects of Hurricane Wilma, we operated only 141 departures to Cancun, Mexico during the quarter ended March 31, 2006. During the quarter ended March 31, 2006, we operated 92% of previously scheduled flights. In addition, we announced new service to Cozumel, Mexico commencing December 17, 2005 and we intended to fly three flights per week. Because of the damage to resort destinations in Cozumel, we reduced our planned flights to once per week. We cannot predict when the resorts damaged by Hurricane Wilma will be repaired or when tourist demand for these locations will return. In the interim, the disruption in service has reduced the profitability of our Mexico operations and we cannot guarantee that future operations to Mexico or any other destinations we serve will not also be interrupted by hurricanes or other significant natural disasters.

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2: Properties

Aircraft

As of May 25, 2006, excluding JetExpress, we operate 45 Airbus A319 aircraft and seven Airbus A318 aircraft in all-coach seating configurations. The age of these aircraft, their passenger capacities and expiration years for the leased aircraft are shown in the following table:

Aircraft Model	No. of Aircraft	Year of Manufacture	Approximate Seating Capacity	Lease Expiration
A319	34	2001 – 2006	132	2013 - 2018
A319	11	2001 2005	132	Owned
A318	5	2003 2004	114	Owned
A318	2	2004	114	2016

We have completed our fleet replacement plan to phase out our Boeing aircraft and have replaced them with a combination of Airbus A319 and A318 aircraft. In March 2000, we entered into a purchase agreement with Airbus, as subsequently amended in April 2006, to purchase 38 Airbus aircraft. As of May 25, 2006, we had taken delivery of 21 of these aircraft, three of which we sold and leased back. In addition, prior to the delivery of two aircraft in fiscal year 2004, we assigned delivery to a lessor and agreed to lease these aircraft over 12-year terms. Our purchase agreement with Airbus also includes purchase rights for up to 17 additional aircraft, and allows us to purchase Airbus A318 or A320 aircraft in lieu of the A319 aircraft at our option. As of May 25, 2006, we intend to lease one additional A319 aircraft in February 2007. We have remaining firm purchase commitments for 17 Airbus aircraft, including one aircraft for which we intend to sign agreements for sale-leaseback transactions with a third party lessor. We anticipate the following fleet composition as of the end of each fiscal year through 2011:

Fiscal Year Ending	A319	A318	A320	End of Year Cumulative Total Fleet
March 31, 2006	43	7		50
March 31, 2007	49	8		57
March 31, 2008	49	11	2	62
March 31, 2009	49	11	3	63
March 31, 2010	49	11	8	68
March 31, 2011	49	11	10	70

This table does not include any of the 17 Airbus aircraft for which we have purchase rights, which would allow us to take delivery of additional A319 or A320 aircraft beginning in fiscal year 2007. In addition, we can defer delivery of two A320 aircraft to be delivered in November 2009 and February 2010 into the year 2011.

Facilities

We lease approximately 70,000 square feet of space at our headquarters facility near DIA, at an average annual rental of approximately $1,045,000 plus operating and maintenance expenses. 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, at an average annual rental of approximately $246,000 plus operating and maintenance expenses. The lease expires in July 2008.

Our Denver, Colorado reservations facility is 16,000 square foot facility, also in Denver, Colorado, which we have leased for a 10-year lease term ending in June 2011, at an average annual rental of approximately $141,000 plus operating and maintenance expenses. 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, at an average annual rental of approximately $129,000 plus operating and maintenance expenses.

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, gates and associated operations space at a current net annual rental rate of approximately $11,712,000 for these facilities. Plans to work with DIA for the construction of additional gates have been placed on hold. In the interim, we have gained permanent rights to three gates that were, previously used by United on the east end of Concourse A. Our future growth may require us to work with DIA and the City and County of Denver, Colorado to develop access to additional gates and other airport facilities. If the construction of additional facilities is required to meet our growth needs, it is likely that we would be obligated to lease the additional facilities, thereby increasing our overall rates and charges paid to the airport. Because our overall rates and charges will be based on the final project costs as well as the number of passengers and gross weight landed at the airport, it is not possible at this time to determine the amount of future rates and charges at DIA.

On May 23, 2006, Denver International Airport announced an agreement with United Airlines pursuant to which United will give back, over a period of time, the six Concourse A gates that it currently leases for its Ted operation. It is expected that United s Ted flights will be moved to Concourse B, the location of United s primary hub at DIA. We have reached verbal agreement with Denver International Airport to lease on a preferential basis all six of the Concourse A gates at the time they are returned by United. Currently, it is expected that United will give up one Concourse A gate in July 2006. They will surrender a second gate around the middle of November 2006. United will then return the remaining four Concourse A gates to DIA when the City completes the construction of a regional jet facility for United on Concourse B, estimated to be in March or April of 2007. Obviously, various factors may effect the actual dates of transfer of the six Concourse A gates from United to Frontier, but at this point in time we are expecting to have preferential use of all six Concourse A gates by late Spring of 2007. We believe that the additional six gates on Concourse A, our primary concourse of operation, provides sufficient gates to meet our planned growth in the near future at a cost-effective rate.

We sublease a portion of Continental Airlines hangar at DIA with a lease expiration date of February 2007 for a current annual rental of approximately $3,084,000.

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. Total annual rent expense for these facilities, excluding DIA, is approximately $16,607,000 based on rents paid for the month of March 2006. Additionally, we lease maintenance facilities in Kansas City, Missouri and Phoenix, Arizona at a current annual rental of approximately $182,000. In August 2003, we closed our maintenance facility in El Paso, Texas but we are still obligated to pay rent through August 2007. The current annual rental for our El Paso, Texas maintenance facility is approximately $87,000.

Item 3: Legal Proceedings

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

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

During the fourth quarter of the fiscal year covered by this report, we submitted the following matter to a vote of our security holders through the solicitation of proxies or otherwise:

On March 27, 2006, at a special meeting, the shareholders of Airlines approved a merger agreement that resulted in our reorganization into a Delaware holding company structure. Under the Reorganization, effective April 3, 2006, Airlines became a wholly owned subsidiary of Holdings, a Delaware corporation, and the shareholders of Airlines became stockholders of Holdings with the same number and percentage of shares of Holdings as they held of Airlines prior to the Reorganization. The votes cast with respect to approval of the merger agreement were as follows:

	Number of votes
For	24,467,129
Against	2,994,936
Abstained	52,950
Non-votes	8,674,690

PART II

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

Price Range of Common Stock

Our common stock is listed on the NASDAQ National Market and is traded under the symbol FRNT. As of May 25, 2006, there were 1,487 holders of record of our common stock. The following table shows the range of high and low sales prices per share for our common stock for the periods indicated as reported by NASDAQ.

	High	Low
Fiscal Year 2006 Quarter Ended		
June 30, 2005	$ 12.96	$ 9.26
September 30, 2005	$ 13.01	$ 8.90
December 31, 2005	$ 10.92	$ 7.57
March 31, 2006	$ 9.40	$ 6.43
Fiscal Year 2005 Quarter Ended		
June 30, 2004	$ 11.63	$ 8.49
September 30, 2004	$ 11.03	$ 7.02
December 31, 2004	$ 13.08	$ 6.71
March 31, 2005	$ 11.59	$ 8.06

Dividend Policy

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

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this Item is incorporated herein by reference to the data under the heading Securities Authorized for Issuance Under Equity Compensation Plans in the Proxy Statement to be used in connection with the solicitation of proxies for our annual meeting of shareholders to be held on September 7, 2006. We intend to file the definitive Proxy Statement with the SEC on or before July 28, 2006.

Item 6: Selected Financial Data

The following selected financial and operating data as of and for each of the years ended March 31, 2006, 2005, 2004, 2003, and 2002 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 financial statements and the related notes thereto included elsewhere in this report.

	Year Ended March 31,				
	2006	2005	2004	2003	2002
	(Amounts in thousands except per share amounts)				
Statement of Operations Data:					
Total operating revenues	$ 994,273	$ 833,639	$ 643,679	$ 469,936	$ 445,075
Total operating expenses	1,002,170	860,087	616,197	500,727	428,689
Operating income (loss)	(7,897)	(26,448)	27,482	(30,791)	16,386
Income (loss) before income tax expense (benefit) and cumulative effect of change in accounting principle	(20,469)	(35,838)	20,457	(39,509)	24,832
Income tax expense (benefit)	(6,497)	(12,408)	7,822	(14,655)	8,282
Income (loss) before cumulative effect of change in accounting principle	(13,971)	(23,430)	12,635	(24,854)	16,550
Cumulative effect of change in accounting principle				2,011	
Net income (loss)	$ (13,971)	$ (23,430)	$ 12,635	$ (22,843)	$ 16,550
Income (loss) per share before cumulative effect of a change in accounting principle:					
Basic	$ (0.39)	$ (0.66)	$ 0.39	$ (0.84)	$ 0.58
Diluted	$ (0.39)	$ (0.66)	$ 0.36	$ (0.84)	