

Frontier Airlines Holdings, Inc.
Form 10-Q
October 30, 2006

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2006

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

(State or other jurisdiction of incorporated or
organization)

20-4191157

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

7001 Tower Road, Denver, CO
(Address of principal executive offices)

80249
(Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

The number of shares of the Company's Common Stock outstanding as of October 20, 2006 was 36,609,455.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements (unaudited)****FRONTIER AIRLINES HOLDINGS, INC.****Consolidated Balance Sheets (Unaudited)****(In thousands, except share data)**

| | September 30, 2006 | March 31, 2006 |
|---|-----------------------|-------------------|
| <u>Assets</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 221,242 | \$ 272,840 |
| Restricted investments | 61,213 | 35,297 |
| Receivables, net of allowance for doubtful accounts of \$1,076 and \$1,261 at September 30, 2006 and March 31, 2006, respectively | 44,045 | 41,691 |
| Prepaid expenses and other assets | 24,037 | 23,182 |
| Inventories, net of allowance of \$246 and \$378 at September 30, 2006 and March 31, 2006, respectively | 12,193 | 6,624 |
| Assets held for sale | 2,664 | 3,543 |
| Deferred tax asset | 10,250 | 7,780 |
| Total current assets | 375,644 | 390,957 |
| Property and equipment, net (note 4) | 581,890 | 510,428 |
| Security and other deposits | 19,753 | 19,597 |
| Aircraft pre-delivery payments | 37,262 | 40,449 |
| Restricted investments | - | 481 |
| Deferred loan fees and other assets | 7,120 | 8,520 |
| | \$ 1,021,669 | \$ 970,432 |
| <u>Liabilities and Stockholders' Equity</u> | | |
| Current liabilities: | | |
| Accounts payable | \$ 41,266 | \$ 44,955 |
| Air traffic liability | 152,072 | 153,662 |
| Other accrued expenses (note 6) | 62,329 | 67,683 |
| Current portion of long-term debt | 25,160 | 22,274 |
| Deferred revenue and other current liabilities (note 5) | 19,188 | 12,437 |
| Total current liabilities | 300,015 | 301,011 |
| Long-term debt related to aircraft notes (note 10) | 352,038 | 313,482 |
| Convertible debt | 92,000 | 92,000 |
| Deferred tax liability | 18,705 | 12,733 |
| Deferred revenue and other liabilities (note 5) | 23,769 | 22,430 |
| Total liabilities | 786,527 | 741,656 |
| Stockholders' equity: | | |
| Preferred stock, no par value, authorized 1,000,000 shares; none issued | - | - |
| Common stock, no par value, stated value of \$.001 per share, authorized 100,000,000 shares; 36,607,455 and 36,589,705 shares issued and outstanding at September 30, 2006 and March 31, 2006, respectively | 37 | 37 |
| Additional paid-in capital | 193,470 | 192,936 |
| Unearned ESOP shares | (698) | (2,094) |
| Accumulated other comprehensive income, net of tax (note 7) | 121 | 151 |

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| | | |
|-------------------|--------------|------------|
| Retained earnings | 42,212 | 37,746 |
| | 235,142 | 228,776 |
| | \$ 1,021,669 | \$ 970,432 |

See accompanying notes to consolidated financial statements.

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**FRONTIER AIRLINES
HOLDINGS, INC.**
Statements of Operations
(Unaudited)

For the Three and Six Months Ended September 30, 2006 and 2005

**(In thousands, except per
share amounts)**

| | Three Months Ended | | Six Months Ended | |
|--|-----------------------|-----------------------|--------------------------|--------------------------|
| | September 30, 2006 | September 30, 2005 | September 30, 2006 | September 30, 2005 |
| Revenues: | | | | |
| Passenger- mainline | \$ 277,720 | \$ 229,397 | \$ 546,084 | \$ 437,464 |
| Passenger- regional partner | 25,132 | 23,391 | 52,461 | 46,345 |
| Cargo | 1,962 | 1,373 | 3,581 | 2,592 |
| Other | 5,042 | 4,263 | 9,794 | 8,433 |
| Total revenues | 309,856 | 258,424 | 611,920 | 494,834 |
| Operating expenses: | | | | |
| Flight operations | 39,148 | 34,438 | 78,984 | 68,910 |
| Aircraft fuel | 101,450 | 70,912 | 191,864 | 130,742 |
| Aircraft lease | 27,326 | 23,472 | 53,208 | 46,903 |
| Aircraft and traffic servicing | 39,120 | 34,114 | 77,108 | 65,867 |
| Maintenance | 22,068 | 18,518 | 42,664 | 38,528 |
| Promotion and sales | 26,240 | 18,645 | 52,917 | 40,517 |
| General and administrative | 15,419 | 12,070 | 28,713 | 24,321 |
| Operating expenses - regional partner | 28,033 | 26,308 | 57,516 | 50,426 |
| Aircraft lease and facility exit costs | - | 53 | (14) | 3,365 |
| (Gains) losses on sales of assets, net | (341) | (603) | (647) | (691) |
| Depreciation | 8,304 | 6,862 | 15,836 | 13,534 |
| Total operating expenses | 306,767 | 244,789 | 598,149 | 482,422 |
| Business interruption insurance proceeds (note 11) | 868 | - | 868 | - |
| Operating income | 3,957 | 13,635 | 14,639 | 12,412 |
| Nonoperating income (expense): | | | | |
| Interest income | 4,203 | 1,911 | 8,156 | 3,275 |
| Interest expense | (7,840) | (5,044) | (14,672) | (9,162) |
| Other, net | 29 | (48) | 74 | (150) |
| Total nonoperating income (expense), net | (3,608) | (3,181) | (6,442) | (6,037) |

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| | | | | |
|---|---------|----------|----------|----------|
| Income before income tax expense | 349 | 10,454 | 8,197 | 6,375 |
| Income tax expense (benefit) | (160) | 3,549 | 3,731 | 2,203 |
| Net income | \$ 509 | \$ 6,905 | \$ 4,466 | \$ 4,172 |
| Earnings per share (note 9): | | | | |
| Basic | \$ 0.01 | \$ 0.19 | \$ 0.12 | \$ 0.12 |
| Diluted | \$ 0.01 | \$ 0.18 | \$ 0.12 | \$ 0.11 |
| Weighted average shares of common stock outstanding | | | | |
| Basic | 36,600 | 36,166 | 36,595 | 36,097 |
| Diluted | 37,317 | 38,531 | 37,229 | 38,453 |

See accompanying notes to consolidated financial statements.

FRONTIER AIRLINES HOLDINGS, INC.
Consolidated Statements of Cash Flows (Unaudited)
For the Six Months Ended September 30, 2006 and 2005
(In thousands)

| | Six Months Ended | |
|--|-----------------------|-----------------------|
| | September 30, 2006 | September 30, 2005 |
| Cash flows from operating activities: | | |
| Net income | \$ 4,466 | \$ 4,172 |
| Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities: | | |
| Compensation expense under long-term incentive plans and employee ownership plans | 1,873 | 1,577 |
| Depreciation and amortization | 16,605 | 13,962 |
| Inventory provisions and the write-off of fixed assets beyond economic repair | 182 | (34) |
| Deferred tax expense | 3,520 | 2,211 |
| Mark to market derivative losses | 3,700 | 725 |
| (Gains) losses on disposal of equipment and other assets, net | (647) | (691) |
| Changes in operating assets and liabilities: | | |
| Restricted investments | (24,685) | (11,071) |
| Receivables | (2,354) | 932 |
| Security and other deposits | (122) | (35) |
| Prepaid expenses and other assets | (855) | (9,605) |
| Inventories | (5,230) | (2,292) |
| Other assets | (3) | 642 |
| Accounts payable | (3,689) | (10,137) |
| Air traffic liability | (1,590) | 10,788 |
| Other accrued expenses | (5,354) | (3,221) |
| Deferred revenue and other liabilities | 4,633 | 4,475 |
| Net cash (used in) provided by operating activities | (9,550) | 2,398 |
| Cash flows from investing activities: | | |
| Decrease in short term investments | - | 3,000 |
| Aircraft lease and purchase deposits made | (23,369) | (15,892) |
| Aircraft lease and purchase deposits returned and applied | 26,522 | 18,705 |
| Decrease in restricted investments | - | 2,034 |
| Proceeds from the sale of property and equipment and assets held for sale | 43,316 | 2,043 |
| Capital expenditures | (129,083) | (81,413) |
| Net cash used in investing activities | (82,614) | (71,523) |
| Cash flows from financing activities: | | |
| Net proceeds from issuance of common stock | 57 | 1,417 |
| Payment to bank for compensating balances | (750) | - |
| Payment on short-term borrowings | - | (5,000) |
| Proceeds from long-term borrowings | 52,400 | 54,700 |
| Principal payments on long-term borrowings | (10,957) | (9,248) |
| Payment of financing fees | (184) | (443) |
| Net cash provided by financing activities | 40,566 | 41,426 |

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| | | |
|--|------------|------------|
| Net decrease in cash and cash equivalents | (51,598) | (27,699) |
| Cash and cash equivalents, beginning of period | 272,840 | 171,795 |
| Cash and cash equivalents, end of period | \$ 221,242 | \$ 144,096 |

See accompanying notes to consolidated financial statements.

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FRONTIER AIRLINES HOLDINGS, INC.
Notes to Consolidated Financial Statements
September 30, 2006

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Frontier Airlines Holdings, Inc., a Delaware corporation ("Frontier Holdings" or the "Company"), have been prepared in accordance with generally accepted accounting principles for interim financial reporting and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the Annual Report of the Company on Form 10-K for the year ended March 31, 2006. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included.

Certain prior period amounts have been reclassified to conform to the current year presentation.

The consolidated financial statements include the accounts of Frontier Holdings, Frontier Airlines, Inc. ("Frontier"), and Lynx Aviation, Inc. ("Lynx Aviation"). At this time, Frontier and Lynx Aviation are the only subsidiaries of Frontier Holdings. The financial performance of Frontier Holdings is represented by the financial performance of Frontier and includes only start-up costs for Lynx Aviation as it has not yet commenced operations. The Company currently operates in one business segment that provides air transportation to passengers and cargo and includes mainline operations and a regional partner.

Financial results for the Company and airlines in general, are seasonal in nature. More recently, results for Frontier's first and second fiscal quarters have exceeded its third and fourth fiscal quarters. Results of operations for the six months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ended March 31, 2007.

Reorganization

On April 3, 2006, Frontier completed its reorganization (the "Reorganization") into a Delaware holding company structure, whereby Frontier became a wholly owned subsidiary of Frontier Holdings, Inc. In connection with the Reorganization, each share of common stock of Frontier ("Frontier Common Stock") was exchanged for one share of common stock of Frontier Holdings ("Frontier Holdings Common Stock"), resulting in each shareholder of Frontier as of the close of business on March 31, 2006 becoming a stockholder of Frontier Holdings as of the opening of business on April 3, 2006.

Frontier Holdings assumed all of the outstanding options and awards under Frontier's 2004 Equity Incentive Plan effective upon the closing of the Reorganization. Each outstanding option and other award assumed by Frontier Holdings is exercisable or issuable upon the same terms and conditions as were in effect immediately prior to the completion of the Reorganization, except that all such options and awards now entitle the holder thereof to purchase Frontier Holdings Common Stock in accordance with the terms of such plan or agreement as in effect on the date of issuance. The number of shares of Frontier Holdings Common Stock issuable upon the exercise or issuance of such an option or award after the completion of the Reorganization equals the number of shares of Frontier Common Stock subject to the option or award prior to the completion of the Reorganization.

Also in connection with the Reorganization, Frontier's Employee Stock Ownership Plan was amended to provide that future awards under the plan will be made in shares of Frontier Holdings Common Stock.

Lynx Aviation

In September 2006, the Company formed a new subsidiary, Lynx Aviation, which intends to assume a purchase agreement between Frontier Holdings and Bombardier, Inc. for ten Q400 turboprop aircraft with the option to purchase ten additional aircraft. The aircraft will be purchased and operated by Lynx Aviation under a separate operating certificate. Lynx Aviation is currently in the start up phase of operations. Lynx Aviation plans to commence revenue service in July 2007 with ten aircraft in service by the end of calendar year 2007.

2. Recently Issued Accounting Standards

Recently Issued Accounting Standards not yet adopted

In March 2006, the Financial Accounting Standards Board's ("FASB") Emerging Issues Task Force ("EITF") issued Issue 06-3, *How Sales Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement* ("EITF 06-3"). A consensus was reached that entities may adopt a policy of presenting sales taxes in the income statement on either a gross or net basis. If taxes are significant, an entity should disclose its policy of presenting taxes and the amounts of taxes. The guidance is effective for periods beginning after December 15, 2006. The Company presents sales net of sales taxes. As such, EITF 06-3 will not impact the method for recording these sales taxes in the consolidated financial statements.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company has not yet completed the analysis of the impact this Interpretation will have on its financial condition, results of operations, cash flows or disclosures.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("FAS 157"). This Standard defines fair value, establishes a framework for measuring fair value under U.S. generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of FAS 157 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In September 2006, the FASB also issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statement No. 87, 88, 106 and 132(R)* ("FAS 158"). This Standard requires recognition of the funded status of a benefit plan in the statement of financial position. The Standard also requires recognition in other comprehensive income certain gains and losses that arise during the period but are deferred under pension accounting rules, modifies the timing of reporting and adds certain disclosures. FAS 158 provides recognition and disclosure elements to be effective as of the end of the fiscal year after December 15, 2006 and measurement elements to be effective for fiscal years ending after December 15, 2008. The Company has not yet analyzed the impact FAS 158 and what impact it will have on its financial condition, results of operations, cash flows or disclosures.

Share-Based Payment

Effective April 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, and related interpretations, ("SFAS 123(R)"), to account for stock-based compensation using the modified prospective transition method and therefore will not restate prior period results.

SFAS 123(R) supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (“APB No. 25”), and revises guidance in SFAS 123, *Accounting for Stock-*

Based Compensation. Among other things, SFAS 123(R) requires that compensation expense be recognized in the financial statements for share-based awards based on the grant date fair value of those awards. The modified prospective transition method applies to both (1) unvested awards under our 2004 Equity Incentive Plan (“2004 Plan”) outstanding as of March 31, 2006, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123 and (2) any new share-based awards granted subsequent to March 31, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Additionally, stock-based compensation expense includes an estimate for pre-vesting forfeitures and is recognized over the requisite service periods of the awards on a straight-line basis, which is generally commensurate with the vesting term. The Company's options are typically granted with graded vesting provisions, and compensation cost is amortized over the service period using the straight-line method.

The Company has recorded \$273,000 and \$477,000 of stock-based compensation expense, net of estimated forfeitures, during the three and six months ended September 30, 2006, respectively, as a result of its adoption of SFAS 123(R). See Note 3 for information on the assumptions the Company used to calculate the fair value of stock-based compensation. Unrecognized non-cash stock compensation expense related to unvested options and awards outstanding as of September 30, 2006 was approximately \$3,257,000, and will be recorded over the remaining vesting periods of one to five years.

SFAS 123(R) requires the benefits associated with tax deductions in excess of recognized compensation cost to be reported as a financing cash flow rather than as an operating cash flow as previously required. For the three and six months ended September 30, 2006, the Company did not record any excess tax benefit generated from option exercises.

Prior to April 1, 2006, the Company accounted for stock-based compensation in accordance with APB No. 25 and related interpretations. Accordingly, compensation expense for a stock option grant was recognized only if the exercise price was less than the market value of the Company's common stock on the grant date. The accounting for stock-based compensation for restricted stock units did not change with the adoption of SFAS 123(R). Prior to the Company's adoption of SFAS 123(R), as required under the disclosure provisions of SFAS 123, as amended, the Company provided pro forma net income (loss) and earnings (loss) per common share for each period as if the Company had applied the fair value method to measure stock-based compensation expense.

The table below summarizes the impact on the Company's results of operations for the three and six months ended September 30, 2006 of outstanding stock options, stock appreciation rights (“SARs”) and restricted stock units (“RSUs”) issued under the 2004 Plan recognized under the provisions of SFAS 123(R):

| | Three months ended September 30, 2006 | Six months ended September 30, 2006 |
|-----------------------------------|--|--|
| | (In thousands) | |
| Stock-based compensation expense: | | |
| Stock options and SARs | \$ 173 | \$ 340 |
| RSUs | 100 | 137 |
| Income tax benefit | (62) | (123) |
| Net decrease to net income | \$ 211 | \$ 354 |
| Decrease to income per share: | | |

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| | | |
|---------|--------|---------|
| Basic | \$0.01 | \$ 0.01 |
| Diluted | \$0.01 | \$ 0.01 |

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The following table illustrates the effect on the net loss and loss per common share for the three and six months ended September 30, 2005 as if the Company had applied the fair value method to measure stock-based compensation, as required under the disclosure provisions of SFAS 123:

| | Three months ended September 30, 2005 | | Six months ended September 30, 2005 | |
|--|--|-------|--|-------|
| | (In thousands) | | | |
| Net income, as reported | \$ | 6,905 | \$ | 4,171 |
| Add: stock-based compensation expense included in reported net earnings, net of tax | | 19 | | 42 |
| Less: total compensation expense determined under fair value method for all awards, net of tax | | (174) | | (378) |
| Pro forma net income | \$ | 6,750 | \$ | 3,835 |
| Income per share, basic: | | | | |
| As reported | \$ | 0.19 | \$ | 0.12 |
| Pro forma | \$ | 0.19 | \$ | 0.11 |
| Income per share, diluted: | | | | |
| As reported | \$ | 0.18 | \$ | 0.11 |
| Pro forma | \$ | 0.18 | \$ | 0.10 |

3. Stock-Based Compensation

On September 9, 2004, the shareholders of Frontier approved the 2004 Plan. Frontier Holdings assumed all of the outstanding options and awards under the 2004 Plan effective upon the closing of the Reorganization. The 2004 Plan, which includes stock options issued since 1994 under a previous plan, allows the Compensation Committee of the Board of Directors to grant stock options, SARs, and RSUs, any or all of which may be made contingent upon the achievement of service or performance criteria. Eligible participants include all full-time director and officer level employees of the Company, and such other employees as may be identified by the Compensation Committee from time to time where legally eligible to participate, and non-employee directors. Subject to plan limits, the Compensation Committee has the discretionary authority to determine the size and timing of an award and the vesting requirements related to the award. The 2004 Plan expires September 12, 2009. The 2004 Plan allows up to a maximum of 2,500,000 shares for option grants and 500,000 shares for RSUs, subject to adjustment only to reflect stock splits and similar events. With certain exceptions, stock options and SARs issued under the 2004 Plan generally vest over a five-year period from the date of grant and expire ten years from the grant date. As of September 30, 2006, the Company had 1,735,000 shares available for future grants.

SFAS 123(R) requires the Company to estimate pre-vesting option forfeitures at the time of grant and periodically revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company records stock-based compensation expense only for those awards expected to vest using an estimated forfeiture rate based on our historical pre-vesting forfeiture data. Previously, the Company accounted for forfeitures as they occurred under the pro forma disclosure provisions of SFAS 123 for periods prior to April 1, 2006.

Stock Options and SARs

The Company utilizes a Black-Scholes-Merton option pricing model to estimate the fair value of share-based awards under SFAS 123(R), which is the same valuation technique the Company previously used for

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pro forma disclosures under SFAS 123. The Black-Scholes-Merton option pricing model incorporates various and subjective assumptions, including expected term and expected volatility.

The Company estimates the expected term of options granted using its historical exercise patterns, which the Company believes are representative of future exercise behavior. The Company estimates volatility of its common stock using the historical closing prices of its common stock for the period equal to the expected term of the options, which the Company believes is representative of the future behavior of the common stock. The Company's risk-free interest rate assumption is determined using the Federal Reserve nominal rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued. The Company has never paid any cash dividends on its common stock and the Company does not anticipate paying any cash dividends in the foreseeable future. Therefore, the Company assumed an expected dividend yield of zero. Stock options and SARs are classified as equity awards.

The following table shows the Company's assumptions used to compute the stock-based compensation expense and pro forma information for stock option and SAR grants issued during the six months ended September 30, 2006 and 2005:

| | Six months ended | |
|-------------------------|-------------------------|-------------|
| | September 30, | |
| | 2006 | 2005 |
| Assumptions: | | |
| Risk-free interest rate | 4.85% | 4.05% |
| Dividend yield | 0% | 0% |
| Volatility | 70.82% | 74.4% |
| Expected life (years) | 5 | 5 |

The per share weighted-average grant-date fair value of SARs granted during the six months of fiscal year 2007 was \$4.61 using the above weighted-average assumptions.

A summary of the stock option and SARs activity and related information for the six months ended September 30, 2006 is as follows:

| | Options and SARs | Weighted- Average Exercise Price |
|------------------------------------|---------------------------------|---|
| Outstanding, March 31, 2006 | 2,564,787 | \$ 11.07 |
| Granted | 176,629 | \$ 7.42 |
| Exercised | (17,750) | \$ 3.20 |
| Surrendered | (42,500) | \$ 13.23 |
| Outstanding, September 30, 2006 | 2,681,166 | \$ 10.85 |
| Exercisable at end of period | 2,145,945 | \$ 11.50 |

Exercise prices for options and SARs outstanding under the 2004 Plan as of September 30, 2006 ranged from \$2.13 per share to \$24.17 per share. The weighted-average remaining contractual life of these equity awards is 5.54 years. The aggregate intrinsic value of vested options and SARs was \$1,756,542 as of September 30, 2006. A summary of the outstanding and exercisable options and SARs at September 30, 2006, segregated by exercise price ranges, is as follows:

| Exercise Price Range | Options and SARs Outstanding | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (in years) | Exercisable Options and SARs | Weighted-Average Exercise Price |
|----------------------|------------------------------|---------------------------------|--|------------------------------|---------------------------------|
| \$2.13 - \$5.42 | 488,500 | \$ 4.96 | 2.9 | 456,500 | \$ 4.96 |
| \$5.80 - \$7.77 | 516,129 | \$ 7.17 | 7.4 | 183,500 | \$ 6.91 |
| \$8.00 - \$10.45 | 557,170 | \$ 9.61 | 6.6 | 435,986 | \$ 9.49 |
| \$10.47 - \$15.63 | 457,567 | \$ 12.65 | 4.8 | 408,159 | \$ 12.69 |
| \$15.72 - \$17.93 | 490,000 | \$ 16.83 | 5.9 | 490,000 | \$ 16.83 |
| \$18.26 - \$24.17 | 171,800 | \$ 20.85 | 5.2 | 171,800 | \$ 20.85 |
| | 2,681,166 | \$ 10.85 | 5.5 | 2,145,945 | \$ 11.50 |

Restricted Stock Units

SFAS 123R requires that the grant-date fair value of RSUs be equal to the market price of the share on the date of grant if vesting is based on a service condition. The grant-date fair value of RSU awards are being expensed over the vesting period. RSUs are classified as equity awards.

As of September 30, 2006, the Company had outstanding RSUs with service conditions and vesting periods that range from three to five years.

A summary of the activity for the three months ended September 30, 2006 for RSUs is as follows:

| | Number of RSUs | Weighted-Average Grant Date Market Value |
|---------------------------------|----------------|--|
| Outstanding, March 31, 2006 | 75,604 | \$ 10.15 |
| Granted | 131,930 | \$ 7.34 |
| Surrendered | (2,244) | \$ 8.53 |
| Outstanding, September 30, 2006 | 205,290 | \$ 8.36 |

4. Property and Equipment, Net

As of September 30, 2006 and March 31, 2006, property and equipment consisted of the following:

| | September 30, 2006 | March 31, 2006 |
|---|-------------------------------|---------------------------|
| | (In thousands) | |
| Aircraft, spare aircraft parts, and improvements to leased aircraft | \$ | |