Frontier Airlines Holdings, Inc.
Form 10-Q
February 12, 2009
United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2008

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

Commission file number: 000-51890

FRONTIER AIRLINES HOLDINGS, INC.
(DEBTOR AND DEBTOR-IN-POSSESSION as of April 10, 2008)
(Exact name of registrant as specified in its charter)

Delaware	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

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 x No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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 number of shares of the Company's Common Stock outstanding as of February 12, 2009 was 36,945,744.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

FRONTIER AIRLINES HOLDINGS, INC. AND SUBSIDIARIES
(Debtor and Debtor-in-Possession as of April 10, 2008)
Consolidated Balance Sheets (Unaudited)

(In thousands, except share data)	December 31, 2008	March 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 69,055	$ 120,837
Investment securities	–	8,501
Restricted cash and investments (note 15)	114,683	74,119
Receivables, net of allowance for doubtful accounts of $1,215 and $400 at December 31, 2008 and March 31, 2008, respectively	36,322	57,687
Prepaid expenses and other assets	18,539	26,428
Inventories, net of allowance of $574 and $490 at December 31, 2008 and March 31, 2008, respectively	12,631	17,451
Deposits on fuel hedges	15,590	–
Assets held for sale	743	1,263
Total current assets	267,563	306,286
Property and equipment, net (note 7)	612,798	870,444
Security and other deposits	25,348	25,123
Aircraft pre-delivery payments	5,133	12,738
Restricted cash and investments	2,987	2,845
Deferred loan fees and other assets	5,430	32,535
Total Assets	$ 919,259	$ 1,249,971
Liabilities and Stockholders' Equity		
Liabilities not subject to compromise:		
Current liabilities:		
Accounts payable	$ 42,479	$ 79,732
Air traffic liability	133,005	226,017
Other accrued expenses (note 9)	50,598	84,058
Current portion of long-term debt (note 10)	–	38,232
Pre-delivery payment financing	–	3,139
Debtor-in-possession loan (note 10)	30,000	–
Deferred revenue and other liabilities (note 8)	28,828	18,189
Total current liabilities not subject to compromise	284,910	449,367
Long-term debt related to aircraft notes (note 10)	–	532,086
Convertible notes (note 10)	–	92,000
Deferred revenue and other liabilities (note 8)	20,761	24,399
Other note payable (note 10)	3,000	–
Total liabilities not subject to compromise	308,671	1,097,852
Liabilities subject to compromise (note 5)	543,530	–
Total liabilities	$ 852,201	$ 1,097,852
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; 36,945,744 and 36,945,744 shares issued and outstanding at December 31, 2008 and March 31, 2008, respectively		37		37
Additional paid-in capital		196,879		195,874
Unearned ESOP shares (note 11)		–		(616)
Accumulated other comprehensive loss, net of tax (note 11)		–		(299)
Retained deficit		(129,858)		(42,877)
Total stockholders' equity		67,058		152,119
Total Liabilities and Stockholders' Equity	$	919,259	$	1,249,971

See accompanying notes to consolidated financial statements.

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FRONTIER AIRLINES HOLDINGS, INC. AND SUBSIDIARIES
(Debtor and Debtor-in-Possession as of April 10, 2008)
Consolidated Statements of Operations (Unaudited)
(In thousands, except per share amounts)

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007
Revenues:				
Passenger	$ 282,238	$ 321,550	$ 982,346	$ 1,014,348
Cargo	1,330	1,424	4,838	4,587
Other	17,413	10,935	38,279	32,711
Total revenues	300,981	333,909	1,025,463	1,051,646
Operating expenses:				
Flight operations	37,847	46,302	125,897	138,558
Aircraft fuel	115,186	117,493	469,016	329,578
Aircraft lease	28,746	29,253	87,878	85,831
Aircraft and traffic servicing	45,280	49,000	136,756	135,802
Maintenance	21,932	25,337	77,394	77,508
Promotion and sales	21,302	32,356	77,075	102,733
General and administrative	15,333	15,907	42,886	45,934
Operating expenses - regional partners	–	38,579	26,650	109,602
Post-retirement liability curtailment gain	–	(6,361)	–	(6,361)
Employee separation and other charges	–	442	466	442
Loss (gains) on sales of assets, net	78	(4)	(8,594)	–
Depreciation	9,706	11,207	31,788	33,471
Total operating expenses	295,410	359,511	1,067,212	1,053,098
Business interruption insurance proceeds	–	–	–	300
Operating income (loss)	5,571	(25,602)	(41,749)	(1,152)
Nonoperating income (expense):				
Interest income	856	2,840	3,510	10,037
Interest expense	(8,376)	(9,301)	(23,258)	(26,939)
Loss from early extinguishment of debt	(427)	(283)	(990)	(283)
Other, net	632	(162)	(711)	(337)
Total nonoperating expense, net	(7,315)	(6,906)	(21,449)	(17,522)

Income (loss) before reorganization items and income tax		(1,744)		(32,508)		(63,198)		(18,674)
Reorganization expense (gain) (note 4)		(2,651)		–		22,646		–
Income (loss) before income tax expense		907		(32,508)		(85,844)		(18,674)
Income tax expense (benefit)		(219)		–		1,137		–
Net income (loss)	$	1,126	$	(32,508)	$	(86,981)	$	(18,674)
Earnings per share (note 10):								
Basic	$	0.03	$	(0.89)	$	(2.35)	$	(0.51)
Diluted	$	0.03	$	(0.89)	$	(2.35)	$	(0.51)
Weighted average shares of common stock outstanding								
Basic		36,946		36,642		36,946		36,639
Diluted		37,193		36,642		36,946		36,639

See accompanying notes to consolidated financial statements.

FRONTIER AIRLINES HOLDINGS, INC. AND SUBSIDIARIES
(Debtor and Debtor-in-Possession as of April 10, 2008)
Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007
Cash flows from operating activities:		
Net loss	$ (86,981)	$ (18,674)
Adjustments to reconcile net loss to net cash and cash equivalents provided by operating activities prior to reorganization items:		
Compensation expense under long-term incentive plans and employee stock ownership plans	1,622	2,237
Depreciation and amortization	33,590	34,640
Provisions recorded on inventories and assets beyond economic repair	1,133	1,138
Gains on disposal of equipment and other, net	(8,594)	–
Mark to market loss on derivative contracts	16,892	(16,246)
Proceeds received from settlement of derivative contracts	10,278	21,958
Post-retirement liability curtailment gain	–	(6,361)
Loss on early extinguishment of debt	990	283
Reorganization items	22,646	–
Changes in operating assets and liabilities:		
Restricted cash and investments	(40,707)	1,429
Receivables	18,441	12,280
Deposits on fuel hedges and other deposits	(16,183)	(75)
Prepaid expenses and other assets	7,890	4,378
Inventories	4,745	(2,579)
Other assets	(102)	(401)
Accounts payable	11,439	7,407
Air traffic liability	(93,013)	(9,002)
Other accrued expenses and income tax payable	(31,465)	(4,204)
Deferred revenue and other liabilities	7,002	4,479
Net cash provided (used) by operating activities before reorganization	(140,377)	32,687
Cash flows from reorganization activities:		
Net cash used by reorganization activities	(13,888)	–
Total net cash provided (used) by operating activities	(154,265)	32,687
Cash flows from investing activities:		
Aircraft lease and purchase deposits made	(4,725)	(24,259)
Aircraft lease and purchase deposits returned	11,485	–
Proceeds from the sale of property and equipment and assets held for sale	59,556	93,147
Sale of short-term investment	8,800	–

Capital expenditures	(10,244)	(240,212)
Proceeds from the sales of aircraft – reorganization	194,300	–
Net cash provided by (used in) investing activities	259,172	(171,324)

(Continued)

FRONTIER AIRLINES HOLDINGS, INC. AND SUBSIDIARIES
(Debtor and Debtor-in-Possession as of April 10, 2008)
Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Nine Months Ended	
	December 31, 2008	December 31, 2007
Cash flows from financing activities:		
Net proceeds from issuance of common stock and warrants	–	31
Proceeds from debtor-in-possession loan (post-petition)	30,000	–
Proceeds from long-term borrowings	–	201,136
Proceeds from short-term borrowings	–	44,150
Extinguishment of long-term borrowings	(70,136)	(80,188)
Principal payments on long-term borrowings	(27,843)	(26,138)
Principal payments on short-term borrowings	(3,139)	(31,817)
Payment of financing fees	(2,170)	(1,084)
Extinguishment of long-term borrowings – reorganization item	(83,401)	–
Net cash provided (used) by financing activities	(156,689)	106,090
Net decrease in cash and cash equivalents	(51,782)	(32,547)
Cash and cash equivalents, beginning of period	120,837	202,981
Cash and cash equivalents, end of period	$ 69,055	$ 170,434

Supplemental Disclosure of Cash Flow Information:

Application of Pre-Delivery Payments: During the nine months ended December 31, 2007, the Company applied pre-delivery payments of $42,780,000 towards the purchase of aircraft and LiveTV equipment.

See accompanying notes to consolidated financial statements

FRONTIER AIRLINES HOLDINGS, INC. AND SUBSIDIARIES
(Debtor and Debtor-in-Possession as of April 10, 2008)
Notes to Consolidated Financial Statements
December 31, 2008

1. Chapter 11 Reorganization

On April 10, 2008 (the "Petition Date"), Frontier Airlines Holdings, Inc. ("Frontier Holdings") and its subsidiaries Frontier Airlines, Inc. ("Frontier Airlines") and Lynx Aviation, Inc. ("Lynx Aviation"), filed voluntary petitions for reorganization under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). The cases are being jointly administered under Case No. 08-11298 (RDD). Frontier Holdings, Frontier Airlines, and Lynx Aviation (collectively, the "Debtors" or the "Company") continue to operate as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. In general, as debtors-in-possession, the Debtors are authorized under Chapter 11 to continue to operate as an ongoing business, but may not engage in transactions outside of the ordinary course of business without the prior approval of the Bankruptcy Court.

No assurance can be provided as to what values, if any, will be ascribed in the Debtors' bankruptcy proceedings to the Debtors' pre-petition liabilities, common stock and other securities. The Company believes its currently outstanding common stock will have no value and will be canceled under any plan of reorganization it might propose and that the value of the Debtors' various pre-petition liabilities and other securities is highly speculative. Accordingly, caution should be exercised with respect to existing and future investments in any of these liabilities or securities. In several recent bankruptcies in our industry, the airline ceased operations, and we can give no assurance that we will be able to continue to operate our business or successfully reorganize.

The Bankruptcy Court has approved various motions for relief designed to allow us to continue normal operations. The Bankruptcy Court's orders authorize us, among other things, in our discretion to: (a) pay pre-petition and post-petition employee wages, salaries, benefits and other employee obligations; (b) pay certain vendors and other providers in the ordinary course for goods and services received from and after the Petition Date; (c) honor customer service programs, including our Early Returns frequent flyer program and our ticketing programs; (d) honor certain obligations arising prior to the Petition Date related to our interline, clearinghouse, code sharing and other similar agreements; and (e) continue maintenance of existing bank accounts and existing cash management systems.

Reporting Requirements

As a result of their bankruptcy filings, the Debtors are required to periodically file various documents with and provide certain information to, the Bankruptcy Court, including statements of financial affairs, schedules of assets and liabilities, and monthly operating reports prepared according to requirements of federal bankruptcy law. While these materials accurately provide then-current information required under federal bankruptcy law, they are nonetheless unaudited and are prepared in a format different from that used in the Company's consolidated financial statements filed under the securities laws. Accordingly, the Company believes that the substance and format do not allow meaningful comparison with its regular publicly-disclosed consolidated financial statements. Moreover, the materials filed with the Bankruptcy Court are not prepared for the purpose of providing a basis for an investment decision relating to the Company's securities, or for comparison with other financial information filed with the Securities and Exchange Commission ("SEC").

Reasons for Bankruptcy

The Debtors' Chapter 11 filings followed an unexpected attempt by the Company's principal bankcard processor in April 2008 to substantially increase a "holdback" of customer receipts from the sale of tickets. This increase in "holdback" would have represented a material negative change to the Debtors' cash forecasts and business plan, put severe restraints on the Debtors' liquidity and made it impossible for the Debtors to continue normal operations. Due to historically high aircraft fuel prices, continued low passenger mile yields, cash holdbacks instituted by the Company's other credit card processor, and the threatened increased holdback from the Company's principal bankcard processor, the Company determined that it could not continue to operate without the protections provided by Chapter 11.

Notifications

Shortly after the Petition Date, the Debtors began notifying all known current or potential creditors of the Chapter 11 filing. Subject to certain exceptions under the Bankruptcy Code, the Debtors' Chapter 11 filing automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against the Debtors or their property to recover on, collect or secure a claim arising prior to the Petition Date. Thus, for example, most creditor actions to obtain possession of property from the Debtors, or to create, perfect or enforce any lien against the property of the Debtors, or to collect on monies owed or otherwise exercise rights or remedies with respect to a pre-petition claim are enjoined unless and until the Bankruptcy Court lifts the automatic stay. Vendors are being paid for goods furnished and services provided after the Petition Date in the ordinary course of business. The deadline for the filing of proofs of claims against the Debtors in their cases was November 17, 2008.

Proofs of Claim

As permitted under the bankruptcy process, our creditors filed proofs of claim with the Bankruptcy Court. The total amount of the claims that were filed far exceeds our estimate of ultimate liability. We believe many of these claims are invalid because they are duplicative, are based upon contingencies that have not occurred, have been amended or superseded by later filed claims, or are otherwise overstated. Differences in amounts between claims filed by creditors and liabilities shown in our records are being investigated and resolved in connection with our claims resolution process. While we have made significant progress to date, we expect this process to continue for some time and believe that further reductions to the claims register will enable us to more precisely determine the likely range of creditor distributions under a proposed plan of reorganization. At this time, we cannot determine the ultimate number and allowed amount of the claims.

Executory Contracts and Determination of Allowed Claims

Under Section 365 and other relevant sections of the Bankruptcy Code, the Debtors may assume, assume and assign, or reject certain executory contracts and unexpired leases, including, without limitation, leases of real property, aircraft and aircraft engines, subject to the approval of the Bankruptcy Court and certain other conditions. Any description of an executory contract or unexpired lease in this Form 10-Q, including where applicable, the Debtors' express termination rights or a quantification of our obligations, must be read in conjunction with, and is qualified by, any overriding rejection rights the Debtors have under Section 365 of the Bankruptcy Code. Claims may arise as a result of rejecting any executory contract. As of the date of this filing, the Company's most significant rejected executory contract rejected is the Republic Airlines, Inc. ("Republic") regional partner contract as discussed in Note 2. The Debtors cannot at this time determine the allowed amount of Republic's rejection damage claim. These financial statements, however, include the allowed claim of one rejected real property lease agreement in the amount of $0.9 million. These financial statements do not include the effects of any claims not yet allowed in the case if the Company has determined it is not able to estimate the amount that will be allowed. Known and determinable claims are recorded in accordance with Statements of Financial Accounting Standards No. 5, Accounting for

Contingencies. Certain claims filed may have priority above those of general unsecured creditors.

Creditors' Committee

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

Plan of Reorganization

In order to successfully exit Chapter 11, the Debtors will need to propose, and obtain confirmation by the Bankruptcy Court of, a plan of reorganization that satisfies the requirements of the Bankruptcy Code. A plan of reorganization would, among other things, resolve the Debtors' pre-petition obligations, set forth the revised capital structure of the newly-reorganized entity, and provide for corporate governance subsequent to exit from bankruptcy.

Automatically, upon commencing a Chapter 11 case, a debtor has the exclusive right for 120 days after the petition date to file a plan of reorganization and, if it does so, 60 additional days to obtain necessary acceptances of its plan. They Bankruptcy Court may extend these periods, and have done so in these cases. On January 21, 2009, the Bankruptcy Court further extended these periods to June 4, 2009, and August 4, 2009, respectively, and the Bankruptcy Court may further extend these periods. If the Debtors' exclusivity period lapsed, any party in interest would be able to file a plan of reorganization for any of the Debtors. In addition to being voted on by holders of impaired claims and equity interests, a plan of reorganization must satisfy certain requirements of the Bankruptcy Code and must be approved, or confirmed, by the Bankruptcy Court in order to become effective.

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

Under the priority scheme established by the Bankruptcy Code, unless creditors agree otherwise, pre-petition liabilities and post-petition liabilities must be satisfied in full before stockholders are entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or stockholders, if any, will not be determined until confirmation of a plan or plans of reorganization. No assurance can be given as to what values, if any, will be ascribed in the Chapter 11 cases to each of these constituencies or what types or amounts of distributions, if any, they would receive. A plan of reorganization could result in holders of the Debtors' liabilities and/or securities, including the Company's common stock, receiving no distribution on account of their interests and cancellation of their holdings.

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

Reorganization Costs

The Debtors have incurred and will continue to incur significant costs associated with their reorganization. The amounts of these costs, which are being expensed as incurred, have affected and are expected to continue to significantly affect the Debtors' liquidity and results of operations. See Note 4 "Reorganization Items" for additional information.

Risks and Uncertainties

The ability of the Company, both during and after the Chapter 11 cases, to continue as a going concern is dependent upon, among other things, (i) the ability of the Company to successfully achieve required cost savings to complete its restructuring; (ii) the ability of the Company to maintain adequate liquidity; (iii) the ability of the Company to generate cash from operations; (iv) the ability of the Company to confirm a plan of reorganization under the Bankruptcy Code; and (v) the Company's ability to sustain profitability. Uncertainty as to the outcome of these factors raises substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments to reflect or provide for the consequences of the bankruptcy proceedings. In particular, such financial statements do not purport to show (a) as to assets, their realization value on a liquidation basis or their availability to satisfy liabilities; (b) as to pre-petition liabilities, the amounts that may be allowed for claims or contingencies, or the status and priority thereof; (c) as to stockholder accounts, the effect of any changes that may be made in the capitalization of the Company; or (d) as to operations, the effects of any changes that may be made in its business. A plan of reorganization could materially change the amounts currently disclosed in the consolidated financial statements.

Negative events associated with the Debtor's Chapter 11 proceedings could adversely affect sales of tickets and the Debtor's relationship with customers, as well as with vendors and employees, which in turn could adversely affect the Debtor's operations and financial condition, particularly if the Chapter 11 proceedings are protracted. Also, transactions outside of the ordinary course of business are subject to the prior approval of the Bankruptcy Court, which may limit the Debtors' ability to respond timely to certain events or take advantage of certain opportunities. Because of the risks and uncertainties associated with the Debtors' Chapter 11 proceedings, the ultimate impact that events that occur during these proceedings will have on the Debtors' business, financial condition and results of operations cannot be accurately predicted or quantified, and there is substantial doubt about the Debtors' ability to continue as a going concern.

As a result of the bankruptcy filings, realization of assets and liquidation of liabilities are subject to uncertainty. While operating as debtors-in-possession under the protection of Chapter 11 of the Bankruptcy Code, and subject to Bankruptcy Court approval or otherwise as permitted in the normal course of business, the Debtors may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in the consolidated financial statements. Further, a plan of reorganization could materially change the amounts and classifications reported in the historical consolidated financial statements, which do not give effect to any adjustments to the carrying value of assets or amounts of liabilities that might be necessary as a consequence of confirmation of a plan of reorganization.

2. Basis of Presentation and Nature of Business

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim financial information, 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

Company's Annual Report on Form 10-K for the year ended March 31, 2008. 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.

The accompanying unaudited consolidated financial statements have been prepared assuming the Company will continue as a going concern. This assumes a continuing of operations and the realization of assets and liabilities in the ordinary course of business. The unaudited consolidated financial statements do not include any adjustments that might result if the Company were forced to discontinue operations. The Company has substantial liquidity needs in the operation of its business and faces significant liquidity challenges due to the volatility of aircraft fuel prices, which reached record levels in July 2008, holdback of customer receipts from its bankcard processor and credit cards, and required cash deposits on fuel hedge positions.

The accompanying unaudited consolidated financial statements do not purport to reflect or provide for the consequences of the Chapter 11 proceedings. In particular, the financial statements do not purport to show (1) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (2) as to pre-petition liabilities, the amounts that may be allowed for claims or contingencies, or the status and priority thereof; (3) as to shareowners' equity accounts, the effect of any changes that may be made in our capitalization; or (4) as to operations, the effect of any changes that may be made to our business.

In accordance with U.S. generally accepted accounting principles ("GAAP"), the Company has applied American Institute of Certified Public Accountants' ("AICPA") Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7"), in preparing the consolidated financial statements. SOP 90-7 requires that the financial statements, for periods subsequent to the Chapter 11 filing, distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain expenses (including professional fees), fees and penalties associated with the temporary payment default on aircraft loans and other provisions for losses that are realized or incurred in the bankruptcy proceedings are recorded in reorganization items in the accompanying consolidated statement of operations. In addition, pre-petition obligations that may be impacted by the bankruptcy reorganization process have been classified in the consolidated balance sheet at December 31, 2008 as liabilities subject to compromise. These liabilities are reported at the amounts expected to be allowed by the Bankruptcy Court, even if they may be settled for lesser amounts (see Note 5).

While operating as debtors-in-possession, the Debtors may sell or otherwise dispose of or liquidate assets or settle liabilities, subject to the approval of the Bankruptcy Court or as permitted in the ordinary course of business. These dispositions and settlements may be in amounts other than those reflected in the unaudited consolidated financial statements. Further, a plan of reorganization could materially change the amounts and classifications in the historical consolidated financial statements.

Financial results, as measured by net income, for the Company and airlines in general, are seasonal in nature. Historically, the financial results for the Company's first and second fiscal quarters generally have exceeded its third and fourth fiscal quarters. Due to seasonal variations in the demand for air travel, the volatility of aircraft fuel prices, the Company's bankruptcy and other factors, operating results for the nine months ended December 31, 2008, are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2009.

Reclassification of Prior Year Amounts

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

Nature of Business

The Company provides air transportation for passengers and freight through its wholly-owned subsidiaries. On April 3, 2006, Frontier Airlines completed a corporate reorganization (the "Reorganization") and as a result, Frontier Airlines became a wholly-owned subsidiary of Frontier Airlines Holdings, a Delaware corporation. Frontier Airlines was incorporated in the State of Colorado on February 8, 1994 and commenced operations on July 5, 1994. In September 2006 the Company formed a new subsidiary, Lynx Aviation. The Company currently operates routes linking its Denver, Colorado hub to 57 destinations including destinations in Mexico and Costa Rica. As of December 31, 2008, the Company operated a fleet of 39 Airbus A319 aircraft, 11 Airbus A318 aircraft, two Airbus A320 aircraft, and ten Bombardier Q400 aircraft (operated by Lynx Aviation) from its base in Denver, Colorado and had approximately 5,300 employees (4,800 full-time equivalents).

Lynx Aviation

Frontier Holdings entered into a purchase agreement with Bombardier, Inc. for ten Q400 turboprop aircraft, each with a seating capacity of 74, with the option to purchase ten additional aircraft. The purchase agreement was assumed by Lynx Aviation and Lynx Aviation took title of the first ten aircraft delivered during the year ended March 31, 2008. The aircraft are operated by Lynx Aviation under a separate operating certificate. Lynx Aviation may exercise its options to purchase the remaining option aircraft no later than 12 months prior to the first day of the month of the scheduled delivery date. On July 31, 2008 and January 26, 2009, Lynx Aviation exercised its option on the first and second of the ten additional aircraft, respectively, for delivery dates in June 2009 and February 2010, respectively.

Lynx Aviation has a capacity purchase agreement with Frontier, effective December 7, 2007, whereby Frontier pays Lynx Aviation a contractual amount for the purchased capacity regardless of the revenue collected on those flights. The amount paid to Lynx Aviation is based on operating expenses plus a margin. The payments made under this agreement are eliminated in consolidation, and the passenger revenues generated by Lynx Aviation are included in passenger revenues in the consolidated statements of operations. Payments made under the capacity purchase agreement during the three and nine months ended December 31, 2008 were $13,037,000 and $37,915,000, respectively. Payments made under the capacity purchase agreement during the month ended December 31, 2007 were $2,295,000. See Note 14 for operating segment information that includes the presentation of the Company's operating segments and how their operations impact the overall network and profitability.

Regional Partners

Frontier Airlines agreement with Republic Airlines, Inc. ("Republic"), , under which Republic agreed to operate up to 17 76-seat Embraer 170 aircraft, commenced in January 2007 and terminated in June 2008. Frontier Airlines established the scheduling, routes and pricing of the flights operated under the Republic agreement. Frontier Airlines compensated Republic for its services based on Republic's operating expenses plus a margin on certain of its expenses. The agreement provided for financial incentives and penalties based on the performance of Republic which are accrued for in the period earned. In April 2008 as part of the bankruptcy proceeding, the Company reached a mutual agreement with Republic under which Frontier Airlines would reject the original agreement and replace it with an agreement for a structured reduction and gradual phase-out of 12 delivered aircraft, which was completed on June 22, 2008. In November 2008 Republic filed a claim in the amount of $215 million against the Company. The Company does not believe the amount of the claim is representative of the amount that will ultimately be allowed under the plan of reorganization. The claim is subject to the mitigation of damages and other criteria that may significantly change the amount of the clam filed. No provision has been recorded in the financial statements for this claim as the Company does not believe it can reasonably estimate the amount of the allowed claim at this time.

In accordance with Emerging Issues Task Force No. 01-08, "Determining Whether an Arrangement Contains a Lease" ("EITF 01-08"), the Company has concluded that each agreement with regional partners contains a lease as the agreement conveys the right to use a specific number and specific type of aircraft over a stated period of time, and as such, has reported revenues and expenses related to Regional Partners on a gross basis. Revenues for jointly served routes are pro-rated to the segment operated by the Regional Partners based on miles flown and are included in passenger revenues. Expenses directly related to the flights flown by the Regional Partners are included in operating expenses – regional partners. The Company allocates indirect expenses between mainline and Regional Partners operations by using Regional Partner departures, available seat miles, or passengers as a percentage of system combined departures, available seat miles or passengers.

Customer Loyalty Program

The Company offers EarlyReturns, a frequent flyer program to encourage travel on its airline and customer loyalty. The Company accounts for the EarlyReturns program under the incremental cost method whereby travel awards are valued at the incremental cost of carrying one passenger based on members that have obtained a travel award. Those incremental costs are based on expectations of expenses to be incurred on a per passenger basis and include food and beverages, fuel, liability insurance, and ticketing costs. The incremental costs do not include allocations of overhead expenses, salaries, aircraft cost or flight profit or losses. The Company records a liability for mileage earned by participants who have reached the level to become eligible for a free travel award. The liability includes awards based on the number of complete free travel awards accumulated in a participant account and excludes any obligation for partial awards. The Company does not record a liability for the expected redemption of miles for non-travel awards since the cost of these awards to us is negligible.

Effective September 15, 2008, the Company increased the mileage redemption level for a domestic roundtrip ticket from 15,000 to 20,000 miles, which reduced the number of flight awards eligible for redemption. As of December 31, 2008 and March 31, 2008, the Company estimated that approximately 320,000 and 472,000 and round-trip flight awards, respectively, were eligible for redemption by EarlyReturns members who have mileage credits exceeding the 20,000 and 15,000-mile free round-trip domestic ticket award threshold, respectively. As of December 31, 2008 and March 31, 2008, the Company had recorded a liability of approximately $3,859,000 and $10,059,000, respectively, for these rewards.

3. New Accounting Standards

New Accounting Standards Not Yet Adopted

In March 2008 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 161, Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement 133 ("FAS 161"). This standard enhances required disclosures regarding derivatives and hedging activities to help investors better understand how derivative instruments and hedging activities affect an entity's financial position, financial performance and cash flows. Requirements under FAS 161 include disclosure of the objectives for using derivative instruments, disclosure of the fair values of derivative instruments and their gains and losses in a tabular format, disclosure of credit risk related features, and cross-referencing within the footnotes of derivative-related information. FAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company expects to comply with the disclosure requirements of FAS 161 upon adoption.

In May 2008 the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ("FAS 162"). FAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with GAAP. FAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The Company does not expect FAS 162 to have a material impact on its consolidated financial statements.

In May 2008 the FASB issued FASB Staff Position ("FSP") APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) ("FSP APB 14-1"). FSP APB 14-1 applies to convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement of the conversion option. FSP APB 14-1 requires bifurcation of the instrument into a debt component that is initially recorded at fair value and an equity component. The difference between the fair value of the debt component and the initial proceeds from issuance of the instrument is recorded as a component of equity. The liability component of the debt instrument is accreted to par using the effective yield method; accretion is reported as a component of interest expense. The equity component is not subsequently re-valued as long as it continues to qualify for equity treatment. FSP APB 14-1 must be applied retrospectively to previously issued cash-settleable convertible instruments as well as prospectively to newly issued instruments. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company has not yet determined the impact of adopting FSP APB 14-1 on its consolidated financial statements.

In June 2008 the FASB issued FSP Emerging Issues Task Force ("EITF") 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities ("EITF 03-6-1") EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. ETIF 03-6-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. Upon adoption, a company is required to retrospectively adjust its earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform with the provisions of EITF 03-6-1. The Company has not yet determined the impact of adopting EITF 03-6-1 on its consolidated financial statements.

New Accounting Standards Adopted During the Fiscal Year

Effective April 1, 2008, the Company adopted Statement of Financial Accounting Standard No. 157, Fair Value Measurements ("FAS 157"). This standard establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. FAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. SFAS 157 also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows:

Level 1	quoted prices in active markets for identical assets or liabilities;
Level 2	quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or
Level 3	unobservable inputs, such as discounted cash flow models or valuations.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following is a listing of the Company's assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the hierarchy as of December 31, 2008 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 69,055	$ –	$ –	$ 69,055
Restricted cash and investments	114,683	–	–	114,683
	$ 183,738	$ –	$ –	$ 183,738

Cash and cash equivalents/Restricted cash and investments:

Short-term cash investments consist of money market funds with maturities of less than three months, classified as available for sale securities and stated at fair value. These securities are valued using inputs observable in active markets and therefore are classified as level 1 within the fair value hierarchy.

Restricted cash and investments primarily relates to funds held by companies that process credit card sale transactions and are invested in money market accounts. They also include cash deposits that secure certain letters of credit issued for workers compensation claim reserves and certain airport authorities and cash held in escrow for future charter flights. Restricted cash and investments are stated at fair value.

Short-term investments:

At March 31, 2008, short-term investments consisted solely of two available for sale securities that were invested in auction rate securities ("ARS"). At March 31, 2008, the fair values of the Company's ARS, all of which are collateralized by student loan portfolios, were estimated through discounted cash flow models. As a result of the lack of liquidity in the ARS market, the Company recorded an unrealized loss on those ARS of $0.3 million, on the principal value of $8.8 million, which is reflected as accumulated other comprehensive loss in the consolidated balance sheet at March 31, 2008.

During the three months ended June 30, 2008, the Company recorded an unrealized loss in other non-operating expenses of $1.3 million related to the measurement of both ARS at current estimated fair value. The reclassification of the impairment from other comprehensive income was due to the Company's conclusion that the impairment was no longer temporary. This was a result of the sale of one of the ARS below par value in July 2008.

In October 2008 the Company received notification that a settlement had been reached between the brokers; the New York Attorney General's office, and the SEC covering ARS purchased prior to February 11, 2008. The broker was required to pay back all amounts at par; including the ARS the Company sold below par during the three months ended June 30, 2008. The repayment process was to begin no later than December 15, 2008. In December 2008 the Company received the full amount of the original par value during the year of $8.8 million and reversed the $1.3 million unrealized loss upon settlement of the ARSs.

4. Reorganization Items

SOP 90-7 requires separate disclosure of reorganization items such as realized gains and losses from the settlement of pre-petition liabilities, provisions for losses resulting from the reorganization and restructuring of the business, as well as professional fees directly related to the process of reorganizing the Debtors under Chapter 11. The Debtors' reorganization items consist of the following:

	Three Months Ended December 31, 2008		Nine Months Ended December 31, 2008	
	(In thousands)			
Professional fees directly related to reorganization (a)	$	5,121	$	18,459
Gains on the sale of aircraft (b)		(8,093)		(13,887)
Loss on a sale-lease back transaction (b)		––		4,654
Gains on contract terminations and settlements, net (c)		(1,819)		(6,100)
Write-off of note receivable (d)		––		13,541
Write-off of debt issuance cost (e)		––		1,833
Estimated allowable claim for rejected contract (f)		915		915
Other, net (g)		1,225		3,231
Total (gain)/loss on reorganization items	$	(2,651)	$	22,646

(a) Professional fees directly related to the reorganization include fees associated with advisors to the Debtors, the statutory committee of unsecured creditors and certain secured creditors. Professional fees are estimated by the

Debtors and will be reconciled to actual invoices when received.

(b) Reorganization items include the gain on the sale of six aircraft sold and a sale-lease back transaction in August 2008. These transactions were agreed upon subsequent to the Company's Bankruptcy filing and approved by the Bankruptcy Court.

(c) Effective as of August 31, 2008, the Company and GE Engine Services, Inc. mutually agreed to terminate a MCPH Restated and Amended Engine Service Agreement. This resulted in a gain of $5.8 million for reimbursement of maintenance reserve payments less certain fees.

(d) The write-off of a note receivable relates to a contract in which the Company has agreed to forgive a note receivable from a vendor in exchange for a revised contract that will support the Company's lower aircraft capacity.

(e) The Company wrote-off the debt issuance costs related to the unsecured convertible notes since the Company anticipates the entire principal amount will be an allowed claim for the value of its unsecured convertible notes.

(f) The Company recorded an estimated allowable claim for rejected a real estate property lease that was rejected as part of section 365 under the Bankruptcy Code.

(g) Other expenses are primarily related to fees and penalties associated with the temporary payment defaults on aircraft loans. Also included in other, net are other costs associated with the early return of two leased aircraft during the second fiscal quarter net of deferred credits.

Net cash paid for reorganization items for the three and nine months ended December 31, 2008 totaled $5.4 million and $13.9 million. These amounts exclude the net proceeds received from the sale of aircraft during the Company's reorganization process.

Reorganization items exclude the gain on the sale of two aircraft in May 2008 described in Note 7, because those aircraft were part of the Company's routine operational decision to address planned reductions in capacity and desires to improve liquidity in reaction to economic conditions and fuel price increases. The Company obtained signed letters of intent and deposits on the anticipated aircraft sales prior to the Company's unanticipated bankruptcy filing. Reorganization items also exclude the employee separation and other charges recorded during the second quarter, as these amounts relate to normal operations of the business rather than charges resulting from the Chapter 11 reorganization.

5. Liabilities Subject to Compromise

Liabilities subject to compromise ("LSTC") refer to both secured and unsecured obligations that will be accounted for under a plan of reorganization. Generally, actions to enforce or otherwise effect payment of pre-Chapter 11 liabilities are stayed. SOP 90-7 requires pre-petition liabilities that are subject to compromise to be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. These liabilities represent the estimated amount expected to be allowed on known or potential claims to be resolved through the Chapter 11 process, and remain subject to future adjustments arising from negotiated settlements, actions of the Bankruptcy Court, rejection of executory contracts and unexpired leases, the determination as to the value of collateral securing the claims, proofs of claim, or other events. LSTC also includes certain items that may be assumed under the plan of reorganization, and as such, may be subsequently reclassified to liabilities not subject to compromise. The Company has included secured debt as a liability subject to compromise as management believes that there remains uncertainty to the terms under a plan of reorganization. At hearings held in April 2008, the Court granted final approval of many of the Debtors' "first day" motions covering, among other things, human capital obligations, supplier relations (including fuel supply and fuel contracts), insurance, customer relations, business operations, certain tax matters, cash management, utilities, case management and retention of professionals. Obligations associated with these matters are not classified as liabilities subject to compromise.

In accordance with SOP 90-7, debt discounts or premiums as well as debt issuance costs should be viewed as valuations of the related debt. When the debt has become an allowed claim and the allowed claim differs from the net carrying amount of the debt, the recorded amount should be adjusted to the amount of the allowed claim (thereby adjusting existing discounts or premiums, and debt issuance costs to the extent necessary to report the debt at this allowed amount). Premiums and discounts as well as debt issuance cost on debts that are not subject to compromise, such as fully secured claims, should not be adjusted. Debt issuance costs on secured debt have not been adjusted because the Company continues to make payments based on the original contract terms. If debt is retired upon the sale of aircraft, the related debt issuance costs are written off as a loss from early extinguishment of debt in the period the debt is retired.

The Debtors may reject pre-petition executory contracts and unexpired leases with respect to the Debtors' operations, with the approval of the Bankruptcy Court. Damages resulting from rejection of executory contracts and unexpired leases are generally treated as general unsecured claims and will be classified as LSTC. Holders of pre-petition claims were required to file proofs of claims by the November 17, 2008 bar date. A bar date is the date by which certain claims against the Debtors must be filed if the claimants wish to receive any distribution in the Chapter 11 cases. The Debtors notified all known claimants subject to the bar date of their need to file a proof of claim with the Bankruptcy Court. The aggregate amount of claims filed with the Bankruptcy Court far exceeds the Debtors' estimate of the ultimate liability. Differences between liability amounts estimated by the Debtors and claims filed by creditors are being investigated and, if necessary, the Bankruptcy Court will make a final determination of the allowable claim. The determination of how liabilities will ultimately be treated cannot be made until the Bankruptcy Court approves a Chapter 11 plan of reorganization. Accordingly, the ultimate amount or treatment of such liabilities is not determinable at this time.

Liabilities subject to compromise consist of the following:

	December 31, 2008	March 31, 2008
	(In thousands)	
Accounts payable and other accrued expenses	$ 58,831	$ –
Accrued interest expense on LSTC	3,761	–
Secured debt	388,938	–
Unsecured convertible notes	92,000	–
Total liabilities subject to compromise	$ 543,530	$ –

LSTC includes trade accounts payable related to pre-petition purchases, all of which were not paid. As a result, the Company's cash flows from operations were favorably affected by the stay of payment related to these accounts payable.

6. Equity Based Compensation Plans

For the three and nine months ended December 31, 2008, the Company recognized stock-based compensation expense of $464,000 and $1,005,000, respectively, for stock options, stock appreciation rights ("SARs"), restricted stock units ("RSUs") and cash settled restricted stock awards granted under the Company's 2004 Equity Incentive Plan. For the three and nine months ended December 31, 2007, the Company recognized stock-based compensation expense of $309,000 and $859,000, respectively, for stock options, SARs and RSUs. Unrecognized stock-based compensation expense related to unvested options and awards outstanding as of December 31, 2008 was approximately $2,928,000, and will be recorded over the remaining vesting periods of one to five years (if the Company's Equity Incentive Plan is not canceled pursuant to a plan of reorganization). At December 31, 2008, the weighted average remaining recognition period for options, RSU awards, and cash settled restricted stock awards was 2.3 years, 2.3 years and 2.1 years, respectively.

During the nine months ended December 31, 2008 (and prior to the Company filing for bankruptcy under Chapter 11), the Company granted 1,208,858 SARs at a weighted average exercise price of $2.11 per share with a grant-date fair value of $0.73. During the nine months ended December 31, 2008, the Company also granted 166,540 RSUs and 300,340 cash settled restricted stock awards at a weighted average grant date market value of $2.11. Due to the Company’s bankruptcy filing, the Company does not believe that the share-based compensation granted under the 2004 Equity Incentive Plan will have any value.

7. Property and Equipment, Net

As of December 31, 2008 and March 31, 2008, property and equipment consisted of the following:

	December 31, 2008	March 31, 2008
	(In thousands)	
Aircraft, spare aircraft parts, and improvements to leased aircraft	$ 661,596	$ 942,162
Ground property, equipment and leasehold improvements	55,960	55,176
Computer software	18,882	17,280
Construction in progress	4,041	4,548
	740,479	1,019,166
Less accumulated depreciation	(127,681)	(148,722)
Property and equipment, net	$ 612,978	$ 870,444

Property and equipment includes capitalized interest of $2,869,000 and $2,864,000 at December 31, 2008 and March 31, 2008, respectively.

During the three and nine months ended December 31, 2007, the Company recorded additional depreciation expense of $354,000 and $3,228,000, respectively, related to a change in estimate of the useful life of its aircraft seats due the implementation of a program to replace the Airbus seats with new leather seats that was completed in May 2008.

Sale of Aircraft

In March 2008 the Company signed a letter of intent for the sale of four aircraft including two A319 aircraft and two A318 aircraft. In May 2008 the Company sold the two Airbus A319 aircraft for proceeds of $59,000,000, with total net book values of $52,116,000 and approximately $3,000,000 of unused reserves under maintenance contracts for which the Company was to be reimbursed. This resulted in retirement of debt of $33,754,000 related to the mortgages on the sold aircraft and a book gain of $9,200,000 on the sales, net of transaction costs.

In August 2008 the Bankruptcy Court authorized the Company to sell a total of six additional Airbus A319 aircraft to the same party and to terminate the agreement to sell the final two A318 aircraft under the March 2008 letter of intent, resulting in the sale of a total of eight owned aircraft. In September 2008 the Company sold two Airbus A319 aircraft for proceeds of $55,000,000, with total net book values of $47,739,000. This resulted in retirement of debt of $30,037,000 related to the mortgages on the sold aircraft and a book gain of $5,793,000 on the sales, net of transaction costs.

In November 2008 the Company sold two Airbus A319 aircraft for proceeds of $55,000,000, with total net book values of $50,921,000. This resulted in retirement of debt of $36,381,000 related to the mortgages on the sold aircraft and a book gain of $3,990,000 on the sales, net of transaction costs. In December 2008 the Company sold two Airbus A319 aircraft for proceeds of $55,000,000, with total net book values of $50,726,000. This resulted in retirement of debt of $29,488,000 related to the mortgages on the sold aircraft and a book gain of $4,103,000 on the sales, net of transaction costs.

In August 2008 the Bankruptcy Court also authorized a transaction between the Company and GE Commercial Aviation Service LLC ("GECAS") whereby the Company sold and leased back one Airbus A319 aircraft for proceeds of $29,300,000, with a net book value of $33,470,000. This resulted in retirement of debt of $23,877,000 related to the mortgage on the sold aircraft and a book loss of $4,654,000 on the transaction, net of transaction costs. The Company also returned two leased Airbus A319 aircraft to GECAS during the second fiscal quarter and returned one additional A319 aircraft to GECAS in January 2009.

Aircraft Purchase Obligations

In July 2008 the Company signed an agreement to defer the delivery of the eight remaining Airbus A320 aircraft that had been scheduled for delivery between February 2009 and November 2010 to between February 2011 and November 2012. This resulted in reimbursement of $11,485,000 of pre-delivery payments in July 2008.

In July 2008 the Company exercised its option on the first of the ten additional Q400 Bombardier aircraft resulting in a pre-delivery deposit of $2,633,000. In January 2009 the Company exercised its option on the second of the remaining ten additional aircraft. Planned delivery dates for these two Bombardier Q400 aircraft to be operated by the Lynx Aviation subsidiary are June 2009 and February 2010, respectively.

8. Deferred Revenue and Other Liabilities

At December 31, 2008 and March 31, 2008, deferred revenue and other liabilities consisted of the following:

	December 31, 2008	March 31, 2008
	(In thousands)	
Deferred revenue primarily related to co-branded credit card	$ 23,399	$ 24,472
Deferred rent	14,263	17,489
Fair value of fuel hedge contracts	11,372	–
Other	555	627
Total deferred revenue and other liabilities	49,589	42,588
Less current portion	(28,828)	(18,189)
	$ 20,761	$ 24,399

9. Other Accrued Expenses Not Subject to Compromise

At December 31, 2008 and March 31, 2008, other accrued expenses not subject to compromise consisted of the following:

	December 31, 2008	March 31, 2008
	(In thousands)	
Accrued salaries and benefits	$ 31,097	$ 37,456
Federal excise and other passenger taxes payable	14,367	30,298
Property and income taxes payable	988	3,801
Other	4,146	12,503
	$ 50,598	$ 84,058

10. Secured and Unsecured Borrowings

Secured and unsecured borrowings subject to compromise at December 31, 2008 and March 31, 2008 consisted of the following:

	December 31, 2008	March 31, 2008
	(In thousands)	
Unsecured:		
Convertible Notes, fixed interest rate of 5.0% (5)	$ 92,000	$ 92,000
Secured:		
Credit Facility, secured by eligible aircraft parts (1)	$ 3,000	$ 3,000
Aircraft Notes, secured by aircraft:		
Aircraft notes payable, fixed interest rates with a 6.75% and 6.55% weighted average interest rate at December 31, 2008 and March 31, 2008, respectively (2)	46,342	79,338
Aircraft notes payable, variable interest rates based on LIBOR plus a margin, for an overall weighted average rate of 4.76% and 4.59% at December 31, 2008 and March 31, 2008, respectively (3)	336,719	484,601
Aircraft junior note payable, variable interest rate based on LIBOR plus a margin, with a rate of 8.56% and 8.06% at December 31, 2008 and March 31, 2008, respectively (4)	2,877	3,379
Total Secured Debt Subject to Compromise	$ 388,938	$ 570,318

Unsecured Borrowings not subject to compromise at December 31, 2008:

Debtor-in-Possession loan (6)	$ 30,000
Other note payable (7)	3,000

Total Unsecured Debt Not Subject to Compromise	$	33,000

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(1) Credit Facility

In March 2005 the Company entered into a two-year revolving credit facility ("Credit Facility") to support letters of credit and for general corporate purposes. The initial Credit Facility was extended until July 2009. Under this facility, the Company was permitted to borrow the lesser of $20,000,000 ("maximum commitment amount") or an agreed upon percentage of the current market value of pledged eligible spare parts which secures this debt. The amount available for letters of credit was equal to the maximum commitment amount under the facility less current borrowings. Interest under the Credit Facility was based on a designated rate plus a margin. In addition, there was a quarterly commitment fee on the unused portion of the facility based on the maximum commitment amount. The Company has letters of credit issued of $12,054,000 and cash draws of $3,000,000. Pursuant to an agreement reached with the lender as a result of the Chapter 11 filing, the Company currently cannot borrow additional amounts under this facility.

(2) Secured Aircraft Notes payable – fixed interest rates

During the year ended March 31, 2008, the Company borrowed $48,326,000 for the purchase of three Bombardier Q400 aircraft. These aircraft loans have terms of 15 years and are payable in semi-annual installments with a floating interest rate adjusted semi-annually based on LIBOR. Security interests in the aircraft secure the loans.

During the nine months ended December 31, 2008, the Company sold two Airbus 319 aircraft with fixed rate loans and repaid the loan balances of $30,037,000 with the proceeds of the sale.

(3) Secured Aircraft Notes payable – variable interest rates

During the years ended March 31, 2003 through March 31, 2008, the Company borrowed $549,503,000 for the purchase of 22 Airbus aircraft. During the nine months ended December 31, 2008, the Company sold six aircraft with variable rate loans and entered into a sale-leaseback transaction for one of these purchased aircraft and repaid the loan balances of $123,500,000 with the proceeds of the sales. The remaining 15 senior aircraft loans have terms of 10 to 12 years and are payable in monthly installments with a floating interest rate adjusted quarterly based on LIBOR. At the end of the term, there are balloon payments for each of these loans. Security interests in the aircraft secure the loans.

During the year ended March 31, 2008, the Company borrowed $32,346,000 for the purchase of two Bombardier Q400 aircraft. These aircraft loans have terms of 15 years and are payable in semi-annual installments with a floating interest rate adjusted semi-annually based on LIBOR. A security interest in the aircraft secures these loans.

(4) Junior Secured Aircraft Notes payable – variable interest rates

During the year ended March 31, 2006, the Company borrowed $4,900,000 for the purchase of an Airbus aircraft. This junior loan has a seven-year term with quarterly installments currently of $250,000. A security interest in the aircraft secures the loan.

(5) Convertible Notes and Contractual Interest Expense

Subsequent to the Company's Chapter 11 bankruptcy filing, the Company records post-petition interest on pre-petition obligations only to the extent it believes the interest will be paid during the bankruptcy proceedings or that it is probable that the interest will be an allowed claim. Had the Company recorded interest expense based on all of its pre-petition contractual obligations, interest expense would have increased by $3,349,000 during the nine months ended December 31, 2008.

(6) Debtor-in-Possession ("DIP") Financing – Post-Petition

On August 5, 2008, the Bankruptcy Court approved a secured super-priority debtor-in-possession credit agreement ("DIP Credit Agreement") with Republic Airways Holdings, Inc., Credit Suisse Securities (USA) LLC, AQR Capital LLC, and CNP Partners, LLC (the "Lenders"), each of which is a member of the Unsecured Creditor's Committee in the Company's Chapter 11 Bankruptcy cases. The DIP Credit Agreement contains various representations, warranties and covenants by the Debtors that are customary for transactions of this nature, including reporting requirements and maintenance of financial covenants. The DIP Credit Agreement provides for the payment of interest that varies depending on when the interest is paid. The DIP Credit Agreement will mature on April 1, 2009. On August 8, 2008, funding was provided under the DIP Credit Agreement in the amount of $30,000,000, before applicable fees of $2,058,000.

(7) Other Note Payable

In September 2008, the Bankruptcy Court approved a settlement in form of a note in satisfaction of pre-petition debt. The note is payable in three equal installments commencing on the one-year anniversary of the effective date of the plan of reorganization.

Other Revolving Facility and Letters of Credit

In July 2005 the Company entered into an agreement with a financial institution, that was subsequently amended, for a $5,750,000 revolving line of credit that permits the Company to issue letters of credit up to $5,000,000. As of December 31, 2008, the Company had used $4,083,000 under this agreement for standby letters of credit that provide credit support for certain facility leases. The Company also entered into a separate agreement with this financial institution for a letter of credit fully cash collateralized of $2,845,000. In June 2008 the Company entered into a stipulation with the financial institution, which was approved by the Bankruptcy Court, which resulted in the financial institution releasing its liens on working capital in exchange for cash collateral. This stipulation also provided for the issuance of new letters of credit going forward. The Company fully cash collateralized the letters of credit outstanding and agreed to cash collateralize any additional letters of credit to be issued. The total of $7,437,000 in cash collateral as of December 31, 2008 is classified as restricted cash and investments on the consolidated balance sheet.

Debt Covenants

As of December 31, 2008, the Company was in compliance with its debt covenants. However, the Company's Chapter 11 bankruptcy filing triggered default provisions in its pre-petition debt and lease agreements. Payment defaults were cured as of June 9, 2008 for all debt secured by aircraft.

11. Equity

Unearned ESOP shares

In March 2008 the Company issued and contributed 300,000 shares to the Employee Stock Ownership Plan ("ESOP"). Compensation expense for the ESOP for the three and nine months ended December 31, 2008 was $206,000 and $617,000, respectively. Compensation expense for the ESOP for the three and nine months ended December 31, 2007 was $459,000 and $1,378,000, respectively. Due to the Company's bankruptcy filing, the Company does not believe that the shares in the ESOP Plan will have any value upon emergence from bankruptcy.

Comprehensive Income (Loss)

A summary of the comprehensive income (loss) for the three and nine months ended December 31, 2008 and 2007 is as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
Net income (loss)	$ 1,126	$ (32,508)	$ (86,981)	$ (18,674)
Other comprehensive income (loss):				
Post-retirement liability curtailment gain	–	22	–	22
Reclassification of previously recognized unrealized losses now deemed other than temporary	–	–	299	–
Total comprehensive income (loss)	$ 1,126	$ (32,486)	$ (86,682)	$ (18,652)

12. Fuel Hedging Transactions

The Company's operations are inherently dependent upon the price of and availability of aircraft fuel. The Company currently has a fuel hedging program using a variety of financial derivative instruments. These fuel hedges do not qualify for hedge accounting under SFAS 133 "Accounting for Derivative Instruments and Hedging Activities", and, as such, realized and non-cash mark to market adjustments are included in aircraft fuel expense.

Due to the Company's Chapter 11 filing, all fuel hedge contracts outstanding as of March 31, 2008 were terminated in May 2008 and subsequently settled, which resulted in cash receipts of $23,409,000. In August 2008 the Company resumed its fuel hedging program, and as of December 31, 2008 the fair value of the hedge agreements recorded on the balance sheet as a liability was $11,372,000.

Aircraft fuel expense for the three months ended December 31, 2008 and 2007 includes a mark to market derivative loss of $8,748,000 and $3,535,000, respectively, recorded as an increase to fuel expense. Cash settlements for fuel derivatives contracts settled during the three months ended December 31, 2008 and 2007 were payments of $12,873,000 and receipts of $12,829,000, respectively.

Aircraft fuel expense for the nine months ended December 31, 2008 and 2007 includes mark to market derivative losses of $4,019,000 and $5,712,000, respectively, recorded as an increase to fuel expense. Our aircraft fuel expense for the nine months ended December 31, 2008 also includes a $23,151,000 loss on unwinding a fuel hedge. Cash settlements for fuel derivatives contracts settled during the nine months ended December 31, 2008 and 2007 were receipts of $10,278,000 and $21,958,000, respectively.

The following table summarizes the components of aircraft fuel expense for the three and nine months ended December 31, 2008 and 2007:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
Aircraft fuel expense – mainline and Lynx Aviation	$ 115,186	$ 117,493	$ 469,016	$ 329,578
Aircraft fuel expense – included in regional partners	–	13,902	11,634	37,701
Total system-wide fuel expense	115,186	131,395	480,650	367,279
Changes in fair value and settlement of fuel hedge contracts gains (losses)	(21,621)	9,294	(16,892)	16,246
Total raw aircraft fuel expense	$ 93,565	$ 140,689	$ 463,758	$ 383,525

The Company is required to cash collateralize its fuel hedge position. As of December 31, 2008, this resulted in deposits of $15,590,000.

13. Earnings (Loss) Per Share

The Company accounts for earnings per share in accordance with SFAS No. 128, Earnings per Share. Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the periods presented. Diluted net income per share reflects the potential dilution that could occur if outstanding stock option and warrants were exercised. In addition, diluted convertible securities are included in the denominator while interest on convertible debt, net of tax and capitalized interest, is added back to the numerator.

The following table sets forth the computation of basic and diluted earnings (loss) per share (in thousands, except per share amounts) for the three and nine months ended December 31, 2008 and 2007:

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
Numerator:				
Net income (loss) as reported	$ 1,126	$ (32,508)	$ (86,981)	$ (18,674)
Denominator:				
Weighted average shares outstanding, basic	36,946	36,642	36,946	36,639
Effects of dilutive securities:				
Employee stock awards	247	–	–	–
Adjusted weighted average shares outstanding, diluted	37,193	36,642	36,946	36,639
Earnings (loss) per share, basic	$ 0.03	$ (0.89)	$ (2.35)	$ (0.51)
Earnings (loss) per share, diluted	$ 0.03	$ (0.89)	$ (2.35)	$ (0.51)

For the nine months ended December 31, 2008, the common stock equivalents of the weighted average options, SARS, and RSUs, of 135,000 were excluded from the calculation of diluted earnings per share because they were anti-dilutive as a result of the loss during the period. For the three and nine months ended December 31, 2008, the weighted average options, SARs, and RSUs outstanding of 3,634,000 and 3,884,000, respectively, and warrants of 3,834,000 were excluded from the calculation of diluted earnings per share because the exercise prices were greater than the average market price of the common stock. For the three and nine months ended December 31, 2007, interest on convertible notes, net of capitalized interest, of $335,000 and $1,493,000, respectively, and 8,900,000 shares were excluded from the calculation of diluted loss per share because they were anti-dilutive. For the three and nine months ended December 31, 2007, the common stock equivalents of the weighted average options, SARS, RSUs and warrants outstanding of 413,000 and 239,000, respectively, were excluded from the calculation of diluted loss per share because they were anti-dilutive. For the three and nine months ended December 31, 2007, the weighted average options, SARS and RSUs outstanding of 2,091,000 and 2,149,000, respectively, were excluded from the calculation of diluted loss per share because the exercise prices were greater than the average market price of the common shares.

14. Operating Segment Information

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires disclosures related to components of a company for which separate financial information is available that is evaluated regularly by a company's chief operating decision maker in deciding the allocation of resources and assessing performance. The Company has three primary operating and reporting segments, which consist of mainline operations, Regional Partner operations, and Lynx Aviation operations. Mainline operations include service operated by Frontier Airlines using Airbus aircraft. Regional Partner operations include regional jet service operated by Republic and Horizon Air Industries, Inc. Lynx Aviation's operations, which include service operated using Bombardier Q400 aircraft, began revenue flight service on December 7, 2007. The Company evaluates segment performance based on several factors, of which the primary financial measure is operating income (loss). However, the Company does not manage the business or allocate resources solely based on segment operating income or loss, and scheduling decisions of the Company's chief operating decision maker are based on each segment's contribution to the overall network.

To evaluate the separate segments of the Company's operations, management has segregated the revenues and costs of its operations as follows: Passenger revenue for mainline, Regional Partners and Lynx Aviation represents the revenue collected for flights operated by the Airbus fleet, the aircraft under lease through contracts with Regional Partners and the Bombardier Q400 fleet, respectively, carriers (including a prorated allocation of revenues based on miles when tickets are booked with multiple segments.). Operating expenses for Regional Partner flights include all direct costs associated with the flights plus payments of performance bonuses if earned under the contract. Certain expenses such as aircraft lease, maintenance and crew costs are included in the operating agreements with Regional Partners in which the Company reimburses these expenses plus a margin. Operating expenses for Lynx Aviation include all direct costs associated with the flights and the aircraft including aircraft lease and depreciation, maintenance and crew costs. Operating expenses for both Regional Partners and Lynx Aviation also include other direct costs incurred for which the Company does not pay a margin. These expenses are primarily composed of fuel, airport facility expenses and passenger related expenses. The Company also allocates indirect expenses among mainline, Regional Partners and Lynx Aviation operations by using departures, available seat miles, or passengers as a percentage of system combined departures, available seat miles or passengers.

Financial information for the three and nine months ended December 31, 2008 and 2007 for the Company's operating segments is as follows:

	Three months ended December 31, 2008	Three months ended December 31, 2007	Nine months ended December 31, 2008	Nine months ended December 31, 2007
	(In thousands)			
Operating revenues:				
Mainline – passenger and other (1)	$ 281,867	$ 304,610	$ 946,952	$ 960,597
Regional Partners – passenger	–	26,640	17,465	88,390
Lynx Aviation – passenger	19,114	2,659	61,046	2,659
Consolidated	$ 300,981	$ 333,909	$ 1,025,463	$ 1,051,646
Operating income (loss):				
Mainline (2)	$ 9,064	$ (8,830)	$ (20,708)	$ 29,951
Regional Partner	–	(11,939)	(9,185)	(21,212)
Lynx Aviation (3)	(3,493)	(4,833)	(11,856)	(9,891)
Consolidated	$ 5,571	$ (25,602)	$ (41,749)	$ (1,152)

	December 31, 2008	March 31, 2008
	(In thousands)	
Total assets at end of period (4):		
Mainline	$ 803,150	$ 1,129,123
Regional Partner	–	202
Lynx Aviation	107,578	110,338
Other	8,531	10,308
Consolidated	$ 919,259	$ 1,249,971

(1) Other revenues included in Mainline revenues consist primarily of cargo revenues, the marketing component of revenues earned under a co-branded credit card agreement and auxiliary services.
(2) Mainline operating income (loss) includes realized and non-cash mark-to-market adjustments on fuel hedges, gains on sales of assets, net and employee separation costs and other charges.
(3) Lynx Aviation operating costs consisted solely of start-up costs prior to December 7, 2007.
(4) All amounts are net of intercompany balances, which are eliminated in consolidation.

15. Restricted cash and investments

Restricted cash and investments primarily relates to funds held by companies that process credit card sale transactions, credit card companies and escrow funds for future charter service. They also include cash deposits that secure certain letters of credit issued for workers compensation claim reserves and certain airport authorities.

At December 31, 2008 and March 31, 2008, restricted cash and investments consisted of the following:

	December 31, 2008	March 31, 2008
	(In thousands)	
Funds held for holdback of customer sales	$ 109,894	$ 70,027

Funds held for cash supported letters of credit and deposits on charter flights	4,789	4,092
	$ 114,683	$ 74,119

The Company has a contract with a bankcard processor that requires a holdback of bankcard funds equal to a certain percentage of the air traffic liability associated with the estimated amount of bankcard transactions. As of December 31, 2008 and March 31, 2008, that amount totaled and $88,020,000 $54,500,000, respectively. In June 2008 the Company reached a revised agreement with this bankcard processor that requires adjustments to the reserve account based on current and projected air traffic liability associated with these estimated bankcard transactions. Any further holdback was temporarily suspended pursuant to a court-approved stipulation until October 1, 2008. Beginning October 1, 2008, the court-approved stipulation allowed the bankcard processor to holdback a certain percentage of bankcard receipts in order to reach full collateralization at some point in the future. In addition, a credit card company began a holdback during the fiscal year ended March 31, 2008 which totaled $21,098,000 at December 31, 2008 as compared to $15,500,000 at March 31, 2008. As of February 12, 2009, the amount of holdback with our bankcard processor was $97,300,000 and the holdback for the credit card company was $18,800,000.

16. Income Taxes

The Company recorded $1,137,000 of alternative minimum tax ("AMT") expense during the nine months ended December 31, 2008 because tax gains on the sales of aircraft are currently estimated to result in taxable income for the year ending March 31, 2009. Under alternative minimum tax regulations, the Company can only offset 90% of its taxable income with net operating loss carryforwards and is required to make certain other AMT adjustments. The remaining 10% is subject to alternative minimum tax. Although the Company is entitled to an AMT credit against future income taxes, the Company recorded a valuation allowance against this credit since it was more likely than not that this tax credit will not be realized. The Company had no provision for income taxes for the nine months ended December 31, 2007 due to accumulated losses for which valuation allowances have been recorded.

17. Subsequent Events

Return of Aircraft

On August 5, 2008, the Bankruptcy Court authorized a transaction between the Company and GECAS whereby the Company would sell and lease back up to four Airbus A319 aircraft. In January 2009 the Company returned the final Airbus A319 aircraft to GECAS for a total of three returned aircraft.

Exercise of Purchase Options

The Company has options to purchase ten Bombardier Q400 aircraft, the last of which expires in July 2010, subject to additional extension rights. In July 2008 the Company exercised its option on the first of the ten additional aircraft. In January 2009 the Company exercised its option on the second of the remaining ten additional aircraft. These aircraft are scheduled for delivery in June 2009 and February 2010, respectively.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

The information contained in this Item 2 updates, and should be read in conjunction with, the information set forth in Part II, Item 7 of our 2008 Form 10-K.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act") that describe the business and prospects of Frontier Airlines Holdings, Inc. and its subsidiaries and the expectations of our company and management. All statements included in this report that address activities, events or developments that we expect, believe, intend or anticipate will or may occur in the future, are forward-looking statements. When used in this document, the words "estimate," "anticipate," "intend," "project," "believe" a similar expressions are intended to identify forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated.

You should understand that many important factors, in addition to those discussed or incorporated by reference in this report, could cause our results to differ materially from those expressed in the forward-looking statements. Potential factors that could affect our results include, in addition to others not described in this report, those described in Item 1A ''Risks Related to Frontier'' and ''Risks Associated with the Airline Industry" of our Annual Report on Form 10-K for the fiscal year ended March 31, 2008 ("2008 Form 10-K"), Item 1A "Risk Factors" in our Form 10-Q for the quarter ended September 30, 2008 and Item 1A "Risk Factors" in this Form 10-Q.. In light of these risks and uncertainties, the forward-looking events discussed in this report might not occur. We undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

In this report, references to "us," "we," "Frontier Holdings" or the "Company" refer to Frontier Airlines Holdings, Inc. and its subsidiaries on a consolidated basis, unless the context requires otherwise.

CHAPTER 11 REORGANIZATION

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

Our ability, both during and after the Chapter 11 cases, to continue as a going concern is dependent upon, among other things, our ability (i) to successfully achieve required cost savings to complete our restructuring; (ii) to maintain adequate liquidity; (iii) to generate cash from operations; (iv) to secure exit financing; (v) to negotiate favorable terms with our bankcard processors and credit card companies; (vi) to confirm a plan of reorganization under the

Bankruptcy Code; and (vii) to achieve profitability. Uncertainty as to the outcome of these factors raises substantial doubt about our ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result should we be unable to continue as a going concern. A plan of reorganization could materially change the amounts currently disclosed in the consolidated financial statements.

Automatically, upon commencing a Chapter 11 case, a debtor has the exclusive right for 120 days after the petition date to file a plan of reorganization and, if it does so, 60 additional days to obtain necessary acceptances of its plan. On January 21, 2009, the Bankruptcy Court further extended these periods to June 4, 2009, and August 4, 2009, respectively, and the Bankruptcy Court may further extend these periods. If our exclusivity period lapsed, any party in interest would be able to file a plan of reorganization for any of the Debtors. In addition to being voted on by holders of impaired claims and equity interests, a plan of reorganization must satisfy certain requirements of the Bankruptcy Code and must be approved, or confirmed, by the Bankruptcy Court in order to become effective.

Overview

We are a low cost, affordable fare airline operating primarily in a hub and spoke fashion connecting cities coast to coast through our hub at Denver International Airport ("DIA"). We are the second largest jet service carrier at DIA based on departures. We offer our customers a differentiated product, with new Airbus and Bombardier aircraft, comfortable passenger cabins that we configure with one class of seating, ample leg room, affordable pricing, and in-seat LiveTV with 24 channels of live television entertainment and three additional channels of current-run pay-per-view movies on our mainline routes. In January 2007 the U.S. Department of Transportation ("DOT") designated us as a major carrier. As of February 12, 2009, Frontier Airlines and Lynx Aviation operated routes linking our Denver hub to 57 U.S. cities spanning the nation from coast to coast, five cities in Mexico and one city in Costa Rica.

In December 2007 Lynx Aviation obtained its operating certificate to provide scheduled air transportation service from the Federal Aviation Administration ("FAA"). The aircraft are operated by Lynx Aviation under its operating certificate. Lynx Aviation began revenue service on December 7, 2007 and currently provides service to 13 destinations, two of which are supplemental service to our mainline operations.

On April 23, 2008, as part of our bankruptcy proceeding, we announced a mutual agreement with Republic Airlines, Inc. ("Republic") to terminate our capacity purchase agreement with Republic as of June 22, 2008. The agreement provided for a structured reduction and gradual phase-out of Republic's 12 aircraft which had been delivered to us. The phase-out was completed on June 22, 2008.

As of February 12, 2009, we operated a mainline fleet of 51 jets (36 of which we lease and 15 of which we own), consisting of 38 Airbus A319s, 11 Airbus A318s and two Airbus A320s, and a regional fleet of 10 Bombardier Q400 turboprop aircraft operated by Lynx Aviation. During the three months ended December 31, 2008 and 2007, year-over-year mainline capacity decreased by 16.0% and increased by 16.3%, respectively, and year-over-year mainline passenger traffic decreased by 11.8% and increased by 25.3%, respectively. During the nine months ended December 31, 2008 and 2007, year-over-year mainline capacity decreased by 7.2% and increased by 14.1%, respectively, and year-over-year mainline passenger traffic decreased by 4.4% and increased by 20.0%, respectively.

As of February 12, 2009, we currently lease or have preferential use of 17 gates on Concourse A at DIA. We use these 17 gates and seven commuter ground gates and share use of up to five common use gates to operate approximately 250 daily mainline flight departures and arrivals and 70 Lynx Aviation daily flight departures and arrivals at DIA.

Industry Overview

The U.S. domestic airline industry was negatively impacted by record high fuel prices during the nine months ended December 31, 2008. As fuel prices increased, the airline industry was unable to raise average fares enough to offset rising costs. The price of fuel per gallon for the nine months ended December 31, 2008 increased by 48.9% over the same period in 2007 and reached a new record high of $147 a barrel (or $4.39 per gallon for our system-wide average purchase price including our into plane cost, taxes and storage) on July 11, 2008. Since this record high, crude oil fell to $32 a barrel in December, the lowest level since the end of 2003. Oil prices have stabilized in recent weeks due to a reduction in output by the Organization of the Petroleum Exporting Countries ("OPEC") which have influenced the markets and prices have been recently trading in a range from $35 to $45 a barrel. As of February 9, 2009, our current price of fuel per gallon was $1.63 (including into plane costs, taxes and storage). Domestic airlines responded to these record fuel costs and the economic downturn by reducing capacity, grounding airplanes, furloughing and/or reducing their workforce, raising ticket prices and imposing additional fees. Based on airlines' schedule filings through July 31, 2008, by November 2008 overall domestic airline capacity was reduced by 11% year over year. Capacity at DIA is only be down 5.2% year over year for November 2008 largely due to growth of Southwest Airlines at DIA.

In response to increasing costs and as part of the Company's restructuring efforts, we reduced CASM (excluding fuel and extraordinary items) for our fiscal third quarter by 4.3% year over year.. As part of our restructuring efforts, we have achieved new labor contracts with all represented employees and implemented wage reductions for all non-represented employees, allowing us to achieve some of the most competitive labor costs in the industry. We have used the bankruptcy process to successfully reduce our costs despite a 16% reduction in our capacity and an 8% reduction in our stage length.

We have also taken a number of steps to improve our fleet and our schedules as we attempt to drive higher unit revenue. We sold several of our older Airbus aircraft and terminated the E170 aircraft that Republic provided under a capacity purchase agreement. We have cancelled poor performing non-Denver point to point routes, redeployed aircraft to our core Denver markets, and adjusted frequencies in markets to more effectively compete. We believe these changes have allowed us to develop a consistent business schedule and strengthen our connecting flow opportunities. Additionally, we have increased our overall revenue performance through ancillary charges such as bag charges.

In December 2008 we launched our fare families product "AirFairs", which provides our customers a choice among three distinct product offerings. AirFairs allows our customers to choose Classic Plus for the greatest flexibility and amenities; Classic for some flexibility, seat assignments, and most of our amenities; and Economy for the lowest price, but with limited flexibility and amenities. We believe AirFairs will also increase our internal bookings, lower our overall distribution costs, and allow us to further distinguish our product.

The airline industry is, however, still facing an extremely challenging economic environment. Although fuel costs have significantly decreased and the industry is benefitting from earlier capacity reductions, we cannot be certain how severely the weak economy will impact travel demand and the fare environment. Despite the current economic conditions, our restructuring efforts are showing results. With our low costs and product differentiation, including AirFairs, we believe we can continue to effectively compete in the Denver market. Our cost reductions and recent reductions in fuel prices allowed us to achieve record operating earnings during our third fiscal quarter. We believe, based on cost guidance provided by many airlines, we can continue sustain our industry leading cost structure.

Quarter in Review

During the three months ended December 31, 2008, we had net income of $1,126,000 or 3¢ per diluted share, as compared to a net loss of $32,508,000 or 89¢ per diluted share for the three months ended December 31, 2007. Our net income for the three months ended December 31, 2008, includes a gain of $2,651,000 on reorganization items (which related primarily to the sale of four A319 aircraft offset by professional fees) offset by a loss of $21,621,000 on fuel hedge contracts. Included in our net loss for the quarter ended December 31, 2007 was a gain of $9,294,000 from fuel hedge contracts. Also included in our net loss for the quarter ended December 31, 2007, was $3,396,000 of start-up costs for Lynx Aviation.

Revenue per Available Seat Mile and Total Yield per Available Seat Mile

Mainline passenger revenue decreased by 10.0% in the three months ended December 31, 2008, as compared to the prior period. Our mainline passenger revenue decreased due to a 16.0% reduction in capacity (as measured by available seat miles) which was offset by an increase in RASM, or revenue per available seat mile, of 7.2%. The increase in RASM was as a result of improved pricing techniques, new policies on unused tickets and a 3.9 point increase in the load factor year-over-year.

Mainline total yield per ASM increased 10.2% in the three months ended December 31, 2008, as compared to the prior period. This increase, which was driven by an increase in other revenues of $6,478,000, primarily related to additional revenue generated in the quarter due to our new policy on bag fees and other ancillary charges.

Mainline Operating Costs per Available Seat Mile

Operating costs per ASM (CASM) is an important metric in the industry and we use it to gauge the effectiveness of our cost-reduction efforts. Our effort to reduce unit costs focuses not only on controlling the actual dollars we spend, but also on the ability to maintain or reduce or CASM with changes in capacity.

	Quarters Ended December 31,			Nine Months Ended December 31,		
	2008	2007	% Change	2008	2007	% Change
Total mainline operating expenses per ASM :						
Cost per ASM	10.37¢	10.00¢	3.7%	10.92¢	9.75¢	12.0%
Less: Fuel expense per ASM	(4.16)¢	(3.71)¢	12.2%	(5.03)¢	(3.44)¢	46.2%
Plus: Post-retirement liability curtailment gain per ASM	-----	0.20¢	100%	-	0.07¢	100%
Total mainline operating expenses excluding fuel and non-operating gains	6.21¢	6.49¢	(4.3)%	5.89¢	6.38¢	(7.7)%

We have separately listed in the above table our fuel costs and a one-time post retirement curtailment gain cost per ASM. We believe breaking out these items from CASM presents the performance on a more consistent basis giving more transparency to the on-going operations. We believe this information is important to investors and other readers of our financial statements.

Our mainline CASM excluding fuel and the gain on the post-retirement liability decreased 4.3% and 7.7% for the three and nine months ended December 31, 2008, respectively, year over year due to several cost savings strategies implemented, including workforce reductions in response to capacity reductions, wage and benefit concessions and reductions, and network adjustments to more effectively use the remaining capacity.

Operations Review for the Quarter

During the three months ended December 31, 2008, Frontier Airlines had the following operating highlights:

- According to the Department of Transportation ("DOT") monthly Air Consumer Report, Frontier Airlines finished first in fewest complaints in November 2008 with zero complaints logged. Frontier also ranked third for lowest mishandled bag rate in November, the fifth consecutive month in which we have ranked in the top five.
    - AirFairs, Frontier's new fare structure that lets the customer choose the fare level that best meets their specific travel needs, was launched in December. AirFairs allows the customer to choose between three different fare levels: Classic Plus, Classic and Economy.
- On December 7, 2008, Lynx Aviation celebrated its one-year anniversary. In is first year of operation, Lynx Aviation carried nearly one million passengers to 17 cities.
-

On December 18, 2008, Lynx Aviation began service to the Yampa Valley Regional Airport serving the Steamboat Springs/Hayden area. With the addition of Steamboat Springs/Hayden, Lynx Aviation currently provides services to 13 destinations.

- Safety is a primary concern, and we are proud that our maintenance staff has been awarded the FAA Diamond Award for Excellence for the tenth straight year – an award that recognizes our commitment to the ongoing training and education of our maintenance staff.

Our Business Plan

As a result of the continuing drastic escalation and volatility in fuel costs and our Chapter 11 bankruptcy proceeding, we are continuing an aggressive examination of many aspects of our business. We are implementing a comprehensive restructuring effort to achieve cost competitiveness by attempting to obtain economic concessions from key stakeholders in order to allow us to reduce costs, create financial flexibility and restore our long-term viability and profitability. Our evaluation has encompassed our network, our total fleet composition, our cost structure, and our balance sheet.

Network Adjustments and Capacity Reductions

In June 2008 we announced plans to reduce mainline capacity year-over-year by approximately 17% from September 2008 through March 2009. These adjustments included frequency reductions in some markets and seasonal reductions. The capacity reductions were phased in starting mid-August and we completed them in January 2009. With the route adjustments, termination of the Republic contract and the sale or lease termination of a total of 11 aircraft, we had a system-wide capacity decrease of 16.0% during the three months ending December 2008 over the same period last year.

On April 23, 2008, we rejected our capacity purchase agreement with Republic. There was a structured reduction and gradual phase-out of Republic's 12 aircraft from our daily operation which was completed in June 2008. In conjunction with the termination of service by Republic, we discontinued service to four markets.

Cost Structure

In May 2008 we reached agreements with our pilot, dispatcher, maintenance, and aircraft appearance unions on temporary wage and benefit concessions. All other employees were given wage reductions effective June 1, 2008. Wage concessions for non-represented employees were extended at the end of September 2008 and we reached a permanent restructured wage agreement with the Transport Workers Union of America (“TWU”) (representing the dispatchers). We received a ruling from the Bankruptcy Court approving permanent concessions from certain of our contracts with the IBT, and we have received a consensual permanent agreement with the remaining employees represented by the IBT. We also reached an agreement in December 2008, which was ratified by the members and approved by the Bankruptcy Court in January 2009, with the Frontier Airlines Pilot Association, (“FAPA”) for long-term wage and benefits concessions.

In June 2008 we announced reductions in our workforce in conjunction with the announcement of the reduction in our fleet and routes. We implemented early out programs and voluntary leaves, and eliminated over 600 positions (including layoffs for approximately 170 employees and 115 that were placed on furlough), most of which took effect in September 2008.

Under Section 365 and other relevant sections of the Bankruptcy Code, we may assume, assume and assign, or reject certain executory contracts and unexpired leases, including, without limitation, leases of real property, aircraft and aircraft engines, subject to the approval of the Bankruptcy Court and certain other conditions. We continue to evaluate our executory contracts to ensure market or below market terms are achieved and our contracts are aligned with our capacity requirements and cost structure.

Liquidity and Revenue Initiatives

In May 2008 we closed on the sale of two Airbus A319 aircraft for net proceeds of $25.2 million after retirement of the related debt. On August 5, 2008, the Bankruptcy Court authorized Frontier Airlines to sell an additional six of our 47 Airbus A319 aircraft to an affiliate of VTB Leasing for onward lease to Rossiya Airlines. This agreement amended an earlier agreement where an affiliate of VTB Leasing was to purchase the above referenced two A319 and two additional A318 aircraft. Under the revised agreement, VTB Leasing did not take delivery of the originally agreed upon two A318 aircraft and instead purchased an additional six A319 aircraft. As of December 2008 we closed on the sale of all six Airbus A319 covered by the agreement and realized total net proceeds of $69.1 million after the retirement of the related aircraft debt of $95.9 million.

On August 5, 2008, the Bankruptcy Court also authorized a transaction between the Company and GE Commercial Aviation Service LLC ("GECAS") whereby the Company would sell and lease back up to four Airbus A319 aircraft. In August 2008, the Company sold and leased back one Airbus A319 aircraft. This transaction resulted in retirement of $23.9 of mortgage debt on the sold aircraft and a book loss of $4.7 million on the transaction, net of transaction cost, for net proceeds of $4.2 million. We also returned two leased Airbus A319 aircraft to GECAS in September 2008 and returned one Airbus A319 aircraft to GECAS in January 2009.

In July 2008 we deferred the delivery of the eight remaining Airbus A320 aircraft that had been scheduled for delivery between February 2009 and November 2010 to between February 2011 and November 2012. These deferrals have reduced our near term funding requirements and debt burden. This resulted in reimbursement to us of $11,485,000 of pre-delivery payments in July 2008.

On August 5, 2008, the Bankruptcy Court approved a secured super-priority debtor-in-possession credit agreement ("DIP Credit Agreement") with Republic Airways Holdings, Inc., Credit Suisse Securities (USA) LLC, AQR Capital LLC and CNP Lenders, LLC, each a member of the Unsecured Creditors Committee in our Chapter 11 bankruptcy cases. The DIP Credit Agreement contains various representations, warranties and covenants by the Company that are customary for transactions of this nature, including reporting requirements and maintenance of financial covenants. The DIP Credit Agreement provides for the payment of interest which varies depending on when the interest is paid. The DIP Credit Agreement will mature on April 1, 2009. On August 8, 2008, the Company received funding under the DIP Credit Agreement in the amount of $30 million, which is gross of approximately $2.1 million of applicable fees.

We have greatly improved revenues through ancillary charges. In May 2008 we introduced a $25 fee for a second checked bag. In September 2008 we introduced a $15 fee for the first checked bag. The first bag fee started on November 1, 2008, effective for tickets purchased on or after September 13, 2008. The fee does not apply to EarlyReturns Summit and Ascent members. We also announced increases in our fees for certain other services such as checked pets and oversized bag fees. The increases mostly range from $10 to $100 per service. We have also announced more strict policies on unused tickets, changes in add collect fees and increased change fees. These new and increased fees generated $10.4 million in incremental ancillary revenue during the third fiscal quarter and we anticipate additional incremental annual revenues of $60 to $70 million related to these new fees. Due to the launch of our new AirFairs fee structure, some of this increased revenue will be reflected as passenger revenue if purchased as part of an upgraded class of service.

In December 2008 we launched AirFairs, our new fare structure that lets the customer choose the fare level that best meets their specific travel needs. AirFairs offers a choice of three different fare levels: Classic Plus, Classic or Economy, with varying levels of service. The Classic Plus ticket is fully refundable, changeable, and provides the customer the ability to confirm a seat on a different flight the same day of travel for no charge. In addition, Classic Plus customers get priority boarding, two checked bags, complimentary DIRECTV®, an in-flight snack, a premium beverage and 150% mileage credit in EarlyReturns. Classic offers the important comforts for the best overall value. The Classic customer gets advanced seat assignments, two complimentary checked bags, DIRECTV®, and 125% EarlyReturns® mileage credit. In addition, they will be charged only a $50 fee for itinerary changes and $75 for same day confirmed changes. Economy is the lowest fare ticket with no included amenities. Early results indicate 35%-40% of revenue booked on our website is at higher fare classes. We believe the advantage of the AirFairs product will increase internal bookings on our website, and lower our overall distribution costs.

Results of Operations

Frontier Holdings includes the following operations: our mainline operations, which consisted of 52 Airbus aircraft on December 31, 2008 and our Lynx Aviation operation, consisting of 10 Q400 aircraft. Historically, our operation included our Regional Partner operations operated by Republic and Horizon ("Regional Partners"). Lynx Aviation and our Regional Partners services are separate and apart from our mainline operations.

To evaluate the separate segments of our operations, management has segregated the revenues and costs of our operations as follows: Passenger revenue for our Regional Partners and for Lynx Aviation represents the revenue collected for flights operated by these carriers (including a prorated allocation of revenues based on miles when tickets are booked with multiple segments.). Operating expenses for Regional Partner flights include all direct costs associated with the flights plus payments of performance bonuses if earned under the contract. Certain expenses such as aircraft lease, maintenance and crew costs are included in the operating agreements with our Regional Partners in which we reimburse these expenses plus a margin. Operating expenses for Lynx Aviation include all direct costs associated with the flights and the aircraft including aircraft lease and depreciation, maintenance and crew costs. Operating expenses for both Regional Partners and Lynx Aviation also include other direct costs incurred for which we do not pay a margin. These expenses are primarily composed of fuel, airport facility expenses and passenger related expenses. We also allocate indirect expenses among mainline, our Regional Partners and Lynx Aviation operations by using departures, available seat miles, or passengers as a percentage of system combined departures, available seat miles or passengers.

The following table provides certain of our financial and operating data for the three and nine months ended December 31, 2008 and 2007. Mainline and combined data exclude the expenses of Lynx Aviation prior to receiving FAA approval to fly, which occurred in December 2007. The start-up costs excluded were $3,396,000 and $8,454,000 for the three and nine months ended December 31, 2007, respectively.

	Three Months Ended December 31,			Nine Months Ended December 31,		
	2008	2007	Change	2008	2007	Change
Selected Operating Data - Mainline:						
Passenger revenue (000s) (1)	$ 263,124	$ 292,251	(10.0)%	$ 903,835	$ 923,299	(2.1)%
Revenue passengers carried (000s)	2,387	2,521	(5.3)%	8,102	8,145	(0.5)%
Revenue passenger miles (RPMs) (000s) (2)	2,121,028	2,404,926	(11.8)%	7,396,624	7,734,437	(4.4)%
Available seat miles (ASMs) (000s) (3)	2,631,944	3,133,507	(16.0)%	8,863,379	9,551,889	(7.2)%
Passenger load factor (4)	80.6%	76.7%	3.9pts	83.5%	81.0%	2.5pts
Break-even load factor (5)	79.2%	80.9%	(1.7)pts	89.5%	79.9%	9.6pts
Block hours (6)	54,767	66,023	(17.0)%	183,402	199,026	(7.9)%
Departures	22,883	25,803	(11.3)%	75,669	79,779	(5.2)%
Average seats per departure	132.6	128.9	2.9%	132.3	128.9	2.6%
Average stage length	867	942	(7.9)%	885	929	(4.7)%
Average length of haul	889	954	(6.8)%	913	950	(3.9)%
Average daily block hour utilization (7)	11.1	12.0	(7.5)%	11.6	12.2	(4.9)%
Passenger yield per RPM (cents) (8)	12.23	11.99	2.0%	12.10	11.83	2.3%
Total yield per RPM (cents) (9), (10)	13.29	12.67	4.9%	12.80	12.42	3.1%
Passenger yield per ASM (RASM) (cents) (11)	9.86	9.20	7.2%	10.09	9.58	5.3%
Total yield per ASM (cents) (12)	10.71	9.72	10.2%	10.68	10.06	6.2%
Cost per ASM (cents) (CASM)	10.37	10.00	3.7%	10.92	9.75	12.0%
Fuel expense per ASM (cents)	4.16	3.71	12.2%	5.03	3.44	46.2%
Cost per ASM excluding fuel (cents) (13)	6.21	6.17	0.7%	5.89	6.27	(6.1)%
Average fare (14)	$ 97.63	$ 104.16	(6.3)%	$ 100.30	$ 102.97	(2.6)%
Average aircraft in service	53.6	60.0	(10.7)%	57.6	59.5	(3.2)%
Aircraft in service at end of period	52	60	(13.3)%	52	60	(13.3)%
Average age of aircraft at end of period (years)	4.5	3.8	18.4%	4.5	3.8	18.4%

Average fuel cost per gallon	$	2.93	$	2.58	13.6%	$	3.53	$	2.37	48.9%
Fuel gallons consumed (000's)		37,384		45,103	(17.1)%		126,179		138,617	(9.0)%

	Three Months Ended December 31, 2008	2007	Change	Nine Months Ended December 31, 2008	2007	Change
Selected Operating Data – Lynx Aviation:						
Passenger revenue (000s) (1)	$ 19,114	$ 2,659	618.8%	$ 61,046	$ 2,659	2195.8%
Revenue passengers carried (000s)	243	31	683.9%	781	31	2419.4%
Revenue passenger miles (RPMs) (000s) (2)	87,652	13,641	542.6%	274,083	13,641	1909.3%
Available seat miles (ASMs) (000s) (3)	150,568	21,496	600.4%	438,262	21,496	1938.8%
Passenger load factor (4)	58.2%	63.5%	(5.3)pts	62.5%	63.5%	(1.0)pts
Passenger yield per RPM (cents) (8)	21.81	19.49	11.9%	22.27	19.49	14.3%
Passenger yield per ASM (cents) (11)	12.69	12.37	2.6%	13.93	12.37	12.6%
Cost per ASM (cents) (CASM)	15.01	19.05	(21.2)%	16.63	19.05	(12.7)%
Average fare	$ 78.54	$ 85.42	(8.1)%	$ 78.14	$ 85.42	(8.5)%
Aircraft in service at end of period	10	8	25.0%	10	8	25.0%

	Three Months Ended December 31, 2008	2007	Change	Nine Months Ended December 31, 2008	2007	Change
Selected Operating Data - Regional Partners:						
Passenger revenue (000s) (1)	–	$ 26,640	NA	$ 17,465	$ 88,390	(80.2)%
Revenue passengers carried (000s)	–	270	NA	188	890	(78.9)%
Revenue passenger miles (RPMs) (000s) (2)	–	187,538	NA	135,857	575,934	(76.4)%
Available seat miles (ASMs) (000s) (3)	–	268,381	NA	167,756	781,371	(78.5)%
Passenger load factor (4)	–	69.9%	NA	81.0%	73.7%	7.3pts
Passenger yield per RPM (cents) (8)	–	14.21	NA	12.86	15.35	(16.2)%
Passenger yield per ASM (cents) (11)	–	9.93	NA	10.41	11.31	(8.0)%
	–	14.37	NA	15.89	14.03	13.3%

Cost per ASM (cents) (CASM)									
Average fare		–	$	98.82	NA	$	92.85	$	99.29	(6.5)%
Aircraft in service at end of period		–		10	NA		–		10	(100.0)%

	Three Months Ended December 31,					Nine Months Ended December 31,				
		2008		2007	Change		2008		2007	Change
Selected Operating Data - Combined:										
Passenger revenue (000s) (1)	$	282,238	$	321,550	(12.2)%	$	982,346	$	1,014,348	(3.2)%
Revenue passengers carried (000s)		2,630		2,822	(6.8)%		9,071		9,066	0.1%
Revenue passenger miles (RPMs) (000s) (2)		2,208,680		2,606,105	(15.2)%		7,806,564		8,324,012	(6.2)%
Available seat miles (ASMs) (000s) (3)		2,782,512		3,423,384	(18.7)%		9,469,397		10,354,756	(8.6)%
Passenger load factor (4)		79.4%		76.1%	3.3pts		82.4%		80.4%	2.0pts
Passenger Yield per RPM (cents) (8)		12.61		12.19	3.5%		12.47		12.08	3.2%
Total yield per RPM (cents) (9), (10)		13.63		12.81	6.4%		13.14		12.63	4.0%
Passenger yield per ASM (cents) (11)		10.01		9.28	7.9%		10.28		9.71	5.9%
Total yield per ASM (cents) (12)		10.82		9.75	10.9%		10.83		10.16	6.6%
Cost per ASM (cents)		10.62		10.40	2.1%		11.27		10.09	11.7%

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

(2) "Revenue passenger miles," or RPMs, are determined by multiplying the number of fare-paying passengers carried by the distance flown. This represents the number of miles flown by revenue paying passengers.

(3) "Available seat miles," or ASMs, are determined by multiplying the number of seats available for passengers by the number of miles flown.

(4) "Passenger load factor" is determined by dividing revenue passenger miles by available seat miles. This represents the percentage of aircraft seating capacity that is actually utilized.

(5)

"Break-even load factor" is the passenger load factor that will result in operating revenues being equal to operating expenses, assuming constant revenue per passenger mile and expenses.

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

(In thousands)	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007
		(In thousands)		
Net loss (income)	$ (1,126)	$ 32,508	$ 86,981	$ 18,674
Income tax benefit (expense)	219	–	(1,137)	–
Passenger revenue – Mainline	263,124	292,251	903,835	923,299
Passenger revenue – Regional Partners	–	26,640	17,465	88,390
Passenger revenue – Lynx Aviation	19,114	2,659	61,046	2,659
Regional partner expense	–	(38,579)	(26,650)	(109,602)
Lynx Aviation expense	(22,606)	(7,492)	(72,902)	(12,550)
Charter revenue	(3,657)	(3,945)	(9,126)	(8,440)
Passenger revenue – mainline (excluding charter) required to break even	$ 255,068	$ 304,042	$ 959,512	$ 902,430

The calculation of the break-even load factor:

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007
Passenger revenue – mainline (excluding charter) required to break even ($000s)	$ 255,068	$ 304,042	$ 959,512	$ 902,430
Mainline yield per RPM (cents)	12.23	11.99	12.10	11.83
Mainline revenue passenger miles (000s) to break even assuming constant yield per RPM	2,085,593	2,535,796	7,929,851	7,628,318
Mainline ASMs (000s)	2,631,944	3,133,507	8,863,379	9,551,889
Mainline break-even load factor	79.2%	80.9%	89.5%	79.9%

(6) "Mainlineblock hours" represent the time between aircraft gate departure and aircraft gate arrival.

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

(8) "Yield per RPM" is determined by dividing passenger revenues (excluding charter revenue) by revenue passenger miles.

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

(In thousands)	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007
Passenger revenue – as reported	$ 282,238	$ 321,550	$ 982,346	$ 1,014,348
Less: Passenger revenue – Regional Partners	–	26,640	17,465	88,390
Less: Passenger revenue – Lynx Aviation	19,114	2,659	61,046	2,659
Passenger revenue – mainline service	263,124	292,251	903,835	923,299
Less: charter revenue	3,657	3,945	9,126	8,440
Passenger revenue – mainline (excluding charter, Regional Partners and Lynx Aviation)	259,467	288,306	894,709	914,859
Add: Passenger revenue – Regional Partners	–	26,640	17,465	88,390
Add: Passenger revenue – Lynx Aviation	19,114	2,659	61,046	2,659
Passenger revenue, system combined	$ 278,581	$ 317,605	$ 973,220	$ 1,005,908

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

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

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

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

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

The break-out of our mainline, Regional Partners and Lynx Aviation operations from our consolidated statement of operations for the three and nine months ended December 31, 2008 and 2007 are as follows (in thousands):

	Three Months Ended December 31,			Nine Months Ended December 31,		
	2008	2007	Change	2008	2007	Change
Revenues:						
Passenger - Mainline	$ 263,124	$ 292,251	(10.0)%	$ 903,835	$ 923,299	(2.1)%
Passenger - Regional Partner	–	26,640	(100.0)%	17,465	88,390	(80.2)%
Passenger - Lynx Aviation	19,114	2,659	NM	61,046	2,659	NM
Cargo	1,330	1,424	(6.6)%	4,838	4,587	5.5%
Other	17,413	10,935	59.2%	38,279	32,711	17.0%
Total revenues	300,981	333,909	(9.9)%	1,025,463	1,051,646	(2.5)%
Operating expenses:						
Flight operations	35,058	44,569	(21.3)%	117,575	134,346	(12.5)%
Aircraft fuel	109,420	116,145	(5.8)%	445,945	328,173	35.9%
Aircraft lease	26,488	28,314	(6.5)%	80,988	84,892	(4.6)%
Aircraft and traffic servicing	40,438	48,084	(15.9)%	122,717	134,697	(8.9)%
Maintenance	19,609	24,431	(19.7)%	70,609	75,662	(6.7)%
Promotion and sales	19,280	32,072	(39.9)%	70,724	102,440	(31.0)%
General and administrative	13,976	14,764	(5.3)%	39,106	43,564	(10.2)%
Operating expenses - Regional Partners	–	38,579	(100.0)%	26,650	109,602	(75.9)%
Operating expenses - Lynx Aviation	22,606	7,492	NM	72,902	12,550	NM
Employee separation costs and other charges (reversals)	–	442	(100.0)%	466	442	5.4%
Gains on sales of assets, net	78	(4)	NM	(8,594)	–	NM
Post-retirement liability curtailment gain	–	(6,361)	100.0%	–	(6,361)	100.0%
Depreciation	8,457	10,984	(23.0)%	28,124	33,091	(15.0)%
Total operating expenses	295,410	359,511	(17.8)%	1,067,212	1,053,098	1.3%
Business interruption insurance proceeds	–	–	–	–	300	(100.0)%
Operating income (loss)	$ 5,571	$ (25,602)	121.8%	$ (41,749)	$ (1,152)	NM

NM = Change not meaningful or applicable

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

The following table provides our operating revenues and expenses for our mainline operations expressed as cents per total mainline ASMs and as a percentage of total mainline operating revenues, as rounded, for the three and nine months ended December 31, 2008 and 2007. Regional Partners and Lynx Aviation revenues, expenses and ASMs were excluded from this table to provide comparable amounts to the prior period presented.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
	Revenue/ %			