SLM CORP
Form 424B5
March 11, 2004

Filed pursuant to Registration No. Rule 424(b)(5)

Prospectus

$2,000,000,000
Floating Rate Convertible Senior Debentures due 2035

We issued $2,000,000,000 original principal amount of the debentures on May 20, 2003 in a private placement. This prospectus will be used by the selling securityholders named in this prospectus or in amendments to this prospectus to resell from time to time the debentures and any shares of our common stock issuable upon conversion of the debentures.

The following describes some of the terms of the debentures:

Until July 25, 2007, the debentures will bear regular interest, payable quarterly in arrears, at an annual rate equal to 3-month LIBOR, reset quarterly, minus .05%. Such rate will never be less than 0% per annum. After July 25, 2007, we will not pay regular interest on the debentures. Instead, unless the debentures are remarketed, the original principal amount of each debenture will be increased at the same LIBOR-based rate, reset quarterly, and on July 25, 2035 a holder will receive the accreted principal amount.

Under limited circumstances, holders may convert each debenture into 15.1572 shares of our common stock, subject to adjustment. See Description of Debentures Conversion Rights.

On July 25, 2007 and every four years thereafter, if the price of our common stock is less than the conversion price (initially $65.98), holders may elect to have their debentures remarketed. Upon a successful remarketing, the yield on the debentures and conversion rate will be reset.

We may redeem for cash all or a portion of the debentures on or after July 25, 2007. However, if the debentures are remarketed, they will not be redeemable at our option until on or after the next remarketing reset event date occurring four years thereafter.

We will pay contingent interest as described under Description of Debentures Contingent Interest after July 25, 2007 only if the average trading price of the debentures reaches specified thresholds, the debentures are immediately convertible and the debentures are then redeemable at our option.

The selling securityholders may sell all or a portion of the debentures or common stock in market transactions, negotiated transactions or otherwise and at prices which will be determined by the prevailing market or negotiated price. The selling securityholders also may sell all or a portion of the shares of common stock from time to time on the New York Stock Exchange. The selling securityholders will receive all of the proceeds from the sale of the debentures and the common stock.

Our common stock is listed on the New York Stock Exchange under the symbol SLM.

Investing in the debentures involves risks. See Risk Factors Relating to the Debentures beginning on page 6.

Obligations of SLM Corporation and any subsidiary of SLM Corporation are not guaranteed by the full faith and credit of the United States of America. Neither SLM Corporation nor any subsidiary of SLM Corporation (other than Student Loan Marketing Association) is a government-sponsored enterprise or an instrumentality of the United States of America.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is March 11, 2004

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This prospectus is part of a registration statement we filed with the SEC using a shelf registration process. You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus or any documents incorporated by reference is accurate only as of the date on the front cover of the applicable document. Our business, financial condition, results of operations and prospects may have changed since that date.

This prospectus is based on information provided by us and by other sources that we believe are reliable. We cannot assure you that any information provided by other sources is accurate or complete. This prospectus summarizes documents and other information, and we refer you to them for a more complete understanding of what we discuss in this prospectus. In making an investment decision, you must rely on your own examination of our company and the terms of this offering and the debentures, including the merits and risks involved.

We are not making any representation to any purchaser of the debentures regarding the legality of an investment in the debentures by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this prospectus to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the debentures.

References in this prospectus to we, us, our and SLM refer to SLM Corporation, a Delaware corporation, unless the context otherwise requires.

WHERE YOU CAN FIND MORE INFORMATION

We file annual and quarterly reports, proxy statements and other information with the SEC. You may read and copy any of these documents at the SEC s public facilities in Washington, D.C. located at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC also maintains a site on the World Wide Web at http://www.sec.gov. This site contains reports, proxy and information statements and other information about registrants that file electronically with the SEC. You can also inspect reports and other information we file at the office of the New York Stock Exchange, Inc. located at 20 Broad Street, New York, New York 10005 or at our web site at http://www.salliemae.com.

INCORPORATION OF DOCUMENTS BY REFERENCE

We are incorporating by reference into this prospectus some of the documents that we file with the SEC, which means that we are disclosing important information to you by referring you to those documents. The information incorporated by reference is deemed to be part of this prospectus, except for any information superseded by information contained directly in this prospectus or in any subsequently filed document that is incorporated by reference. The documents we are incorporating by reference into this prospectus contain important information about us and our finances. Specifically, we incorporate by reference:

- our annual report of Form 10-K for the fiscal year ended December 31, 2002, which we filed on March 27, 2003;
- our quarterly report on Form 10-Q for the first fiscal quarter ended March 31, 2003, which we filed on May 13, 2003;
- our quarterly report on Form 10-Q for the second fiscal quarter ended June 30, 2003, which we filed on August 13, 2003;
- our quarterly report on Form 10-Q for the third fiscal quarter ended September 30, 2003, which we filed on November 13, 2003;
- the description of our common stock on our Form 8-A, which we filed on August 7, 1997 and amended on July 27, 1999, and any amendments or reports filed for the purpose of updating this description; and
- our current reports on Form 8-K, which we filed on May 29, 2003, January 28, 2003 and January 17, 2003.

All documents that we file with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, from the date of this prospectus to the end of the offering under this prospectus are also deemed to be incorporated herein by reference and automatically will update information included in or previously incorporated by reference in this prospectus.

You may request a copy of these filings, at no cost, by writing or calling us at the following address or telephone number:

Corporate Secretary

SLM Corporation
11600 Sallie Mae Drive
Reston, VA 20193
(703) 810-3000

Exhibits to the filings will not be sent, however, unless those exhibits have specifically been incorporated by reference in that filing.

Information contained on our website is not intended to be incorporated by reference in this prospectus and you should not consider that information a part of this prospectus.

FORWARD-LOOKING STATEMENTS

This prospectus and the information incorporated by reference in this prospectus include forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These

forward-looking statements are based on our management s beliefs and assumptions and on information currently available to our management. Forward-looking statements include information concerning our possible or assumed future results of operations and statements preceded by, followed by or that include the words believes, expects, anticipates, intends, plans, estimates or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not put undue reliance on

any forward-looking statements. Except as required by law, we do not have any intention or obligation to update forward-looking statements after we distribute this prospectus.

You should understand that the following important factors, among other things, could cause our results to differ materially from those expressed in forward-looking statements:

changes in terms of student loans and the educational credit marketplace arising from the implementation of applicable laws and regulations and from changes in these laws and regulations that may reduce the volume, average term, costs and yields on education loans under the Federal Family Education Loan Program or for non-FFELP loans or result in loans being originated or refinanced under non-FFELP programs or affect the terms upon which banks and others agree to sell FFELP loans to us;

changes in the demand for educational financing or in financing preferences of educational institutions, students and their families, which could reduce demand for our products and services or increase our costs; and

changes in the general interest rate environment and in the securitization markets for education loans, which could increase the costs or limit the availability of financings necessary to originate, purchase or carry education loans.

SUMMARY

The following summary is qualified in its entirety by the more detailed information included elsewhere or incorporated by reference in this prospectus. Because this is a summary, it may not contain all the information that is important to you. You should read the entire prospectus, as well as the information incorporated by reference, before making an investment decision.

SLM Corporation

SLM Corporation and its subsidiaries are the nation s leading private source of funding, servicing and support for higher education loans for students and their parents. We presently conduct a majority of our business through two wholly owned entities: the Student Loan Marketing Association, a government-sponsored enterprise chartered by an act of Congress, and Sallie Mae Servicing L.P., a Delaware limited partnership. The Student Loan Marketing Association must be liquidated by September 30, 2008, except under very limited circumstances. We intend to wind down the Student Loan Marketing Association by September 30, 2006.

We derive most of our income from interest earnings or spread income from our portfolio of student loans. As we have grown our business, fee income from loan and guarantee servicing and other operations such as debt management operations has become an increasingly important source of earnings. We changed our name from USA Education, Inc. to SLM Corporation, effective May 17, 2002.

Our principal executive offices are located at 11600 Sallie Mae Drive, Reston, VA 20193, and our telephone number is (703) 810-3000.

Debentures	$2,000,000,000 aggregate original principal amount of Floating Rate Convertible Senior Debentures due 2035. Each debenture was originally issued at a price of 100% of the original principal amount of $1,000 per debenture.
Stated Maturity	July 25, 2035.
Payment at Maturity	On July 25, 2035, the stated maturity date of the debentures, a holder will receive the accreted principal amount per debenture, which will be equal to the original principal amount of $1,000 per debenture increased daily by a variable yield, which until July 25, 2007 will be 0% per annum and, unless a remarketing reset event occurs, beginning on July 25, 2007, the yield will be reset quarterly to a rate of 3-month LIBOR minus .05% per annum, until any remarketing reset event occurs. Regardless of the level of 3-month LIBOR, however, this yield will not be less than 0% per annum. If a remarketing reset event occurs, the principal amount of the debentures will accrete daily at the yield described under Description of Debentures Remarketing Reset Event.
Regular Interest	The debentures will bear regular interest to but excluding July 25, 2007 at an annual rate equal to 3-month LIBOR, reset quarterly, minus .05%; provided that the interest rate on the debentures will not be less than 0% per annum. Regular interest will be payable quarterly in arrears on January 25, April 25, July 25 and October 25 of each year, each an interest payment date, until July 25, 2007.

After July 25, 2007, we will not pay regular interest on the debentures.

Conversion Rights	For each $1,000 original principal amount of debentures surrendered for conversion, if the conditions for conversion are satisfied, you will receive 15.1572 shares of our common stock, the conversion rate, subject to adjustment.

A holder may convert such holder s debentures into a number of shares of our common stock equal to the conversion rate under the following circumstances:

during any calendar quarter if the closing sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is more than 130% of the conversion price (initially 130% of $65.98, or $85.77) as of the last day of such calendar quarter;

during any period in which the credit rating assigned to the debentures by S&P is below BBB+, or the credit rating assigned to the debentures by Moody s is below Baa1, or the credit rating assigned to the debentures by Fitch is below BBB+ or no rating is assigned to the debentures by any two of S&P, Moody s and Fitch;

during the five business day period after any five consecutive trading day period in which the trading price per debenture for each day of that period was less than 98% of the product of the closing sale price of our common stock and the conversion rate on each such day;

if such debentures have been called for redemption; or

upon the occurrence of corporate transactions described under Description of Debentures Conversion Rights Conversion Rights Upon Occurrence of Certain Corporate Transactions.

Upon conversion, we will have the right to deliver, in lieu of shares of our common stock, cash or a combination of cash and common stock. If we elect to pay holders cash for their debentures, the payment will be based on the average of the closing sale price of our common stock for a five trading day period starting the third trading day following the conversion date of the debentures.

If we have not given notice of redemption specifying that we intend to deliver cash upon conversion thereafter, we must give notice of our election to deliver cash not more than two business days after the conversion date.

The ability to surrender debentures for conversion will expire at the close of business on the stated maturity date of the debentures, unless they have previously been redeemed or repurchased. See Description of Debentures Conversion Rights.

If the debentures are remarketed, as described below, the conditions to conversion must be satisfied thereafter or the debentures may not be converted.

Contingent Interest	We will pay contingent interest to holders of the debentures in the amounts set forth in Description of Debentures Contingent Interest during any three-month period from and including an interest payment date to but excluding the next interest payment date, commencing with the three-month period beginning July 25, 2007, only if (1) the average trading price of the debentures for a five trading day measurement period immediately preceding the beginning of the applicable three-month period equals 130% or more of the accreted principal amount of the debentures, (2) the debentures are immediately convertible by their terms on the first day of such measurement period and (3) the debentures are then redeemable at our option. If (1) the average trading price of the debentures for the same five trading day measurement period equals 200% or more of the accreted principal amount of the debentures, (2) the debentures are immediately convertible by their terms on the first day of such measurement period and (3) the debentures are then redeemable at our option, we will pay for any applicable three-month period an additional amount of contingent interest equal to .0625% of the average trading price of a debenture for such five trading day measurement period. For example, if the debentures are successfully remarketed on any remarketing reset event date, they will not be redeemable at our option for the next four years and no contingent interest will be payable during that time. Any contingent interest will be payable on the interest payment date at the end of the relevant three-month period.
Remarketing Reset Event	A remarketing reset event will occur if the applicable stock price, which is the average of the closing sale prices of our common stock over the five trading day period ending on the trading day immediately preceding July 25 of 2007, 2011, 2015, 2019, 2023, 2027 or 2031, each a remarketing reset event date, is less than the conversion price. Upon a remarketing reset event, the conversion rate and the yield on the debentures will be reset and a holder of debentures will not have the right to require us to repurchase the debentures on that date, except in limited circumstances. The conversion rate on the debentures will be reset on each remarketing reset event date to equal the accreted principal amount of the debentures on that date divided by 175% of the applicable stock price; *provided* that in no event will the conversion rate exceed 26.5251 shares of our common stock per debenture, subject to adjustment. The yield of the debentures will be reset to 3-month LIBOR adjusted by an applicable spread such that the proceeds from the remarketing of the debentures, net of any remarketing fee, will be 100% of their accreted principal amount; *provided* that the yield will not be less than 0% per annum. Each holder of debentures will have the right to elect to have such debentures remarketed on any remarketing reset event date. The conversion price is, as of any date of determination, a dollar amount (initially $65.98) derived by dividing the accreted principal amount (which will be $1,000 until July 25, 2007) by the conversion rate then in effect.

	If a remarketing of the debentures is required on any remarketing reset event date but the remarketing is not successful, each holder of debentures has the right to require us to purchase for cash all or a portion of such holder s debentures at 100% of the accreted principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the date of purchase. If less than $50 million aggregate original principal amount of the debentures are to be remarketed in any remarketing, or the debentures are not successfully remarketed on any remarketing reset event date, the conversion rate will be adjusted as described above and the yield on the debentures will be reset to the rate equal to 3-month LIBOR, adjusted by an applicable spread necessary, in the judgment of the remarketing agent based on bids from at least three independent nationally recognized securities dealers selected by the remarketing agent, for the debentures to trade at a price equal to 100% of their accreted principal amount. If we give notice of redemption of debentures prior to a remarketing reset event date, then no remarketing of those debentures will occur and the terms of those debentures will not be reset.
Redemption of Debentures at Our Option	We may redeem for cash all or a portion of the debentures at any time on or after July 25, 2007 at a price equal to 100% of the accreted principal amount of the debentures to be redeemed plus accrued and unpaid interest to, but excluding, the redemption date. However, if the debentures are remarketed they will not be redeemable at our option until on or after the next remarketing reset event date. Holders may convert their debentures after they are called for redemption at any time prior to the close of business on the business day immediately preceding the redemption date. Our notice of redemption will inform the holders of our election to deliver shares of our common stock or to pay cash or a combination of cash and common stock in the event that a holder elects to convert debentures in connection with the redemption. See Description of Debentures Redemption of Debentures at Our Option.
Purchase of Debentures by Us at the Option of Holder	Unless a successful remarketing occurs on such date, holders may require us to purchase all or a portion of their debentures on July 25, 2007, 2011, 2015, 2019, 2023, 2027 and 2031 at 100% of the accreted principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the date of purchase, if the debentures are not immediately convertible on such date. If a remarketing is not successful or does not occur because we give notice of redemption, then holders may require us to purchase all or a portion of their debentures. See Description of Debentures Purchase of Debentures by Us at the Option of Holder.
Change in Control	Upon a change in control (as defined in the indenture governing the debentures) of SLM Corporation occurring at any time before July 25, 2035, each holder may require us to purchase all or a portion of such holder s debentures for cash at a price equal to

	100% of the accreted principal amount of the debentures to be purchased plus accrued and unpaid interest, if any, to, but excluding, the date of purchase. See Description of Debentures Change in Control Permits Purchase of Debentures by Us at the Option of the Holder.
Ranking	The debentures are our unsecured and unsubordinated obligations and rank equally in right of payment with all of our existing and future unsecured and unsubordinated indebtedness. The debentures are structurally subordinated to the liabilities of our subsidiaries, including existing and future indebtedness of the Student Loan Marketing Association.
Sinking Fund	None.
U.S. Federal Income Taxation	The debentures will be treated as debt instruments subject to the U.S. federal income tax contingent payment debt regulations. You should be aware that, even if we do not pay any cash interest on the debentures, you will be required to include ordinary original issue discount income in your gross income for U.S. federal income tax purposes. For U.S. federal income tax purposes, this original issue discount income will accrue from the original issue date of the debentures at the rate of 5.625% per year, compounded quarterly. United States holders will be required to accrue this original issue discount income on a constant yield to maturity basis at that rate (subject to certain adjustments), with the result that a U.S. holder will recognize taxable income in excess of cash interest received while the debentures are outstanding. You also will recognize gain or loss on the sale, exchange, conversion or retirement of a debenture in an amount equal to the difference between the amount realized on the sale, exchange, conversion or retirement, including the fair market value of any common stock received upon conversion or otherwise, and your adjusted tax basis in the debenture. Any gain recognized by you on the sale, exchange, conversion or retirement of a debenture generally will be ordinary interest income; any loss will be ordinary loss to the extent of the interest previously included in income, and thereafter, capital loss. See Material U.S. Federal Income Tax Considerations.
DTC Eligibility	The debentures were issued in book-entry form and are represented by one or more permanent global certificates deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company, or DTC, in New York, New York. Beneficial interests in any such securities will be shown on, and transfers will be effected only through, records maintained by DTC and its direct and indirect participants. Any such interest may not be exchanged for certificated securities, except in limited circumstances. See Description of Debentures Book-Entry System.
NYSE Symbol for Our Common Stock	SLM

RISK FACTORS RELATING TO THE DEBENTURES

Your investment in the debentures involves risks. You should carefully consider the following risks, as well as the other information included or incorporated by reference in this prospectus, before investing in the debentures.

Your right to receive payments on these debentures will be effectively subordinated to the rights of any future secured creditors. The debentures, in other circumstances, may effectively be subordinated to any existing and future liabilities of us or our subsidiaries.

The debentures represent unsecured obligations of SLM Corporation. Accordingly, holders of any future secured indebtedness will have claims that are superior to your claims as holders of the debentures to the extent of the value of the assets securing that other indebtedness. In the event of any distribution or payment of our assets in any foreclosure, dissolution, winding-up, liquidation, reorganization, or other bankruptcy proceeding, holders of secured indebtedness will have a superior claim to those of our assets that constitute their collateral. In any of the foregoing events, we cannot assure you that there will be sufficient assets to pay amounts due on the debentures. Holders of the debentures will participate ratably with all holders of our unsecured indebtedness that ranks equally in right of payment with the debentures, and potentially with all of our other general creditors, based upon the respective amounts owed to each holder or creditor, in our remaining assets. As a result, holders of debentures may receive less, ratably, than holders of secured indebtedness.

The Student Loan Marketing Association may pay dividends to us so long as at the time of the declaration of such dividends, after giving effect to the payment of such dividends as of the date of the declaration, the Student Loan Marketing Association s capital would be in compliance with a minimum statutory capital adequacy ratio as well as a supplementary risk-based capital formula.

Furthermore, if we fail to deliver our common stock upon conversion of a debenture and thereafter become the subject of bankruptcy proceedings, a holder s claim for damages arising from our failure could be subordinated to all of our existing and future obligations.

We may not be able to pay cash dividends in the future.

On May 29, 2003 we doubled the dividend on our common stock from $0.25 per share to $0.51 per share. Any future cash dividends will depend upon our results of operations, financial conditions, cash requirements, the availability of a surplus and other factors, including the ability of our subsidiaries to make distributions to us, which ability, in the case of the Student Loan Marketing Association, is restricted in the manner described above.

We may not have the ability to purchase debentures at the option of the holders or upon a change in control or to raise the funds necessary to finance the purchases.

On July 25, 2007, 2011, 2015, 2019, 2023, 2027 and 2031 holders of the debentures may require us to purchase their debentures. However, it is possible that we would not have sufficient funds at that time to make the required purchase of debentures. We may be required to pay all or a portion of the purchase price in shares of our common stock, subject to satisfying the conditions in the indenture for making such payments. If we were unable to satisfy the conditions in the indenture to use shares of our common stock to pay the purchase price, we could be in default of our obligations on the debentures. In addition, if a holder requires us to purchase all or a portion of its debentures and we elect to deliver shares of our common stock, and we then become the subject of bankruptcy proceedings, a holder may not be able to rescind its notice obligating us to purchase all or a portion of its debentures, and a holder s claim may be subordinated to all of our existing and future obligations.

In addition, we will be required to offer to purchase all outstanding debentures if there is a failed remarketing. However, it is possible that we will not have sufficient funds available at any such time to make

the required repurchase of debentures and restrictions in our other indebtedness outstanding in the future may not allow any such repurchase.

You should consider the U.S. federal income tax considerations of owning the debentures.

The debentures will be treated as debt instruments subject to the U.S. federal income tax contingent payment debt regulations. You should be aware that, even if we do not pay any cash interest on the debentures, you will be required to include original issue discount in your gross income for U.S. federal income tax purposes. For U.S. federal income tax purposes, this original issue discount income will accrue from the original issue date of the debentures at the rate of 5.625% per year, compounded quarterly. U.S. holders will be required to accrue this original issue discount on a constant yield to maturity basis at this rate (subject to certain adjustments), with the result that a U.S. holder will recognize taxable income in excess of cash interest received while the debentures are outstanding.

You will recognize gain or loss on the sale, exchange, conversion or retirement of a debenture in an amount equal to the difference between the amount realized on the sale, exchange, conversion or retirement, including the fair market value of any common stock received upon conversion or otherwise, and your adjusted tax basis in the debenture. Any gain recognized by you on the sale, exchange, conversion or retirement of a debenture generally will be ordinary interest income; any loss will generally be ordinary loss to the extent of the interest previously included in income and, thereafter, capital loss. See Material U.S. Federal Income Tax Considerations.

No active trading market exists for the debentures.

There is currently no existing public market for the debentures. We do not intend to list the debentures on any national securities exchange or automated quotation system. We cannot assure you that an active or sustained trading market for the debentures will develop or that you will be able to sell your debentures. Although the initial purchasers in the offering made pursuant to Rule 144A under the Securities Act informed us that they intended to make a market in the debentures, such initial purchasers are not obligated to do so and may discontinue their market-making at any time without notice.

Moreover, even if you are able to sell your debentures, we cannot assure you as to the price at which any sales will be made. Future trading prices of the debentures will depend on many factors, including, among other things, prevailing interest rates, our operating results, the price of our common stock and the market for similar securities. Historically, the market for convertible debt has been subject to disruptions that have caused volatility in prices. It is possible that the market for the debentures will be subject to disruptions which may have a negative effect on the debentures, regardless of our prospects or financial performance.

USE OF PROCEEDS

The selling securityholders will receive all of the net proceeds from the sale of the debentures or the shares of common stock sold under this prospectus. We will not receive any of such proceeds.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for the five years ended December 31, 2002 and the nine month periods ended September 30, 2002 and September 30, 2003.

	Years Ended December 31,					Nine Months Ended September 30,	
	1998	1999	2000	2001	2002	2002	2003
Ratio of Earnings to Fixed Charges(1)	1.38	1.34	1.24	1.27	2.0	1.79	3.61

(1) For purposes of computing these ratios, earnings represent income before income tax expense plus fixed charges. Fixed charges represent interest expense plus the estimated interest component of net rental expense.

PRICE RANGE AND DIVIDEND HISTORY OF OUR COMMON STOCK

Our common stock is quoted on the New York Stock Exchange under the symbol SLM. On October 31, 2003, the last reported bid price of the common stock on the NYSE was $39.15 per share. The following table sets forth for the periods indicated below the high and low sale information for our common stock as listed on the NYSE, and dividends paid, for each quarterly period during the fiscal years 2001, 2002 and 2003.

	High	Low	Dividend Paid
Fiscal Year Ended December 31, 2001			
Quarter ended March 31.	$25.50	$18.62	$0.06
Quarter ended June 30.	25.18	21.18	0.06
Quarter ended September 30.	28.20	24.36	0.06
Quarter ended December 31.	29.33	26.82	0.07
Fiscal Year Ended December 31, 2002			
Quarter ended March 31.	$33.08	$25.67	$0.07
Quarter ended June 30.	33.28	30.10	0.07
Quarter ended September 30.	33.02	26.58	0.07
Quarter ended December 31.	35.65	30.87	0.08
Fiscal Year Ended December 31, 2003			
Quarter ended March 31.	$37.72	$33.73	$0.08
Quarter ended June 30	42.92	36.32	0.17
Quarter ended September 30	42.42	37.88	0.17

On May 15, 2003, our stockholders approved a proposal to increase the number of authorized shares of our common stock from 375,000,000 shares to 1,125,000,000 shares. In May 2003 the Board of Directors approved a three-for-one split of the Company s stock to be effected in the form of a stock dividend. The additional shares of stock were distributed on June 20, 2003, to all shareholders of record on June 6, 2003.

The share and per share information in this prospectus gives effect to the stock split.

CAPITALIZATION

The following table sets forth our capitalization at September 30, 2003 on an actual basis. You should read this table together with our financial statements and accompanying notes incorporated by reference in this prospectus. Amounts are in thousands, except share and per share amounts.

	September 30, 2003
	Actual
Borrowed funds:	
Short-term borrowings	$22,995,312
Long-term borrowings	31,259,011
Total borrowed funds	54,254,323
Stockholders equity:	
Preferred stock, Series A, par value $.20 per share, 20,000,000 shares authorized:	
3,300,000 shares issued at stated value of $50 per share	165,000
Common stock, par value $.20 per share, 1,125,000,000 shares authorized:	
471,278,364 shares issued[(a)]	94,256
Additional paid-in capital	1,442,919
Accumulated other comprehensive income, net of tax	568,381
Retained earnings	755,687
Stockholders equity before treasury stock	3,026,243
Common stock held in treasury at cost: 20,642,783 shares	382,259

Total stockholders equity	2,643,984
Total capitalization	56,898,307

(a) The number of shares of issued and outstanding common stock does not include: (1) shares issuable upon conversion of the debentures offered hereby; (2) 14.7 million shares available for grants of awards under our stock option plans; and (3) 45.5 million shares issuable upon exercise of outstanding stock options and restricted stock units.

DESCRIPTION OF DEBENTURES

We issued the debentures under an indenture, dated as of May 20, 2003, between us and JPMorgan Chase Bank, as trustee.

The following summary is not complete, and is subject to, and is qualified in its entirety by reference to, all of the provisions of the debentures and the indenture. We urge you to read the indenture and the form of the debentures, which you may obtain from us upon request, because they and not this description define your rights in respect of the debentures. As used in this description, all references to SLM Corporation, SLM, we, us or our mean SLM Corporation, excluding, unless otherwise expressly stated or the context otherwise requires, any of its subsidiaries.

General

The debentures are limited to $2,000,000,000 aggregate original principal amount and are issued only in registered form without coupons in denominations of $1,000 original principal amount and any integral multiple of $1,000 above that amount. We use the term debenture in this prospectus to refer to each $1,000 original principal amount of debentures. The debentures will mature on July 25, 2035. On the maturity date of the debentures, a holder will receive the accreted principal amount of a debenture. The accreted principal amount will equal the original principal amount of $1,000 per debenture increased by a variable yield, which until July 25, 2007 will be 0% per annum and, unless a remarketing reset event occurs, commencing on July 25, 2007 will be reset quarterly to a rate of 3-month LIBOR minus .05% per annum. Regardless of the level of 3-month LIBOR, however, this yield will not be less than 0% per annum.

The principal amount of the debentures will accrete daily beginning July 25, 2007 at the applicable yield, compounded quarterly. The yield will be calculated using the actual number of days elapsed from and including the LIBOR reset date, to but excluding the next succeeding LIBOR reset date, divided by 360 days. If a remarketing reset event occurs, the principal amount of the debentures will accrete daily at the yield described under Remarketing Reset Event below, compounded quarterly. The rate of accretion will be applied to the accreted principal amount per debenture as of the day preceding the most recent yield reset date.

The debentures bear regular interest at an annual rate equal to 3-month LIBOR, reset quarterly, minus .05% (but not less than 0%) on the original principal amount from May 20, 2003, or from the most recent date to which regular interest has been paid or provided for, until July 25, 2007 for all interest periods other than the initial interest period. For the initial interest period from and including May 20, 2003 to but excluding July 25, 2003, the regular interest rate on the debentures was 1.2487% per annum.

Regular interest will be payable quarterly in arrears on January 25, April 25, July 25 and October 25 of each year, each an interest payment date, beginning July 25, 2003, to the person in whose name a debenture is registered at the close of business on the January 10, April 10, July 10 or October 10, as the case may be, immediately preceding the relevant interest payment date, each of which we refer to as a record date. Each payment of regular interest will include interest accrued for the period, which we refer to as an interest period, commencing on and including the immediately preceding interest payment date (or, if none, the original issuance date of the debentures) to but excluding the applicable interest payment date. Regular interest on the debentures will be computed using the actual number of days in the interest period divided by 360.

From and after July 25, 2007, we will not pay regular interest. Contingent interest, if any, as described below under Contingent Interest, will be payable in addition to the accreted principal amount.

If any interest payment date (other than an interest payment date coinciding with the stated maturity date or earlier redemption date or purchase date) of a debenture falls on a day that is not a business day, such interest payment date will be postponed to the next succeeding business day, provided that, if such business day falls in the next succeeding calendar month, the interest payment date will be brought forward to the immediately preceding business day. If the stated maturity date, redemption date or purchase date of a debenture would fall on a day that is not a business day, the required payment of interest, if any, and

principal will be made on the next succeeding business day and no interest on such payment will accrue for the period from and after the stated maturity date, redemption date or purchase date to such next succeeding business day. The term business day or New York City business day means, with respect to any debenture, any day other than a Saturday, a Sunday or a day on which banking institutions in New York City are authorized or required by law, regulation or executive order to close.

The debentures are redeemable prior to maturity only on or after July 25, 2007 and as described below under Redemption of Debentures at Our Option, and do not have the benefit of a sinking fund. Principal of and interest on the debentures will be payable at the office of the paying agent, which initially will be JPMorgan Chase Bank. If certain conditions have been satisfied, the debentures may be presented for conversion at the office of the conversion agent, and for registration of transfer or exchange at the office of the registrar, each such agent initially being JPMorgan Chase Bank. No service charge will be made for any registration of transfer or exchange of debentures, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Maturity, conversion, purchase by us at the option of a holder or redemption of a debenture will cause interest to cease to accrue on such debenture. We may not reissue a debenture that has matured or been converted, purchased by us at the option of a holder, redeemed or otherwise cancelled.

The debentures are debt instruments subject to the contingent payment debt regulations. The debentures were issued with original issue discount for U.S. federal income tax purposes. Even if we do not pay any regular or contingent interest on the debentures, holders will be required to include accrued tax original issue discount in their gross income for U.S. federal income tax purposes. See Material U.S. Federal Income Tax Considerations.

3-month LIBOR

Prior to July 25, 2007, the annual rate of regular interest payable on the debentures will be reset on each interest payment date. Beginning on July 25, 2007, the yield on the debentures will be reset on each LIBOR reset date but no cash interest will be paid. We refer to each January 25, April 25, July 25 and October 25 as a LIBOR reset date. If any LIBOR reset date would otherwise be a day that is not a business day, that LIBOR reset date will be postponed to the next succeeding business day.

As the calculation agent, we will determine 3-month LIBOR on the day that is two London and New York City business days before the related LIBOR reset date, which we refer to as the LIBOR determination date.

3-month LIBOR means:

(a) the rate for three-month deposits in United States dollars commencing on the related LIBOR reset date, that appears on the Moneyline Telerate Page 3750 as of 11:00 A.M., London time, on the LIBOR determination date; or

(b) if no rate appears on Moneyline Telerate Page 3750, LIBOR will be determined on the basis of the offered rates at which U.S. dollar deposits having a maturity of three months, beginning on the LIBOR reset date in that market at that time are offered by four major banks in the London interbank market at approximately 11:00 a.m., London time, on that LIBOR determination date to leading banks in the London interbank market. The calculation agent will select the four banks and request the principal London office of each of those banks to provide a quotation of its rate. If at least two quotations are provided, LIBOR for that LIBOR determination date

will be the average of those quotations; or

(c) if fewer than two quotations are provided as described above, LIBOR will be the average of the rates quoted by three major banks at approximately 11:00 a.m., in New York City, on that LIBOR determination date for loans in U.S. dollars to leading European banks having a maturity of three months, beginning on the relevant LIBOR reset date. The calculation agent will select the three banks referred to above; or

(d) if fewer than three banks selected by the calculation agent are quoting as mentioned above, LIBOR will remain LIBOR then in effect on that LIBOR determination date.

Interest on the debentures is calculated using an actual/360 accrual method, which means that interest will be calculated on the actual number of days elapsed in an interest period and an assumed year of 360 days.

Moneyline Telerate Page 3750 means the display on Moneyline Telerate (or any successor service) on such page (or any other page as may replace such page on such service) for the purpose of displaying the London interbank rates of major banks for United States dollars.

London business day means a day on which commercial banks are open for business, including dealings in United States dollars, in London.

Ranking of Debentures

The debentures are unsecured and unsubordinated obligations and rank equally in right of payment with all of our existing and future unsecured and unsubordinated indebtedness. The debentures are structurally subordinated to the indebtedness and liabilities of our subsidiaries, including existing and future indebtedness of Student Loan Marketing Association.

Conversion Rights

A holder may convert debentures into common stock only if at least one of the conditions for conversion described below is satisfied. The ability to surrender debentures for conversion will expire at the close of business on the maturity date of the debentures, unless they have previously been redeemed or purchased. In addition, a holder may convert a debenture only until the close of business on the business day immediately preceding the redemption date if we call a debenture for redemption. A debenture for which a holder has delivered a purchase notice or a change in control purchase notice requiring us to purchase the debentures may be surrendered for conversion only if such notice is withdrawn in accordance with the indenture. If the debentures are remarketed the conditions to conversion must be satisfied thereafter or the debentures may not be converted.

If the conditions for conversion are satisfied, a holder will receive 15.1572 shares of our common stock, subject to adjustment upon the occurrence of the events described below and upon the occurrence of any remarketing reset event. A holder of a debenture otherwise entitled to a fractional share will receive cash in an amount equal to the value of such fractional share based on the closing sale price of our common stock on the trading day immediately preceding the conversion date. Upon a conversion, we will have the right to deliver shares of our common stock, cash or a combination of cash and shares of our common stock, as described below. Notwithstanding the foregoing, in no event will the conversion rate exceed 26.5251 shares of our common stock per debenture, subject to anti-dilution adjustments, which we refer to as the maximum conversion rate.

Conversion Rights Based on Common Stock Price. A holder may surrender debentures for conversion into shares of our common stock at any time after September 30, 2003 during a calendar quarter if the closing sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is more than 130% of the conversion price (initially 130% of $65.98, or $85.77) as of the last day of such calendar quarter. We refer to this as the conversion trigger price.

Trading day means a day during which trading in securities generally occurs on the New York Stock Exchange or, if our common stock is not listed on the New York Stock Exchange, on the principal other national or regional securities exchange on which our common stock is then listed or, if our common stock is not listed on a national or regional securities exchange, on the National Association of Securities Dealers Automated Quotation System (Nasdaq) or, if our common stock is not quoted on the National Association of Securities Dealers Automated Quotation System, on the principal other market on which our common stock is then traded.

The closing sale price of our common stock on any date means the closing sale price per share (or if no closing sale price is reported, the average of the closing bid and ask prices or, if more than one in either

case, the average of the average closing bid and the average closing ask prices) on such date as reported on the principal United States securities exchange on which our common stock is traded or, if our common stock is not listed on a United States national or regional securities exchange, as reported by Nasdaq or by the National Quotation Bureau Incorporated. In the absence of such a quotation, we will determine the closing sale price on the basis we consider appropriate.

The accreted principal amount of a debenture will be equal to the original principal amount of $1,000 per debenture increased daily by a variable yield, which until July 25, 2007 will be 0% per annum and, unless a remarketing reset event occurs, beginning on July 25, 2007, the yield will be reset quarterly on each LIBOR reset date to a rate of 3-month LIBOR minus .05% per annum, compounded quarterly, until a remarketing reset event occurs. Regardless of the level of 3-month LIBOR, however, this yield will never be less than 0% per annum. Because the conversion price of a debenture at any time is dependent upon the accreted principal amount of a debenture at that time, the conversion trigger price per share of our common stock, which is based on the conversion price, for periods ending after July 25, 2007 cannot be determined at this time. The following table indicates what the conversion trigger prices would be for the quarter ended September 30 of each year, beginning 2007, assuming the yield on the debentures was a constant 2.00%, 5.00% and 8.00% from July 25, 2007 to maturity. This table represents an example of only three possibilities, and you should realize that because LIBOR, and therefore the yield of the debentures, will fluctuate, the conversion price, and therefore the conversion trigger price, will differ, and may differ significantly, from the amounts shown below.

Hypothetical Conversion Trigger Prices

	Assuming 2.00% Yield		As 5.0
Quarter Ending September 30,	Conversion Price	Conversion Trigger Price	Conver Pric
	$65.98	$85.77	$65.9

71.13 92.47

77.08 100.21

83.53 108.58

3 90.51 117.66

0 98.10 127.53

9 106.30 138.19

6 115.19 149.75

95 124.82 162.27

.58 135.29 175.87

.53 146.60 190.58

.84 158.85 206.51

.53 172.14 223.78

.64Results of Operations We had net income of $12,635,000 or 36(cent)per diluted share for the year ended March 31, 2004 as compared to
7(cent)per diluted share for the year ended March 31, 2003. Included in our net income for the year ended March 31, 2004 were the
the effect of profit sharing and income taxes: $15,024,000 of compensation received under the Appropriations Act offset by the write-off
6,000 associated with the prepayment of all of the government guaranteed loan; a charge for Boeing aircraft and facility lease exit costs of
00 on the sale of one Airbus aircraft in a sale-leaseback transaction and from the sale of a spare engine; a write down of $3,665,000 of the
s and rotable parts that support the Boeing 737-300 aircraft; and $1,152,000 of flight crew training expenses related to the start-up of our
nal jet relationship with Horizon. These items, net of income taxes and profit sharing, reduced net income by 12(cent)per diluted share. Our
rch 31, 2003 included a $2,011,000 after-tax credit for the cumulative effect of a change in accounting for major aircraft overhauls from the
as incurred method. The net loss before the cumulative effect of the change in accounting was $24,854,000, or $0.84 per common share.
d March 31, 2003 included the following special items on a pre-tax and profit sharing basis: the cost associated with the early
g $1,774,000 and a write-down of the carrying values of the Boeing spare aircraft parts totaling $2,478,000. These items, net of income
ased our net loss by 9(cent) per diluted share. Our mainline passenger yield per RPM was 11.96(cent)and 12.74(cent)for the years ended
, 2003, respectively, or a decrease of 6.1%. Our length of haul was 919 and 917 miles for the years ended March 31, 2004 and March 31,
ase of .2%. Our mainline average fare was $104 for the year ended March 31, 2004 as compared to $109 for the year ended March 31,
decrease in the average fare is offset by an increase in our mainline load factor to 71.6% for the year ended March 31, 2004 as compared to
ch 31, 2003, an increase of 11.7 points. As part of our new fare structure, which we implemented in February 2003, our highest-level
educed by 25 to 45 percent, and our lowest available walk-up fares were reduced by 38 to 77 percent. The new fare structure was comprised
ped all fares to and from Denver at $399 or $499 one-way, excluding passenger facility, security or segment fees, depending on length of
pped all fares to and from Denver at $314 one-way, excluding passenger facility, security or segment fees, with the exception of flights to
a. The $309 fare is a base fare of $299 plus a $15 fuel surcharge, which is temporarily in place. The new fare cap is a 25 to 50 percent
003 caps of $399 and $499. Unlike some other airlines, these fares can be booked each way, allowing customers to get the best price on
d portion of their itinerary with no round-trip purchase required. Our new fare structure reinstated some of the advance purchase
ructures. Although this has created downward pressure on our mainline passenger yield per RPM and average fare, we believe the effect on
increase in passenger traffic. Our mainline passenger revenue per available seat mile ("RASM") for the years ended March 31, 2004 and
) and 7.63(cent), respectively, an increase of 12.2%. Additionally, we believe that our average fare during the year ended March 31, 2004
result of intense competition from United, a carrier operating under Chapter 11 bankruptcy protection, which is our principal competitor at
senger traffic during the year ended March 31, 2003 was impacted by the threat of war with Iraq, which began in March 2003. During
also experienced an unusual blizzard, which caused DIA to be closed for approximately two days. Our mainline cost per ASM for the year
03 was 8.40(cent) and 8.33 (cent), respectively, an increase of .07(cent) or .8%. Mainline CASM, excluding fuel for the year ended March
cent) and 6.90(cent), respectively, a decrease of .02(cent) or .3%. Our mainline CASM increased during the year ended March 31, 2004 as a
rage price of fuel per gallon from 96(cent) to $1.04 or an increase of .09(cent)per ASM; an increase in aircraft and traffic servicing
and promotions expenses of .13(cent) as a result of the increase in the number of passengers we serve and general increases in DIA facility
eases in sales and promotion expenses for booking fees associated with the increase in passengers, the ongoing costs of LiveTV service of
eneral and administrative expenses of .09(cent)as a result of the bonus accrual associated with our return to profitability and an increase in
he CASM also increased over the prior comparable period .07(cent) for costs associated with aircraft lease and facility exit costs and
-leaseback of an aircraft. These increases were partially offset by a decrease of .20(cent)in aircraft lease expense as a result of replacing
dditional purchased aircraft, offset by an increase in related depreciation expense of .04(cent) and a decrease of .22(cent)in maintenance
of the reduction in the number of aircraft in our Boeing fleet that were replaced with new Airbus A319 and A318 aircraft. During the year
erage daily block hour utilization increased to 10.4 from 9.8 for the year ended March 31, 2003. The calculation of our block hour
that are on our operating certificate, which includes scheduled aircraft, as well as aircraft out of service for maintenance and operational
rcraft removed permanently from revenue service or new aircraft not yet placed in revenue service. It also excludes Frontier JetExpress
An airline s break-even load factor is the passenger load factor that will result in operating revenues being equal to operating expenses,
r passenger mile and expenses. For the years ended March 31, 2004 and 2003, our mainline break-even load factors were 68.8% and 65.0%,
achieved passenger load factors of 71.6% and 59.9%. Our mainline break-even load factor increased from the prior comparable period
e in our average fare to $104 during the year ended March 31, 2004 from $109 during the year ended March 31, 2003. Small fluctuations in
er mile or cost per available seat mile can significantly affect operating results because we, like other airlines, have high fixed costs in
perations are highly sensitive to various factors, including the actions of competing airlines and general economic factors, which can
cash flows and results of operations. **Revenues** Our revenues are highly sensitive to changes in fare levels. Competitive fare pricing
pact on our revenues. Because of the elasticity of passenger demand, we believe that increases in fares may at certain levels result in a
in many markets. We cannot predict future fare levels, which depend to a substantial degree on competitive factors and the economy.
e changes are initiated by competitors in our markets, we believe that we must, in most cases, match those competitors. *Passenger*
er revenues from our mainline operations totaled $615,390,000 for the year ended March 31, 2004 compared to $460,188,000 for the year
ncrease of 33.7%, on increased ASMs of 1,140,479,000, or 19.0%. Passenger revenues include revenues for reduced rate standby
s, and revenue recognized for tickets that are not used within one year from their issue dates. We carried 5,569,000 revenue passengers
31, 2004 compared to 3,926,000 revenue passengers during the year ended March 31, 2003, an increase of 41.8%. We had an average of
eet during the year ended March 31, 2004 compared to an average of 33.8 aircraft during the year ended March 31, 2003, an increase of
ed March 31, 2004 were 5,120,587,000 compared to 3,599,553,000 for the year ended March 31, 2003, an increase of 42.3%. Our load
he year ended March 31, 2004 from 59.9% for the prior comparable period, an increase of 11.7 points, or 19.5%. *Passenger Revenues -*
artner revenues, consisting of revenues from Frontier JetExpress operated by Horizon, totaled $11,191,000 for the year ended March 31,
ded March 31, 2003. Horizon began service January 1, 2004 and replaced the Frontier JetExpress service formerly provided by Mesa.

tExpress service, formerly provided by Mesa, were netted against related expenses and included in "Other revenues" for the nine months
e footnote (2) in Item 6. "Selected Financial Data", which explains the different accounting methods for our Frontier JetExpress operations.
ues, consisting of revenues from freight and mail service, totaled $8,077,000 and $5,557,000 for the years ended March 31, 2004 and 2003,
% and 1.2%, respectively, of total revenues, an increase of 45.3%. Cargo revenues increased over the prior comparable periods as a result of
under the United States Postal Service Commercial Air 2003 Air System (CAIR-03) program. In April 2003, we were selected as one of
States and the Caribbean to be offered a 3-year contract to carry products for the United States Postal Service ("USPS") under the CAIR-03
egan on June 28, 2003. This adjunct to the passenger business is highly competitive and depends heavily on aircraft scheduling, alternate
y delivery service and schedule reliability. In April 2004, given extensive scanning requirements imposed by the USPS, we determined that
ective for us. We are working with the USPS to phase out of this business. *Other Revenues.* Other revenues, comprised principally of
m the Mesa codeshare agreement, liquor sales, ground handling fees, and excess baggage fees, totaled $9,021,000 and $4,191,000 or 1.4%
enues for the years ended March 31, 2004 and 2003, respectively. Other revenue increased over the prior comparable period predominately
d the Mesa codeshare agreement. LiveTV sales commenced during the fourth fiscal quarter for the year ended March 31, 2003. **Operating**
include those related to flight operations, aircraft and traffic servicing, maintenance, promotion and sales, Frontier JetExpress operations,
d depreciation and amortization. Total operating expenses were $615,682,000 and $500,727,000, respectively, for the years ended March
ented 95.7% and 106.6% of total revenue, respectively. Operating expenses excluding expenses from our regional partner operations
ear ended March 31, 2004, or 95.0% of total revenue, excluding regional partner revenues. Operating expenses decreased as a percentage of
March 31, 2004 as a result of an increase in total revenue as compared to the year ended March 31, 2003. *Salaries, Wages and Benefits.*
benefits within the specific expense category identified in our statements of operations to which they pertain. Salaries, wages and benefits
5,847,000 and were 25.3% and 26.8% of total revenues excluding regional partner revenues for the years ended March 31, 2004 and 2003,
.3%. Salaries, wages and benefits increased over the prior comparable periods largely as a result of our bonus accrual due to our return to
reases, and an increase in the number of employees to support our ASM growth of 19.0% during the year ended March 31, 2004 as well as
ct for fiscal year 2005. Our employees increased from approximately 3,160 in March 2003 to approximately 4,100 in March 2004, or
ght operations expenses of $105,255,000 and $85,675,000 were 16.6% and 18.2% of total revenue excluding revenues from our regional
s ended March 31, 2004 and 2003, respectively, an increase of 22.9%. Flight operations expenses include all expenses related directly to
cluding depreciation of owned aircraft and lease expenses and including insurance expenses, pilot and flight attendant compensation,
ght expenses, flight dispatch and flight operations administrative expenses. Aircraft insurance expenses totaled $9,950,000 (1.6% of total
rom our regional partner operations) for the year ended March 31, 2004. Aircraft insurance expenses for the year ended March 31, 2003
tal revenues excluding revenues from our regional partner operations). Aircraft insurance expenses decreased per RPM as a result of less
hat is presently provided by the FAA compared to the coverage that was previously provided by commercial underwriters combined with a
l and liability insurance rates effective June 7, 2003. The current FAA war risk policy is in effect until August 31, 2004. We do not know
extend the coverage beyond August 2004, and if it does, how long the extension will last. We expect that if the government stops providing
e airline industry, the premiums charged by aviation insurers for this coverage will be substantially higher than the premiums currently
the coverage will not be available from reputable underwriters. Pilot and flight attendant salaries before payroll taxes and benefits totaled
or 8.7% and 9.3% of passenger revenue, excluding revenues from our regional partner operations, for each of the years ended March 31,
of 24.1%. Pilot and flight attendant compensation for the year ended March 31, 2004 increased as a result of a 10.4% increase in the
ircraft in service and an increase of 18.4% in mainline block hours, respectively, a general wage increase in flight attendant and pilot
quired to replace those who were attending training on the Airbus equipment. We pay pilot and flight attendant salaries for training,
x and three weeks, respectively, prior to scheduled increases in service, which can cause the compensation expense during such periods to
rage number of aircraft in service. During the year ended March 31, 2004, we added two additional aircraft to our fleet and replaced nine
rcraft. We expect these additional costs to continue as we place additional aircraft into service and continue to retire Boeing equipment.
t fuel expenses include both the direct cost of fuel including taxes as well as the cost of delivering fuel into the aircraft. Aircraft fuel costs
00 gallons used and $86,064,000 for 89,236,000 gallons used resulted in an average fuel cost of $1.04 and 96(cent)per gallon for the years
03, respectively. Aircraft fuel expenses represented 17.2% and 18.3% of total revenue, excluding revenue from our regional partner
d March 31, 2004 and 2003, respectively. Fuel prices are subject to change weekly, as we purchase a very small portion in advance for
hedging program in late November 2002, which decreased fuel expense by $1,387,000 for the year ended March 31, 2004 and decreased
year ended March 31, 2003. Fuel consumption for the years ended March 31, 2004 and 2003 averaged 736 and 742 gallons per block hour,
8%. Fuel consumption per block hour decreased during the year ended March 31, 2004 from the prior year because of the more
dded to our fleet coupled with the reduction in our Boeing fleet, which had higher fuel burn rates, partially offset by the increase in our load
es. Aircraft lease expenses, totaled $70,061,000 (11.1% of total revenues excluding revenues from our regional partner operations) and
evenues excluding revenues from our regional partner operations) for the years ended March 31, 2004 and 2003, respectively, or a decrease
lt of a decrease in the average number of leased aircraft to 26.0 from 27.9, or 6.8%, during the year ended March 31, 2004 compared to the
and Traffic Servicing. Aircraft and traffic servicing expenses were $110,378,000 and $86,448,000 (an increase of 27.7%) for the years
03, respectively, and represented 17.5% and 18.4% of total revenues, excluding revenues from our regional partner operations. Aircraft and
ude all expenses incurred at airports, including landing fees, facilities rental, station labor, ground handling expenses (passenger and cargo)
ssociated with delayed or cancelled flights. Interrupted trip expenses are amounts paid to other airlines to reaccommodate passengers as
ncidental expenses. Aircraft and traffic servicing expenses increase with the addition of new cities and departures to our route system. As of
cities compared to 38 as of March 31, 2003, or an increase of 13.2%. During the year ended March 31, 2004, our mainline departures
81 during the year ended March 31, 2003, or 16.4%. Aircraft and traffic servicing expenses were $1,786 per departure for the year ended
o $1,629 per departure for the year ended March 31, 2003, or an increase of $157 per departure. Aircraft and traffic servicing expenses
sult of general increases in airport rents and landing fees and a 41.9% increase in mainline passengers for the year ended March 31, 2004 as
rtain airport facility rent charges are calculated using the numbers of originating and departing passengers, as well as additional personnel
ed number of passengers. Additionally, cargo (including mail) revenue increased 45.3% for the year ended March 31, 2004 as compared to

ffic servicing expenses increase with increases in passengers and cargo handling. We also experienced higher landing fees associated with
e higher landing weights than the Boeing aircraft. *Maintenance.* Maintenance expenses for the years ended March 31, 2004 and 2003 of
, respectively, were 11.7% and 16.1% of total revenues, excluding revenues from our regional partner operations, a decrease of 2.1%. These
pplies expenses related to the maintenance of the aircraft. Maintenance costs per block hour for the years ended March 31, 2004 and 2003
hour, respectively, a decrease of 17.4%. Maintenance cost per block hour decreased as a result of the addition of new Airbus aircraft that
n our older Boeing aircraft. The owned Airbus fleet is new and we are experiencing a "maintenance holiday". As the Airbus aircraft age,
nance and maintenance expenses will increase. *Promotion and Sales.* Promotion and sales expenses totaled $65,322,000 and $53,032,000
total revenues, excluding revenues from our regional partner operations, for the years ended March 31, 2004 and 2003, respectively. These
telecommunications expenses, wages and benefits for reservation agents and reservations supervision, marketing management and sales
vel agency commissions and computer reservations costs. During the year ended March 31, 2003, we reduced advertising expenditures in
ard our new branding campaign that was scheduled to begin in March 2003. Due to the commencement of the hostilities in Iraq, we
branding campaign until May 2003. Additionally, during the year ended March 31, 2004, we became heavily involved in sports team
nding awareness initiative. During the year ended March 31, 2004, promotion and sales expenses per mainline passenger decreased to
r the year ended March 31, 2003, a decrease of 13.2%. Promotion and sales expenses per passenger decreased as a result of variable
ver average fares, the elimination of substantially all travel agency commissions effective on tickets sold after May 31, 2002, and economies
rowth. *General and Administrative.* General and administrative expenses for the years ended March 31, 2004 and 2003 totaled $36,750,000
% and 5.6% of total revenues, excluding revenues from our regional partner operations, respectively, or an increase of 41.0%. During the
e accrued $2,436,000 for employee performance bonuses, or .4% of total revenues. Bonuses are based on profitability. As a result of our
March 31, 2003, we did not accrue bonuses. General and administrative expenses include the wages and benefits for several of our
other administrative personnel including legal, accounting, information technology, aircraft procurement, corporate communications,
and other expenses associated with these departments. Employee health benefits, accrued vacation and bonus expenses, general insurance
compensation and write-offs associated with credit card and check fraud are also included in general and administrative expenses. Our
proximately 3,160 in March 2003 to approximately 4,100 in March 2004, or 29.7%. Accordingly, we experienced increases in our human
n technology, and health insurance benefit expenses. General and administrative expenses also increased with a general increase in the cost
Regional Partner Expense. Regional partner expenses for the year ended March 31, 2004 totaled $14,634,000, and was 130.8% of total
gional partner expenses include all direct costs associated with Frontier JetExpress operated by Horizon. Horizon began service January 1,
ess service formerly provided by Mesa. During the year ended March 31, 2003 and through December 31, 2003, expenses were netted
iated with Mesa and included in other revenues. The net amount included in other revenues was $1,717,000 and ($706,000) during the
nd 2003, respectively. During the three months ended March 31, 2004, we incurred $1,152,000 for flight crew training costs and other
he start-up of our regional partnership with Horizon. We do not expect to incur these costs going forward unless we were to add additional
eement, which we do not contemplate at this time. For additional information about Frontier JetExpress, see Note 1 of the Notes to the
Lease and Facility Exit Costs. During the year ended March 31, 2004, we ceased using three of our Boeing 737-200 leased aircraft, two of
n October 2003 and one with a lease termination in October 2005. In August 2003, we closed our maintenance facility in El Paso, Texas,
date of August 2007. As a result of these transactions we recorded a pre-tax charge of $5,372,000. This amount includes the estimated fair
ayments and the write off of the unamortized leasehold improvements on the aircraft and the facility. *Loss on Sale-leaseback of Aircraft.*
31, 2004, we incurred a loss totaling $1,323,000 on the sale-leaseback of an Airbus A319 aircraft. *Depreciation and Amortization.*
expenses of $23,720,000 and $17,650,000, an increase of 34.4%, were approximately 3.8% and 3.7% of total revenues excluding revenues
rations, for the years ended March 31, 2004 and 2003, respectively. These expenses include depreciation of aircraft and aircraft components,
on equipment and other fixed assets. Depreciation expense increased over the prior year largely as a result of an increase in the average
319 aircraft owned from an average of 6.3 during the year ended March 31, 2003 to an average of 11.4 for the year ended March 31, 2004,
rating Income (Expense). Net nonoperating expenses totaled $7,539,000 for the year ended March 31, 2004 compared to net nonoperating
year ended March 31, 2003. Interest income increased to $2,074,000 during the year ended March 31, 2004 from $1,883,000 for the prior
vested cash. Interest expense increased to $13,961,000 for the year ended March 31, 2004 from $8,041,000 for the prior period as a result
with the financing of additional aircraft purchased since March 31, 2003 and the government guaranteed loan we obtained in February 2003
in December 2003. We completed a public offering of 5,050,000 shares of common stock in September 2003. Under the terms of our
we were required to make a prepayment of the loan equal to 60% of the net proceeds from the offering. As a result, we prepaid
n the loan. In December 2003, we repaid the remaining loan balance due of $11,582,000. As a result of paying off the government
approximately $9,816,000 of deferred loan costs associated with the prepayment amount. Of this amount, approximately $8,053,000
ortion of the value assigned to the warrants issued to the ATSB and to two other guarantors in connection with the loan transaction.
expenses during the year ended March 31, 2004 is pre-tax compensation of $15,024,000 as a result of payments under the Appropriations
e revenue related to aviation security. We received a total of $15,573,000 in May 2003, of which we paid $549,000 to Mesa Airlines for the
ied as Frontier JetExpress. During the year ended March 31, 2003, we completed a sale-leaseback transaction of one of our purchased
hat was collateralized by this aircraft. As a result, we incurred $1,774,000 in costs associated with the early extinguishment of this debt.
rded income tax expense of $7,822,000 during the year ended March 31, 2004 at a 38.2% effective tax rate, compared to an income tax
year ended March 31, 2003, at a 37.1% effective tax rate. During the ended March 31, 2004, the Company s tax expense was at a federal
tate rate of 3% (net of federal benefit) and was increased by the tax effect of permanent differences of 3%. During the year ended March
ed a $558,000 reduction to income tax expense as a result of an adjustment to deferred income taxes provided for in prior years, which
ed benefit for the year ended March 31, 2003 was at a federal rate of 35% plus the blended state rate of 3.7% (net of federal tax benefit) and
of permanent differences of 1%. **Results of Operations - Year Ended March 31, 2003 Compared to Year Ended March 31, 2002** We
or 77(cent) per share for the year ended March 31, 2003 as compared to net income of $16,550,000 or 56(cent) per diluted share for the
ur net loss for the year ended March 31, 2003 included a $2.0 million after-tax credit for the cumulative effect of a change in accounting
om the accrual method to the expense as incurred method. The net loss before the cumulative effect of the change in accounting was

mon share. During the year ended March 31, 2003, as compared to the prior comparable period, we experienced lower average fares as a , United s competitive pricing on discount fares available inside 14 days of travel, principally in our Denver market, and low introductory he Denver market. Our average fare was $109 for the year ended March 31, 2003, compared to $132 for the year ended March 31, 2002. r traffic during the year ended March 31, 2003 was impacted by the threat of war with Iraq, which began in March 2003. During March perienced an unusual blizzard, which caused DIA to be closed for approximately two days. During the year ended March 31, 2003, we nsaction of one of our purchased aircraft and paid off the loan that was collateralized by this aircraft. As a result we incurred $1,774,000 in extinguishment of this debt. Additionally, we wrote down the value of our Boeing spare parts inventory by $2,478,000. Our mainline rch 31, 2003 and 2002 was 8.33(cent) and 9.33(cent), respectively, a decrease of 1.00(cent)or 10.7%. Mainline CASM excluding fuel for 3 and 2002 was 6.90(cent)and 8.00(cent), respectively, a decrease of 1.10(cent)or 13.8%. Our mainline CASM decreased during the year sult of an increase in the average number of owned aircraft from 2.0 to 6.3, a decrease in the cost per block hour on our Boeing fleet for rhauls, a decrease in our distribution expenses in relation to the reduction in the average fare and a reduction in travel agency commissions f substantially all travel agency commissions effective June 1, 2002, the lack of an employee bonus accrual as a result of the net loss for the utilization, and economies of scale associated with lower increases in indirect costs compared to the 30.9% increase in ASMs over the prior uctions were partially offset by an increase of .07(cent)per ASM as a result of an increase in war risk and hull and liability insurance September 11. Due to the flight cancellations as a result of the September 11 terrorist attacks during the year ended March 31, 2002, our planned, which caused our fixed costs to be spread over fewer ASMs and, we believe, distorted our mainline CASM for the year ended ear ended March 31, 2003, our mainline average daily block hour utilization increased to 9.8 from 9.1 for the year ended March 31, 2002. our utilization includes all aircraft that are on our operating certificate, which includes scheduled aircraft, as well as aircraft out of service al spare aircraft, and excludes aircraft removed permanently from revenue service or new aircraft not yet placed in revenue service. In ily grounded four aircraft as a result of the September 11, 2001 terrorist attacks, resulting in reduced aircraft utilization during the 2002 rch 31, 2003 and 2002, our mainline break-even load factors were 65.0% and 56.6%, respectively, compared to our achieved passenger 0%. Our mainline break-even load factor increased from the prior comparable period largely as a result of a decrease in our average fare to arch 31, 2003 from $132 during the year ended March 31, 2002, partially offset by a decrease in our mainline CASM to 8.33(cent)for the om 9.33(cent)for the year ended March 31, 2002. **Revenues** Our mainline average fare for the year ended March 31, 2003 and 2002 was decrease of 17.4%. We believe that the decrease in the mainline average fare during the year ended March 31, 2003 from the prior pally a result of the slowing economy, the threat of a war with Iraq which began in March 2003, United s competitive pricing on discount of travel, principally in our Denver market, and low introductory fares by new carriers serving the Denver market. Effective February 17, de ecurity services through the TSA and assumed many of the contracts and oversight of security vendors that we and other carriers use to es. Additionally, the DOT reimbursed us and all other air carriers for certain security services provided by our own personnel. In order to be security services, the DOT has imposed a $2.50 security service fee per passenger segment flown, not to exceed $5.00 for one-way travel tickets purchased on and after February 1, 2002. We believe that these fees have had downward pressure on our average fare and in some pass these costs along. *Passenger Revenues.* Passenger revenues totaled $460,188,000 for the year ended March 31, 2003 compared to ed March 31, 2002, or an increase of 5.6%, on increased capacity of 1,420,963,000 ASMs or 30.9%. The number of revenue passengers year ended March 31, 2003 compared to 3,069,000 for the year ended March 31, 2002 or an increase of 27.9%. We had an average of 33.8 uring the year ended March 31, 2003 compared to an average of 27.8 aircraft during the year ended March 31, 2002, an increase of 21.6%. ch 31, 2003 were 3,599,553,000 compared to 2,756,965,000 for the year ended March 31, 2002, an increase of 30.6%. Our load factor r the year ended March 31, 2003, from 60.0% for the prior year. Cargo revenues, consisting of revenues from freight and mail service, ,000 for the years ended March 31, 2003 and 2002, respectively, representing 1.2% and 1.5% of total operating revenues, respectively, a e that our cargo revenues were impacted by the slowing economy as well as the agreement the United States Postal Service entered into ich began in August 2001 that increased Federal Express s volume of mail transportation. Other revenues, comprised principally of interline excess baggage fees, totaled $4,191,000 and $2,505,000 or .9% and .6% of total operating revenues for the years ended March 31, 2003 revenue increased over the prior comparable period as a result of an increase in interline handling fees primarily due to the Mesa codeshare ground handling for Mesa and other airlines. **Operating Expenses** Total operating expenses were $500,727,000 and $428,689,000, ed March 31, 2003 and 2002, and represented 106.6% and 96.4% of total revenue, respectively. Operating expenses increased as a the year ended March 31, 2003 as a result of the 17.4% decrease in the average fare. *Flight Operations.* Flight operations expenses of were 18.2% and 14.6% of total revenue for the years ended March 31, 2003 and 2002, respectively. Included in flight operations expenses 31, 2003 and 2002 were approximately $3,330,000 and $3,086,000, respectively, for Airbus training and related travel expenses. Aircraft 1,095,000 (2.4% of total revenue) for the year ended March 31, 2003. Aircraft insurance expenses for the year ended March 31, 2002 were enue). Aircraft insurance expenses were .31(cent) and .19(cent) per RPM for the years ended March 31, 2003 and 2002, respectively. uring the year ended March 31, 2002 were not fully impacted by the result of the terrorist attacks on September 11, 2001. Immediately mber 11, our aviation war risk underwriters limited war risk passenger liability coverage on third party bodily injury and property damage to special surcharge of $1.25 per passenger carried was established as the premium for this coverage by our commercial underwriters. At the us supplemental third party war risk coverage from the $50 million limit to $1.6 billion. Effective December 16, 2002, the FAA amended sk hull as well as passenger, crew and property liability insurance. In February 2003, we cancelled our commercial hull and liability war FAA coverages. The premium for the revised FAA war risk coverage is derived from a formula that takes into account total enplanements, and total revenue ton-miles flown, and is significantly less than the original commercial coverage premium. The Appropriations Act offer both policies through August 31, 2004. We do not know whether the government will extend the coverage, and if it does, how long pect that if the government stops providing excess war risk coverage to the airline industry, the premiums charged by aviation insurers for ally higher than the premiums currently charged by the government or the coverage will not be available from reputable underwriters. Pilot efore payroll taxes and benefits totaled $42,982,000 and $32,042,000 or 9.3% and 7.4% of passenger revenue for each of the years ended an increase of 34.1%. Pilot and flight attendant compensation increased as a result of an increase of 30.2% in block hours, a general wage endant salaries, and additional crews required to replace those attending training on the Airbus equipment. In order to maintain competitive

pay schedule was negotiated with the Frontier Airline Pilots Association (FAPA) for an approximate 2.5% increase in salaries. The FAPA
al, which was effective August 1, 2002. During the year ended March 31, 2002, FAPA agreed to an 11% decrease in salaries for all pilots in
the September 11, 2001 terrorist attacks. The pilot salary levels were reinstated effective January 1, 2002. *Aircraft Fuel Expense.* Aircraft
39,236,000 gallons used and $61,226,000 for 70,530,000 gallons used resulted in an average fuel cost of 96(cent) and 87(cent) per gallon
2003 and 2002, respectively. We initiated a fuel hedging program in late November 2002, which allowed us to reduce fuel expenses during
3 by approximately $558,000. Fuel consumption for the years ended March 31, 2003 and 2002 averaged 742 and 763 gallons per block
mption per block hour decreased 2.8% during the year ended March 31, 2003 from the prior comparable period because of the more
dded to our fleet, and a fuel conservation program implemented in August 2001. *Aircraft Lease Expenses.* Aircraft lease expenses totaled
evenue) and $64,990,000 (14.6% of total revenue) for the years ended March 31, 2003 and 2002, respectively, or an increase of 8.1%. The
crease in the average number of leased aircraft to 27.9 from 25.8, or 8.1%, during the year ended March 31, 2003 compared to the same
raffic Servicing. Aircraft and traffic servicing expenses were $86,448,000 and $70,202,000 (an increase of 23.1%) for the years ended
pectively, and represented 18.4% and 15.8% of total revenue. Aircraft and traffic servicing expenses increase with the addition of new cities
stem. As of March 31, 2003, we served 38 cities compared to 30 as of March 31, 2002, or an increase of 26.7%. During the year ended
s increased to 53,081 from 41,736 or 27.2%. Aircraft and traffic servicing expenses were $1,629 per departure for the year ended March
82 per departure for the year ended March 31, 2002, or a decrease of $53 per departure. Aircraft and traffic servicing expenses increased as
increase and an increase in interrupted trip expenses as a result of the number of flight cancellations related to the aircraft out of service for
ptember 11 terrorist attacks caused us to reduce our flight schedule and related capacity from October 2001 through February 2002, which
pread over fewer departures and increased our expenses per departure for the year ended March 31, 2002. *Maintenance.* Maintenance
March 31, 2003 and 2002 of $75,559,000 and $68,560,000 (pro forma amount adjusting for the effect of the accounting change),
15.4% of total revenue, an increase of 10.2%. Maintenance is charged to maintenance expense as incurred. During the year ended March
ccrued monthly for major engine overhauls and heavy maintenance checks. Maintenance costs per block hour for the years ended March
and $742 per block hour, respectively, a decrease of 15.4%. Maintenance cost per block hour decreased as a result of the addition of new
stly to maintain than our older Boeing aircraft. During the year ended March 31, 2003, we incurred approximately $21,600, or less than $1
ntenance training, compared to $881,000 or $10 per block hour for the year ended March 31, 2002. Due to the flight cancellations as a
rorist attacks, our block hours were less than we had planned, which caused our fixed costs to be spread over fewer block hours and, we
block hour for year ended March 31, 2002. In July 2001, our mechanics voted to be represented by International Brotherhood of Teamsters.
t for the mechanics, which has a 3-year term, was ratified and made effective in July 2002. The effect of this agreement was to increase
ximately 12% over the term of the agreement. *Promotion and Sales.* Promotion and sales expenses totaled $53,032,000 and $59,459,000 and
l revenue for the years ended March 31, 2003 and 2002, respectively. During the year ended March 31, 2003, promotion and sales expenses
3.51 from $19.37 for the year ended March 31, 2002. Promotion and sales expenses per passenger decreased as a result of variable expenses
rage fares, the overall elimination of substantially all travel agency commissions effective on tickets sold after May 31, 2002 and a decrease
educed advertising expenses from the prior comparable period as efforts were put into identifying who our customers are and developing
new advertising campaign. The campaign, which was scheduled to begin in our fourth fiscal quarter, was postponed until fiscal year 2004
During the year ended March 31, 2002, we incurred costs associated with the start-up and promotion of our frequent flyer program as well
. General and Administrative. General and administrative expenses for the years ended March 31, 2003 and 2002 totaled $26,061,000 and
nd 5.9% of total revenue, respectively. During the year ended March 31, 2002 we accrued for employee performance bonuses totaling
total revenue. Bonuses are based on profitability. As a result of our pre-tax loss for the year ended March 31, 2003, we did not accrue
eases in our human resources, training and information technology expenses as a result of an increase in employees from approximately
ximately 3,160 in March 2003, an increase of 17.0%. Because of the increase in personnel, our health insurance benefit expenses, workers
cation expense increased accordingly. During the year ended March 31, 2003, we brought revenue accounting in-house. We previously had
have realized a reduction in expenses totaling approximately $1,000,000 associated with processing revenue accounting transactions.
n. Depreciation and amortization expenses of $17,650,000 and $11,587,000, an increase of 52.3%, were approximately 3.8% and 2.6% of
ed March 31, 2003 and 2002, respectively. These expenses include depreciation of aircraft and aircraft components, office equipment,
other fixed assets. Depreciation expense increased over the prior year due to an increase in the number of Airbus A319 aircraft owned from
e at March 31, 2003. *Nonoperating Income (Expense).* Net nonoperating expense totaled $8,718,000 for the year ended March 31, 2003
income of $8,447,000 for the year ended March 31, 2002. During the year ended March 31, 2002, we recognized $12,703,000 of
yments under the Stabilization Act to offset direct and incremental losses we experienced as a result of the terrorist attacks on September
of $17,538,000 as of December 31, 2001. The remaining $4,835,000 represents amounts received in excess of estimated allowable direct
d from September 11, 2001 to December 31, 2001, which we repaid during the year ended March 31, 2003. Interest income decreased to
ded March 31, 2003 from $4,388,000 for the prior period due to a decrease in cash balances as a result of cash used for pre-delivery
of aircraft, our net loss for the period and a decrease in interest rates. Interest expense increased to $8,041,000 for the year ended March
the prior period as a result of interest expense associated with the financing of additional purchased Airbus aircraft and a $70,000,000 loan
r liquidity. During the year ended March 31, 2003, we completed a sale-leaseback transaction of one of our purchased aircraft and paid off
d by this aircraft. As a result we incurred $1,774,000 in costs associated with the early extinguishment of this debt. During the year ended
d early lease terminations on two of our Boeing 737-200 aircraft resulting in a pre-tax charge of $4,914,000 representing a negotiated
nts due. *Income Tax Expense.* We accrued an income tax benefit of $14,655,000 during the year ended March 31, 2003 at a 37.1% effective
ne tax expense accrual of $8,282,000 for the year ended March 31, 2002, at a 38.7% effective tax rate. The expected benefit for the year
deral rate of 35% plus the blended state rate of 3.7% (net of federal tax benefit) is reduced by the tax effect of permanent differences of 1%.
31, 2002, we recorded a credit to income tax expense totaling $1,327,000 for this excess accrual. During the year ended March 31, 2002,
eduction to income tax expense as a result of a review and revision of state tax apportionment factors used in filing amended state tax
nd Capital Resources Our liquidity depends to a large extent on the number of passengers who fly with us, the fares we charge, our
ures, and our financing activities. We depend on lease or mortgage-style financing to acquire all of our aircraft, including 32 additional

1, 2004 are scheduled for delivery through March 2008. We had cash and cash equivalents and short-term investments of $190,609,000 and
04 and 2003, respectively. At March 31, 2004, total current assets were $269,733,000 as compared to $181,659,000 of total current
g capital of $88,074,000. At March 31, 2003, total current assets were $191,291,000 as compared to $130,519,000 of total current liabilities,
$60,772,000. The increase in our cash and working capital from March 31, 2003 is largely a result of cash provided by our net income for
4 adjusted for non-cash charges and credits and changes in working capital accounts, the common stock offering in September 2003, which
ing expenses, an income tax refund from the Internal Revenue Service totaling $26,574,000, and the net proceeds from a sale-leaseback of
e offset by required principal prepayments on our government guaranteed loan totaling $58,418,000 from the income tax refund and from a
he stock offering, our decision to repay the remaining balance due of $11,582,000 on the government guaranteed loan after the required
in restricted investments totaling $13,058,000 which was largely a result of the increase in our collateral requirements to our bankcard
increase in our air traffic liability Cash provided by operating activities for the year ended March 31, 2004 was $128,018,000. This is
adjusted for non-cash charges and credits and changes in working capital accounts. Our air traffic liability increased as a result in the
ated with the increase in the number of aircraft in our fleet coupled with the increase in the number of passengers we carried in excess of our
ed expenses increased as a result of increases in employee benefits associated with the increase in the number of employees and increases in
s accrual for our employees as a result of our profitability and increases in passenger related taxes associated with our increase in revenue
provided by operating activities for the year ended March 31, 2003 was $874,000. This is attributable to a a net loss of $22,843,000, a
epaid expenses, an increase in accounts payable and deferred liabilities, an increase in deferred expenses and inventories, decreases in air
nent of excess Stabilization Act compensation received. Included in cash provided by operating activities for the year ended March 31,
nce payment on the new affinity card program we launched in May 2003. Cash used in investing activities for the year ended March 31,
ircraft lease and purchase deposits increased by $6,446,000 during this period, offset by a decrease in restricted investments of $2,444,000
eturned aircraft and new aircraft deliveries where we substituted cash security deposits in lieu of the letters of credit that were previously in
for the purchase of four additional Airbus aircraft, aircraft leasehold improvements including LiveTV, ground equipment to support
ons, and computer equipment, including scanning equipment for our new mail transportation requirements. During the year ended March
four purchased Airbus A318 aircraft and applied their respective pre-delivery payments to the purchase of those aircraft. Additionally, we
nsaction on one of our purchased aircraft that was delivered to us in September 2003, generating cash proceeds of approximately
he return of the pre-delivery payments relating to the purchase commitment. We agreed to lease the aircraft over a 12-year term. Cash used
ear ended March 31, 2003 was $195,335,000. We used $238,668,000 for the purchase of six additional Airbus aircraft, rotable aircraft
Airbus aircraft, leasehold improvements and other general equipment purchases. Net aircraft lease and purchase deposits and restricted
,405,000 and $1,177,000, respectively, during this period. During the year ended March 31, 2003, we took delivery of six purchased Airbus
ective pre-delivery payments to the purchase of those aircraft. Additionally, we completed a sale-leaseback transaction on one of our
d a purchase commitment on another Airbus A319 to a lessor, generating cash proceeds of approximately $12,306,000 from the sale of one
re-delivery payments relating to the purchase commitment assigned. We agreed to lease both of these aircraft over a five-year term. Cash
es for the year ended March 31, 2004 was $96,022,000. During the year ended March 31, 2004, we completed a public offering of
on stock. We received $81,077,000, net of offering expenses, from the sale of these shares. During the year ended March 31, 2004, we
nce the purchase of four Airbus aircraft and made principal repayments on this debt of $83,325,000. In July 2003, we received an income
evenue Service totaling $26,574,000 and prepaid $10,000,000 on our government guaranteed loan upon receipt of this refund. In September
the proceeds from the stock offering to prepay a portion of the government guaranteed loan. Both prepayments were required by the loan
, we repaid the remaining loan balance due of $11,582,000. During the year ended March 31, 2004, we received $1,001,000 from the
ions. Cash provided by financing activities for the year ended March 31, 2003 was $209,787,000. In February 2003, we received
nent guaranteed loan. During the year ended March 31, 2003, we borrowed $171,100,000 to finance the purchases of Airbus aircraft, of
d during the year. In December 2002, we entered into a sale-leaseback transaction for one of our purchased aircraft. We received net
300,000 from the sale of this aircraft, net of repayment of debt that collateralized this aircraft totaling $22,772,000 and payment of fees
guishments of the debt. During the year ended March 31, 2003, we received $1,275,000 from the exercise of common stock options. We
h DIA, our primary hub for operations, and the offices of the Mayor of the City and County of Denver, in which DIA is located, to develop
e A where our aircraft gates are located in order to accommodate our anticipated growth over the next several years. In the interim, we have
o gates, and permanent rights to one gate, previously used by United Airlines on the East end of Concourse A. We are currently obligated to
s to United in October 2005. DIA has also completed construction of two temporary gates on the West end of Concourse A. We are
e temporary gates until a permanent expansion can be completed. We are currently negotiating with the City and County of Denver and its
al terms for the lease of at least four mainline gates and the shared use of four or five common use regional jet pads to be constructed on
Final terms for the project and the lease of these facilities have not yet been reached. Once final terms are reached, upon completion of the
ourse A we would be obligated to lease the additional gates, thereby increasing our overall rates and charges paid to the airport. Because our
lso based upon the number of passengers and gross weight landed at the airport, it is impossible at this time to determine what our future
be with any certainty. As part of the lease restructure between the City and County of Denver and United, we believe that United has been
nd reductions in the rents, rates and charges arising from their lease of facilities at DIA. The City and County of Denver has indicated that
ced rates and charges being paid by United from increasing the rates and charges being paid by other airlines. However, the City and
de it clear that in certain circumstances it will have no choice but to increase rates and charges being paid by other airlines in order to
ow, reserve account and bond financing requirements. Because we are the second largest airline operating out of DIA, we may incur a
n rates and charges imposed by DIA. At this time, it is impossible to quantify what the increase in our rates and charges would be, if any,
provided to United. We have been assessing our liquidity position in light of our aircraft purchase commitments and other capital
r competition, and other uncertainties surrounding the airline industry. Prior to applying for a government guaranteed loan under the
elf registration with the Securities and Exchange Commission in April 2002 that allows us to sell equity or debt securities from time to
mit. In September 2003, we completed a public offering of 5,050,000 shares of our common stock. Although the stock offering and our
roved our liquidity, we may need to continue to explore avenues to enhance our liquidity if our current economic and operating

end to continue to examine domestic or foreign bank aircraft financing, bank lines of credit and aircraft sale-leasebacks, the sale of equity or sactions as necessary to support our capital and operating needs. For further information on our financing plans and activities and al Obligations" and "Commercial Commitments" below. **Emergency Wartime Supplemental Appropriations Act** The Emergency me Supplemental Appropriations Act (the "Appropriations Act"), enacted on April 16, 2003, made available approximately $2.3 billion to ses and revenue foregone related to aviation security. In order to have been eligible to receive a portion of this fund, air carriers must have ecurity fees, the September 11th Security Fee and/or the Aviation Security Infrastructure Fee as of the date of enactment of the g to the Appropriations Act, an air carrier may use the amount received as the air carrier determines. The Appropriations Act provides for be made to U.S. flag air carriers for costs incurred related to the FAA requirements for enhanced flight deck door security measures that he September 11 terrorist attacks. Pursuant to the Appropriations Act, we received $889,000 in September 2003 for expenses related to the deck doors on our aircraft. Upon receipt of the $889,000 reimbursement, we credited maintenance expense and charged fixed assets for the deck door installation, and correspondingly we credited property, plant, and equipment to reflect the reimbursement.

bligations

llowing table summarizes our contractual obligations as of March 31, 2004:

	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
t (1)	$ 17,387,000	$ 35,082,000	$ 39,084,000	$205,834,000	$297,387,000
ses (2)	121,221,000	236,055,000	234,534,000	725,940,000	1,317,750,000
purchase (3)(4)	60,869,000	250,385,000	219,947,000	-	531,201,000
tual cash obligations	$199,477,000	$521,522,000	$493,565,000	$931,774,000	$2,146,338,000

31, 2004 we had 13 loan agreements for nine Airbus A319 aircraft and 4 Airbus A318 . Two of the loans have a term of 10 years and are payable in equal monthly ents, including interest, payable in arrears. The loans require monthly principal erest payments of $215,000 and $218,110, bears interest with rates of 6.71% and with maturities in May and August 2011, at which time a balloon payment totaling 000 is due with respect to each loan. The remaining 11 loans have have interest sed on LIBOR plus margins that adjust quarterly or semi-annually. At March 31, nterest rates for these loans ranged from 2.38% to 3.37%. Each of the loans have a 12 years, and each loan has balloon payments ranging from $2,640,000 to $7,770,000 nd of the term. All of the loans are secured by the aircraft.

arch 31, 2004, we lease 15 Airbus A319 type aircraft and 12 Boeing 737 type under operating leases with expiration dates ranging from 2004 to 2015. Two of ng 737 type aircraft are no longer in service, one is being stored until the lease ate of October 2005 and the other aircraft was returned to the lessor in April 2004. ll of our leases, we have made cash security deposits or arranged for letters of epresenting approximately two months of lease payments per aircraft. At March 31, had made cash security deposits of $8,511,000 and had arranged for letters of credit 2,000 collateralized by restricted cash balances. Additionally, we are required supplemental rent payments to cover the cost of major scheduled maintenance overhauls aircraft. These supplemental rent payments are based on the number of flight hours d/or flight departures and are not included as an obligation in the table above.

plement to our Airbus purchase agreement, in April 2000 we signed an agreement, as ntly amended, to lease 15 new Airbus aircraft for a term of 12 years. As of March we had taken delivery of 11 of these aircraft and have letters of credit on the g four aircraft to be delivered totaling $824,000 to secure these leases, alized by restricted cash balances.

he year ended March 31, 2004, we entered into additional aircraft lease agreements Airbus A318 aircraft and 18 Airbus A319 aircraft, two of which we took delivery of mber 2003 and February 2004 with the remaining scheduled for delivery beginning in 004 through February 2007. Three of the aircraft leases were a result of seback transactions of three new Airbus aircraft. As of March 31, 2004, we have 896,000 in security deposit payments for future leased aircraft deliveries.

lease office and hangar space, spare engines and office equipment for our ters and airport facilities, and certain other equipment with expiration dates from 2004 to 2014. In addition, we lease certain airport gate facilities on a -month basis. Amounts for leases that are on a month-to-month basis are not as an obligation in the table above.

rch 31, 2004, we have remaining firm purchase commitments for 14 additional excluding the June and July 2004 sale-leaseback aircraft, which have scheduled dates beginning in calendar year 2004 and continuing through 2008. Including ircraft, we intend to lease as many as 22 additional A318 or A319 aircraft from rty lessors over the next five years. Included in the purchase commitments are the g amounts due Airbus and amounts for spare aircraft components to support the al purchase and leased aircraft. We are not under any contractual obligations with to spare parts. Under the terms of the purchase agreement, we are required to make d pre-delivery payments for these aircraft. These payments are non-refundable with exceptions. As of March 31, 2004, we had made pre-delivery payments on future es totaling $28,329,000 to secure these aircraft.

er 2002, we entered into a purchase and 12-year services agreement with LiveTV to RECTV AIRBORNE(TM)satellite programming to every seatback in our Airbus fleet. We eed to the purchase of 46 units. As of March 31, 2004, we have purchased 25 units made deposits toward the purchase of 12 additional units. The table above the remaining purchase commitment amounts for the 12 units we have made partial on and all amounts not yet paid on the remaining firm seven units.

mmitments

e enter new markets, increase the amount of space we lease, or add leased aircraft, required to provide the airport authorities and lessors with a letter of credit, security deposits. These generally approximate up to three months of rent and March 31, 2004, we had outstanding letters of credit, bonds, and cash security aling $13,789,000, $1,462,000, and $16,477,000, respectively. In order to meet ements, we have a credit agreement with a financial institution for up to which expires August 31, 2004, and another credit agreement with a second financial for up to $20,000,000, which expires December 1, 2004. These credit lines can be or the issuance of standby letters of credit. Any amounts drawn under the credit e fully collateralized by certificates of deposit, which are carried as restricted on our balance sheet. As of March 31, 2004, we have utilized $13,789,000 under agreements for standby letters of credit that collateralize certain leases. In t these credit agreements are not renewed beyond their present expiration dates, ates of deposit would be redeemed and paid to the various lessors as cash security lieu of standby letters of credit. As a result, there would be no impact on our these agreements were not renewed. In the event that the surety companies hat issuing bonds on our behalf were a risk they were no longer willing to we would be required to collateralize certain of these lease obligations with ecurity deposits or standby letters of credit, which would decrease our liquidity.

ave a contract with a bankcard processor that requires us to pledge a certificate of l to a certain percentage of our air traffic liability associated with bankcard s of March 31, 2004, that amount totaled $20,488,000. The amount is adjusted arrears based on our air traffic liability associated with bankcard transactions. 2004, we are required to increase the amount by approximately $2,900,000.

se the Airline Reporting Corporation ("ARC") to provide reporting and settlement travel agency sales and other related transactions. In order to maintain the (or irrevocable letter of credit) coverage of $100,000, ARC requires participating eet, on a quarterly basis, certain financial tests such as, but not limited to, rgin percentage, working capital ratio, and percent of debt to debt plus equity. l, 2004, we met these financial tests and presently are only obligated to provide amount of $100,000 in coverage to ARC. If we were to fail the minimum testing we would be required to increase our bonding coverage to four times the weekly

sh sales (sales net of refunds and agency commissions). Based on net cash sales
s as of June 2, 2004, the coverage would be increased to $9,167,000 if we failed
If we were unable to increase the bond amount as a result of our financial
the time, we could be required to issue a letter of credit that would restrict
ount equal to the letter of credit.

diately following the events of September 11, our aviation war risk underwriters
isk passenger liability coverage on third party bodily injury and property damage
on per occurrence. A special surcharge of $1.25 per passenger carried was
as the premium for this coverage by our commercial underwriters. At the same time,
ded us supplemental third party war risk coverage from the $50 million limit to
. Effective December 16, 2002, the FAA amended this coverage to include war risk
as passenger, crew and property liability insurance. In February 2003, we
commercial hull and liability war risk coverage after binding the FAA coverage.
for the revised FAA war risk coverage is derived from a formula that takes into
enplanements, total revenue passenger miles, and total revenue ton miles flown,
icantly less than the original commercial coverage premium. The Appropriations
ed the government to offer both policies through August 31, 2004. We do not know
government will extend the coverage, and if it does, how long the extension will
ct that if the government stops providing excess war risk coverage to the airline
e premiums charged by aviation insurers for this coverage will be substantially
he premiums currently charged by the government or the coverage will simply not be
m reputable underwriters.

November 2002, we initiated a fuel hedging program comprised of swap and collar
Under a swap agreement, we receive the difference between a fixed swap price and a
n an agreed upon published spot price for jet fuel. If the index price is higher
d price, we receive the difference between the fixed price and the spot price. If
ce is lower, we pay the difference. A collar agreement has a cap price, a primary
and a secondary floor price. When the U.S. Gulf Coast Pipeline Jet index price is
p, we receive the difference between the index and the cap. When the hedged
dex price is below the primary floor but above the secondary floor, we pay the
etween the index and the primary floor. However, when the price is below the
oor, we are only obligated to pay the difference between the primary and secondary
. When the price is between the cap price and the primary floor, no payments are

eptember 2003, we entered into a swap agreement with a notional volume of 630,000
onth for the period from January 1, 2004 to June 30, 2004. The fixed price of the
cents per gallon and the agreement is estimated to represent 7% of our fuel
r that period. On May 21, 2004 we entered into a collar agreement that hedges
25% of our expected fuel requirements in the quarters ended December 31, 2004 and
5. The collar uses West Texas Intermediate crude oil as its basis. The cap price
.00 per barrel, and the floor is set at $34.85 per barrel.

arch 2003, we entered into an interest rate swap agreement with a notional amount of
to hedge a portion of our LIBOR based borrowings. Under the interest rate swap
e are paying a fixed rate of 2.45% and receive a variable rate based on the three

ctive January 1, 2003, we entered into an engine maintenance agreement with GE Engine
c. ("GE") covering the scheduled and unscheduled repair of our aircraft engines
of our Airbus aircraft. The agreement is for a 12-year period from the effective
owned aircraft or December 31, 2014, whichever comes first, and for each leased
e term coincides with the initial lease term of 12 years. This agreement precludes
another third party for such services during the term. This agreement requires
ents at a specified rate multiplied by the number of flight hours the engines were
ing that month. The amounts due based on flight hours are not included in table
March 31, 2004, the agreement covers 13 purchased Airbus aircraft and 15 leased
aft. The cost associated with this agreement for our purchased aircraft for the
arch 31, 2004 and 2003 were approximately $1,833,000 and $270,000, respectively.
d aircraft, the lessors pay GE directly for the repair of aircraft engines in

with this agreement from reserve accounts established under the applicable lease

unting Policies

preparation of financial statements in conformity with accounting principles cepted in the United States of America requires management to make estimates and that affect the reported amounts of assets and liabilities and disclosure of ssets and liabilities at the date of the financial statements and the reported venues and expenses during the reporting period. Actual results could differ from es.

ical accounting policies are defined as those that are both important to the our financial condition and results, and require management to exercise judgments. Our most critical accounting policies are described briefly below. For nformation about these and our other significant accounting policies, see Note 1 of the Financial Statements.

nition

enger, cargo, and other revenues are recognized when the transportation is provided tickets expire, one year after date of issuance, and are net of excise taxes, cility charges and security fees. Revenues that have been deferred are included in ing balance sheets as air traffic liability. In limited circumstances, we grant ickets that have expired. We do not recognize as revenue the amount of credits be granted after the date a ticket expires. These estimates are based upon the historical ticket useage trends.

Long-Lived Assets

ecord impairment losses on long-lived assets used in operations when indicators of re present and the undiscounted future cash flows estimated to be generated by are less than the carrying amount of the assets. If an impairment occurs, the red by comparing the fair value of the asset to its carrying amount.

tenance

perate under an FAA-approved continuous inspection and maintenance program. We maintenance activities on the direct expense method. Under this method, major ntenance costs are recognized as expense as maintenance services are performed, as are flown for nonrefundable maintenance payments required by lease agreements, and ation is incurred for payments made under service agreements. Routine maintenance are charged to operations as incurred. Prior to fiscal 2003 we accrued for major s on a per-flight-hour basis in advance of performing the maintenance services.

ctive January 1, 2003, we and GE executed a 12-year engine services agreement (the reement") covering the scheduled and unscheduled repair of Airbus engines. Under the Services Agreement, we agreed to pay GE a fixed rate per-engine-hour, payable GE assumed the responsibility to overhaul our engines on Airbus aircraft as ng the term of the Services Agreement, subject to certain exclusions. We believe e per-engine hour approximates the periodic cost we would have incurred to service . Accordingly, these payments are expensed as the obligation is incurred.

struments

Company accounts for derivative financial instruments in accordance with the f Statement of Financial Accounting Standards No. 133, "Accounting for Derivative nd Hedging Activities" ("SFAS 133"). SFAS 133 requires the Company to measure all t fair value and to recognize them in the balance sheet as an asset or liability. ves designated as cash flow hedges, changes in fair value of the derivative are

orted in other comprehensive income ("OCI") and are subsequently reclassified into
n the hedged item affects earnings. Changes in fair value of derivative instruments
d as hedging instruments and ineffective portions of hedges are recognized in earnings
t period.

Company enters into derivative transactions to hedge the interest payments associated
on of its LIBOR-based borrowings and fuel purchases. The Company designates certain
swaps as qualifying cash flow hedges. The Company also enters into derivative
to reduce exposure to the effect of fluctuations in fuel prices. These transactions
for as trading instruments under SFAS 133. As a result, the Company records these
t fair market value and recognizes realized and unrealized gains and losses in aircraft

lty Program

ebruary 2001, we established *EarlyReturns*, a frequent flyer program to encourage
airline and customer loyalty. We account for the *EarlyReturns* program under the
cost method whereby travel awards are valued at the incremental cost of carrying
based on expected redemptions. Those incremental costs are based on expectations
to be incurred on a per passenger basis and include food and beverages, fuel,
surance, and ticketing costs. The incremental costs do not include a contribution
aircraft cost or profit. We do not record a liability for mileage earned by
who have not reached the level to become eligible for a free travel award. We
is appropriate because the large majority of these participants are not expected
e flight award. We do not record a liability for the expected redemption of miles
l awards since the cost of these awards to us is negligible.

f March 31, 2004 and 2003, we estimated that approximately 47,600 and 14,600
light awards, respectively, were eligible for redemption by *EarlyReturns* members
eage credits exceeding the 15,000-mile free round-trip domestic ticket award
s of March 31, 2004 and 2003, we had recorded a liability of approximately
$283,000, respectively, for these rewards

edit Card Arrangement

ntered into a co-branded credit card arrangement with a Mastercard issuing bank in
The terms of this affinity agreement provide that we will receive a fixed fee for
ount, which varies based on the type of account, and a percentage of the annual
that the bank receives. We receive an increased fee for new accounts solicited by
receive fees for the purchase of frequent flier miles awarded to the credit card

ng the year ended March 31, 2003, we received a $10,000,000 advance from the
for fees expected to be earned under the program. This advance was recorded as
enue when it was received. For the year ended March 31, 2003, we had not yet
ecognized any revenue from this arrangement. Fees earned as credit cards are
ewed, and as points are awarded to the credit card customers are applied against

account for all fees received under the co-branded credit card program by
he fees between the portion that represents the estimated value of the subsequent
to be provided, and the portion which represents a marketing fee to cover
other related costs to administer the program. This latter portion (referred to
ing component) represents the residual after determination of the value of the
nent. The component representing travel is determined by reference to an
estricted fare, which is used as a proxy for the value of travel of a frequent
e award. The travel component is deferred and recognized as revenue over the
age period of the frequent flyer mileage awards of 20 months. We record the
mponent of the revenue earned under this agreement as a reduction of sales and
enses in the month received.

use of our limited history with our frequent flier program, we have estimated the

hich the frequent flier mileage awards will be used based on industry averages
nward to take into account that most domestic airlines require 25,000 frequent
or a domestic round-trip ticket, whereas we require only 15,000 frequent flyer
omestic round-trip ticket.

the year ended March 31, 2004, we earned total fees of $4,245,000, all of which were
e original $10,000,000 advance. Of that amount, $3,286,000 was deferred as the
component, and the remaining marketing component of $959,000 was recognized as a
sales and promotions expense. Amortization of deferred revenue recognized in
his period was $786,000 and is included in passenger revenues.

g Standards

Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting
FAS) No. 132 (revised 2003), "Employers Disclosures about Pensions and Other
t Benefits, an amendment of FASB Statements No. 87, 88, and 106" (SFAS 132R) in
. SFAS 132R revises employers disclosures about pension plans and other
t benefit plans by requiring additional disclosures about assets, obligations,
d net periodic benefit costs. SFAS 132R is effective for financial statements
December 15, 2003 and for interim periods thereafter.

dopted SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143) on
03. The adoption of SFAS 143 had no impact on our financial statements.

FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments
Activities" (SFAS 149) in April 2003. This statement amends and clarifies financial
d reporting for derivative instruments, including certain derivative instruments
ther contracts and for hedging activities under SFAS No. 133, "Accounting for
nstruments and Hedging Activities" (SFAS 133). SFAS 149 is effective for contracts
or modified after June 30, 2003, except in certain circumstances. The adoption of
no impact on our financial statements.

FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with
cs of both Liabilities and Equity" (SFAS 150) in May 2003. This statement
standards for classifying and measuring certain financial instruments with
cs of both liabilities and equity. SFAS 150 is effective for financial instruments
or modified after May 31, 2003; otherwise, this statement, as it applies to our
atements, is effective July 1, 2003. The adoption of SFAS 150 had no impact on our
tements.

FASB issued FASB Staff Position SFAS No. 106-1, "Accounting and Disclosure
Related to the Medicare Prescription Drug, Improvement and Modernization Act of
106-1) in January 2004. The Medicare Prescription Drug, Improvement, and
Act of 2003 (Medicare Act) introduced a prescription drug benefit under Medicare
subsidy to sponsors of health care benefit plans in certain circumstances. FSP
a sponsor of a postretirement health care plan that provides a prescription drug
ke a one-time election to defer accounting for the Medicare Act. It also requires
osures regarding the Medicare Act and is effective for financial statements issued
er 7, 2003. Our financial statements were not impacted by the Medicare Act.

FASB issued FASB Interpretation No. (FIN) 46, "Consolidation of Variable Interest
IN 46) in February 2003. FIN 46 addresses how to identify variable interest
Es) and the criteria that require a company to consolidate such entities in its

atements. FIN 46, as revised by FIN 46R, was effective on February 1, 2003 for new and is effective for reporting periods ending after March 15, 2004 for entered into prior to February 1, 2003. We have evaluated our transactions that ed by FIN 46, including (1) contract carrier arrangements; (2) aircraft operating 3) fuel consortiums. While we determined that some of these arrangements are VIEs, ld a significant variable interest in, nor are the primary beneficiary of, any of ements. The adoption of FIN 46 will not have a material impact on our financial

Emerging Issues Task Force (EITF) reached a consensus on EITF Issue 01-08, Whether an Arrangement Contains a Lease" (EITF 01-08) in May 2003. This EITF dance on how to determine whether an arrangement contains a lease that is within SFAS No. 13, "Accounting for Leases" (SFAS 13). The guidance should be applied to agreed to or modified after June 30, 2003. We have determined that our with Horizon is subject to this EITF issue and have applied this in accounting for ent effective January 1, 2004.

ntitative and Qualitative Disclosures About Market Risk

earnings are affected by changes in the price and availability of aircraft fuel. s estimated as a hypothetical 10 percent change in the average cost per gallon of year ended March 31, 2004. Based on fiscal year 2004 actual fuel usage, such a have had the effect of increasing or decreasing our aircraft fuel expense by $10,886,000 in fiscal year 2004. Comparatively, based on projected fiscal year ge, including fuel required for our regional partner, such a change would have the creasing or decreasing our aircraft fuel expense by approximately $15,436,000 in 2005, excluding the effects of our fuel hedging arrangements. The increase in uel price fluctuations in fiscal year 2004 is due to the increase of our average t size during the year ended March 31, 2004 and related gallons purchased.

eptember 2003, we entered into a swap agreement with a notional volume of 630,000 onth for the period from January 1, 2003 to June 30, 2004. The fixed price of the cents per gallon and the agreement is estimated to represent 7% of our fuel that period. The results of operations for the year ended March 31, 2004 include d derivative gain of $469,000 that is included in fuel expense and a realized net ximately $918,000 in cash settlements received from a counter-party recorded as a fuel expense. On May 21, 2004, we entered into an additional derivative hat is designed to economically hedge approximately 25% of our projected fuel in the quarters ending December 31, 2004 and March 31, 2005.

ditional derivative transaction is a collar agreement that uses West Texas Intermediate its basis. The cap price is set at $39.00 per barrel, and the floor is set at $34.85

re susceptible to market risk associated with changes in variable interest rates on bt obligations we incurred and will incur to finance the purchases of our Airbus terest expense on 85.8% of our owned Airbus A319 aircraft is subject to interest ents every three to six months based upon changes in the applicable LIBOR rate. A e base LIBOR rate of 100 basis points (1.0 percent) would have the effect of r decreasing our annual interest expense by $2,552,000 assuming the loans that are subject to interest rate adjustments at March 31, 2004 totaling are outstanding for the entire period.

arch 2003, we entered into an interest rate swap agreement with a notional amount of to hedge a portion of our LIBOR based borrowings. Under the interest rate swap e are paying a fixed rate of 2.45% and receive a variable rate based on the three

over the term of the swap that expires in March 2007. As of March 31, 2004, we
pproximately 10.6% of our variable interest rate loans. As of March 31, 2004, the
the swap agreement is a liability of $356,000.

ncial Statements and Supplementary Data

financial statements are filed as a part of this report immediately following the
e.

ges in and Disagreements with Accountants on Accounting and Financial Disclosure

applicable.

trols and Procedures

f the end of the period covered by this report, we conducted an evaluation, under the
nd with the participation of our management, including our Chief Executive Officer
ancial Officer, of the effectiveness of the design and operation of our disclosure
procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that
our Chief Executive Officer and Chief Financial Officer concluded that our
ontrols and procedures are effective. Disclosure controls and procedures are
procedures that are designed to ensure that information required to be disclosed
s filed or submitted under the Exchange Act is recorded, processed, summarized and
nd accurately reported within the time periods specified in the Securities and
ission rules and forms.

e have been no significant changes in our internal controls or in other factors that
icantly affect internal controls subsequent to the date we carried out this

PART III

ectors and Executive Officers of the Registrant.

s

information required by this Item is incorporated herein by reference to the data under the
tion of Directors" in the Proxy Statement to be used in connection with the solicitation
r our annual meeting of shareholders to be held on September 9, 2004. We will file
e Proxy Statement with the Commission on or before July 30, 2004.

ee Financial Expert

information required by this Item is incorporated herein by reference to the data
ding "Election of Directors" in the Proxy Statement to be used in connection with
tion of proxies for our annual meeting of shareholders to be held on September 9,
l file the definitive Proxy Statement with the Commission on or before July 30,

ecutive Compensation.

information required by this Item is incorporated herein by reference to the data
ding "Executive Compensation" in the Proxy Statement to be used in connection with
tion of proxies for our annual meeting of shareholders to be held on September 9,
l file the definitive Proxy Statement with the Commission on or before July 30,

curity Ownership of Certain Beneficial Owners and Management and Related atters.

information required by this Item is incorporated herein by reference to the data ding "Voting Securities and Principal Holders Thereof" in the Proxy Statement to nnection with the solicitation of proxies for our annual meeting of shareholders n September 9, 2004. We will file the definitive Proxy Statement with the or before July 30, 2004.

rtain Relationships and Related Transactions.

information required by this Item is incorporated herein by reference to the data ding "Related Transactions" in the Proxy Statement to be used in connection with tion of proxies for our annual meeting of shareholders to be held on September 9, l file the definitive Proxy Statement with the Commission on or before July 30,

incipal Accountant Fees and Services

information required by this Item is incorporated herein by reference to the data ding "Principal Accountant Fees and Services" in the Proxy Statement to be used in ith the solicitation of proxies for our annual meeting of shareholders to be held 9, 2004. We will file the definitive Proxy Statement with the Commission on or 0, 2004.

PART IV

Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

Description of Exhibits

rticles of Incorporation and Bylaws:

Restated Articles of Incorporation of the Company. (Exhibit 3.1 to the Company Quarterly Report on Form 10-Q for the quarter ended September 30, 1999)

Amended and Restated Bylaws of the Company. (Exhibit 3.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 1999)

nstruments defining the rights of security holders:

Specimen common stock certificate of the Company. (Exhibit 4.1 to the Company s Registration Statement on Form SB-2, declared effective May 20, 1994)

Rights Agreement, dated as of February 20, 1997, between Frontier Airlines, Inc. and American Securities Transfer & Trust, Inc, including the form of Rights Certificate and the Summary of Rights attached thereto as Exhibits A and B, respectively (Exhibit 3.1 to the Company s Registration Statement on Form 8-A filed March 12, 1997)

Amendment to Rights Agreement dated June 30, 1997. (Exhibit 4.4(a) to the Company s Annual Report on Form 10-KSB for the year ended March 31, 1997; Commission File No. 0-24126)

Amendment to Rights Agreement dated December 5, 1997. (Exhibit 4.4(b) to the Company s Annual Report on Form 10-K for the year ended March 31, 1999)

Third Amendment to Rights Agreement dated September 9, 1999. (Exhibit 4.4 to the Company s Registration Statement on Form 8-A/A filed October 14, 1999)

Fourth Amendment to Rights Agreement dated May 30, 2001. (Exhibit 4.4(d) to the Company s Annual Report on Form 10-K for the year ended March 31, 2001)

Frontier Airlines Inc. Warrant to Purchase Common Stock, No. 1 - Air Stabilization Board. Two Warrants, dated as of February 14, 2003, substantially identical in all material respect to this Exhibit, have been entered into with each of the Supplemental Guarantors granting each Supplemental Guarantor a warrant to purchase 191,697 shares under the same terms and conditions described in this Exhibit. Portions of this Exhibit have been omitted and filed separately with the Securities and Exchange Commission in a confidential treatment request under Rule 24b-2 of the Securities Exchange Act of 1934, as amended. (Exhibit 4.5 to the Company s Current Report on Form 8-K dated March 25, 2003)

Registration Rights Agreement dated as of February 14, 2003 by and Frontier Airlines, Inc. as the Issuer, and the Holders to Herein of Warrants to Purchase Common Stock, No Par Value. Portions of this Exhibit have been omitted and filed separately with the Securities and Exchange Commission in a confidential treatment request under Rule 24b-2 of the Securities Exchange Act of 1934, as amended. (Exhibit 4.6 to the Company s Current Report on Form 8-K dated March 25, 2003)

Material Contracts:

1994 Stock Option Plan. (Exhibit 10.3 to the Company s Registration Statement on Form SB-2, declared effective May 20, 1994)

Amendment No. 1 to 1994 Stock Option Plan. (Exhibit 10.4 to the Company s Annual Report on Form 10-KSB for the year ended March 31, 1995; Commission File No. 0-4877)

Amendment No. 2 to 1994 Stock Option Plan. (Exhibit 10.2 to the Company s Annual Report on Form 10-KSB for the year ended March 31, 1997; Commission File No. 0-24126)

Airport Use and Facilities Agreement, Denver International Airport (Exhibit 10.7 to the Company s Annual Report on Form 10-KSB for the year ended March 31, 1995; Commission File No. 0-4877)

Space and Use Agreement between Continental Airlines, Inc. and the Company. (Exhibit 10.43 to the Company s Annual Report on Form 10-K for the year ended March 31, 1999)

Second Amendment to Space and Use Agreement between Continental Airlines, Inc. and the Company. Portions of this Exhibit have been omitted and filed separately with the Securities and Exchange Commission in a confidential treatment request under Rule 24b-2 of the Securities Exchange Act of 1934, as amended. (filed herewith)

Airbus A318/A319 Purchase Agreement dated as of March 10, 2000 between AVSA, S.A.R.L., Seller, and Frontier Airlines, Inc., Buyer. Portions of this exhibit have been excluded from the publicly available document and an order granting confidential treatment of the excluded material has been received. (Exhibit 10.51 to the Company s Annual Report on Form 10-K for the year ended March 31, 2000)

Aircraft Lease Common Terms Agreement dated as of April 20, 2000 between General Electric Capital Corporation and Frontier Airlines, Inc. Portions of

this exhibit have been excluded from the publicly available document and an order granting confidential treatment of the excluded material has been received. (Exhibit 10.52 to the Company s Annual Report on Form 10-K for the year ended March 31, 2000)

Aircraft Lease Agreement dated as of April 20, 2000 between Aviation Financial Services, Inc., Lessor, and Frontier Airlines, Inc., Lessee, in respect of 15 Airbus A319 Aircraft. After 3 aircraft were leased under this Exhibit with Aviation Financial Services, Inc. as Lessor, related entities of Aviation Financial Services, Inc. replaced it as the Lessor, but each lease with these related entities is substantially identical in all material respects to this Exhibit. Portions of this exhibit have been excluded from the publicly available document and an order granting confidential treatment of the excluded material has been received. (Exhibit 10.53 to the Company s Annual Report on Form 10-K for the year ended March 31, 2000)

Lease dated as of May 5, 2000 for Frontier Center One, LLC, as landlord, and Frontier Airlines, Inc., as tenant. Portions of this exhibit have been excluded from the publicly available document and an order granting confidential treatment of the excluded material has been received. (Exhibit 10.55 to the Company s Annual Report on Form 10-K for the year ended March 31, 2000)

Operating Agreement of Frontier Center One, LLC, dated as of May 10, 2000 between Shea Frontier Center, LLC, and 7001 Tower, LLC, and Frontier Airlines, Inc. Portions of this exhibit have been excluded from the publicly available document and an order granting confidential treatment of the excluded material has been received. (Exhibit 10.56 to the Company s Annual Report on Form 10-K for the year ended March 31, 2000)

Standard Industrial Lease dated April 27, 2000, between Mesilla Valley Business Park, LLC, landlord, and Frontier Airlines, Inc., tenant. Portions of this exhibit have been excluded from the publicly available document and an order granting confidential treatment of the excluded material has been received. (Exhibit 10.57 to the Company s Annual Report on Form 10-K for the year ended March 31, 2000)

General Terms Agreement No. 6-13616 between CFM International and Frontier Airlines, Inc. Portions of this exhibit have been excluded from the publicly available document and an order granting confidential treatment of the excluded material has been received. (Exhibit 10.60 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000)

Lease Agreement dated as of December 15, 2000 between Gateway Office Four, LLC, Lessor, and Frontier Airlines, Inc., Lessee. (Exhibit 10.61 to the Company s Quarterly Report on Form 10-Q for the quarter ended December 31, 2000)

Code Share Agreement dated as of May 3, 2001 between Frontier Airlines, Inc. and Great Lakes Aviation, Ltd. Portions of this exhibit have been excluded from the publicly available document and an order granting confidential treatment of the excluded material has been received. (Exhibit 10.62 to the Company s Annual Report on Form 10-K for the year ended March 31, 2001)

Amendment No. 1 to the Codeshare Agreement dated as of May 3, 2001 between Frontier Airlines, Inc. and Great Lakes Aviation, Ltd. Portions of the exhibit have been excluded from the publicly available document andan order granting confidential treatment of the excluded material has been received. (Exhibit 10.62(a) to the Company s Quarterly Report on Form 10-Q for the quarter ended December 31, 2001)

Codeshare Agreement between Mesa Airlines, Inc. and Frontier Airlines, Inc.

(Exhibit 10.61 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001)

Amendment No. 1 to the Codeshare Agreement dated as of September 4, 2001 between Mesa Airlines, Inc. and Frontier Airlines, Inc. Portions of this exhibit have been excluded from the publicly available document and an order granting confidential treatment of the excluded material has been received. (Exhibit 10.65(a) to the Company s Quarterly Report on Form 10-Q for the quarter ended December 31, 2001)

Amendment No. 2 to Codeshare Agreement dated as of August 1, 2002 between Mesa Airlines, Inc. and Frontier Airlines, Inc. Portions of this Exhibit have been omitted and filed separately with the Securities and Exchange Commission in a confidential treatment request under Rule 24b-2 of the Securities Exchange Act of 1934, as amended. (filed herewith)

Letter Agreement No. 1 to the Codeshare Agreement dated February 1, 2003 between Mesa Airlines, Inc. and Frontier Airlines, Inc. Portions of this Exhibit have been omitted and filed separately with the Securities and Exchange Commission in a confidential treatment request under Rule 24b-2 of the Securities Exchange Act of 1934, as amended. (filed herewith)

Employee Stock Ownership Plan of Frontier Airlines, Inc. as amended and restated, effective January 1, 1997 and executed February 5, 2002. (Exhibit 10.66 to the Company s Quarterly Report on Form 10-Q for the quarter ended December 31, 2001)

Amendment of the Employee Stock Ownership Plan of Frontier Airlines, Inc. as amended and restated, effective January 1, 1997 and executed February 5, 2002 for EGTRRA. (Exhibit 10.66(a) to the Company s Quarterly Report on Form 10-Q for the quarter ended December 31, 2001)

Director Compensation Agreement between Frontier Airlines, Inc. and Samuel D. Addoms dated effective April 1, 2002. This agreement was modified on April 1, 2003, to expressly describe the second installment exercise period as on or after December 31, 2003, and the third installment exercise period as on or after April 1, 2004. (Exhibit 10.67 to the Company s Annual Report on Form 10-K for the year ended March 31, 2002)

Secured Credit Agreement dated as of October 10, 2002 between Frontier Airlines, Inc. and Credit Agricole Indosuez in respect to 3 Airbus 319 aircraft. Portions of this exhibit have been excluded form the publicly available document and an order granting confidential treatment of the excluded material has been received. (Exhibit 10.75 to the Company s Quarterly Report on Form 10-Q/A for the quarter ended September 30, 2002)

Aircraft Mortgage and Security Agreement dated as of October 10, 2002 between Frontier Airlines, Inc. and Credit Agricole Indosuez in respect to 3 Airbus 319 aircraft. Portions of this exhibit have been excluded form the publicly available document and an order granting confidential treatment of the excluded material has been received. (Exhibit 10.76 to the Company s Quarterly Report on Form 10-Q/A for the quarter ended September 30, 2002)

$70,000,000 Loan Agreement dated as of February 14, 2003 among Frontier Airlines, Inc. as Borrower, West LB AG, as Tranche A Lender and Tranche C Lender, Wells Fargo Bank, N.A., as Tranche B-1 Lender, Tranche B-2 Lender, and a Tranche C Lender, Bearingpoint, Inc. as Loan Administrator, Wells Fargo Bank Northwest, N.A. as Collateral Agent, LB AG, as Agent, and Air Transportation Stabilization Board. Portions of this Exhibit have been omitted and filed separately with the Securities and Exchange Commission in a confidential treatment request under Rule 24b-2 of the Securities Exchange Act of 1934, as amended. (Exhibit 10.77 to the Company s Current Report on Form 8-K dated

March 25, 2003)

Mortgage and Security Agreement dated as of February 14, 2003 made by Frontier Airlines, Inc. in favor of Wells Fargo Bank Northwest, N.A. the Collateral Agent. Portions of this Exhibit have been omitted and filed separately with the Securities and Exchange Commission in a confidential treatment request under Rule 24b-2 of the Securities Exchange Act of 1934, as amended. (Exhibit 10.78 to the Company s Current Report on Form 8-K dated March 25, 2003)

Credit Agreement dated as of July 30, 2003 between Frontier Airlines, Inc. and a Lender in respect to an Airbus 318 aircraft. Frontier has financed the purchase of 3 additional Airbus 318 aircraft with this Lender under Credit Agreements that are substantially identical in all material respects to this Exhibit. Portions of this Exhibit have been omitted and filed separately with the Securities and Exchange Commission in a confidential treatment request under Rule 24b-2 of the Securities Exchange Act of 1934, as amended. (Exhibit 10.21 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)

Aircraft Mortgage and Security Agreement dated as of July 30, 2003 between Frontier Airlines, Inc. and a Lender in respect to an Airbus aircraft. Frontier has financed the purchase of 3 additional Airbus 318 aircraft with this Lender under Aircraft Mortgage and Security Agreements that are substantially identical in all material respects to this Exhibit. Portions of this Exhibit have been omitted and filed separately with the Securities and Exchange Commission in a confidential treatment request under Rule 24b-2 of the Securities Exchange Act of 1934, as amended. (Exhibit 10.22 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)

Codeshare Agreement dated as of September 18, 2003 between Horizon Air Industries, Inc. and Frontier Airlines, Inc. Portions of this Exhibit have been omitted and filed separately with the Securities and Exchange Commission in a confidential treatment request under Rule 24b-2 of the Securities Exchange Act of 1934, as amended. (Exhibit 10.23 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)

Aircraft Lease Agreement dated as of December 5, 2003 between International Lease Finance Corporation, Inc., and Frontier Airlines, Inc., Lessee, in respect of 1 Airbus A319 Aircraft. Frontier has signed leases for 4 additional Airbus 319 aircraft with this Lessor under Aircraft Lease Agreements that are substantially identical in all material respects to this Exhibit. Portions of this Exhibit have been omitted and filed separately with the Securities and Exchange Commission in a confidential treatment request under Rule 24b-2 of the Securities Exchange Act of 1934, as amended. (Exhibit 10.24 to the Company s Quarterly Report on Form 10-Q for the quarter ended December 31, 2003)

Consents of Experts:

Consent of KPMG LLP (filed herewith)

Rule 13a-14(a)/15d-14(a) Certifications

Section 302 certification of President and Chief Executive Officer, Jeffery S. Potter. (Filed herewith)

Section 302 certification of Chief Financial Officer, Paul H. Tate. (Filed herewith)

Section 1350 Certifications

Section 906 certifications of President and Chief Executive Officer, Jeffery S. Potter, and Chief Financial Officer, Paul H. Tate (Filed herewith)

Reports on Form 8-K.

the quarter ended March 31, 2004, the Company furnished the following reports on -K.

orts	**Item Numbers**	**Financial Statements Required to be Filed**
30, 2004	7 and 12	None
2004	7 and 12	None

SIGNATURES

nt to the requirements of Section 13 or 15(d) of the Securities Exchange Act of gistrant has duly caused this report to be signed on its behalf by the undersigned, y authorized.

FRONTIER AIRLINES, INC.

2004

By: /s/ Paul H. Tate
Paul H. Tate, Vice President and
Chief Financial Officer

2004

By: /s/ Elissa A. Potucek
Elissa A. Potucek, Vice President, Controller,
Treasurer and Principal Accounting Officer

uant to the requirements of the Securities Exchange Act of 1934, this report has been by the following persons on behalf of the registrant and in the capacities and on icated.

2004

By: /s/ Jeffery S. Potter
Jeffery S. Potter, Director

2004

By: /s/ Samuel D. Addoms
Samuel D. Addoms, Director

2004

By:
William B. McNamara, Director

2004

By: /s/ Paul Stephen Dempsey
Paul Stephen Dempsey, Director

2004

By: /s/ LaRae Orullian
B. LaRae Orullian, Director

2004

By: /s/ D. Dale Browning

D. Dale Browning, Director

. 2004 By: /s/ Jim Upchurch
James B. Upchurch, Director

. 2004 By: /s/ Hank Brown
Hank Brown, Director

. 2004 By: /s/ Patricia A. Engels
Patricia A. Engels, Director

Report of Independent Registered Public Accounting Firm

Directors and Stockholders
ines, Inc.:

ed the accompanying balance sheets of Frontier Airlines, Inc. as of March 31, 2004
and the related statements of operations, stockholders equity and other
loss, and cash flows for each of the years in the three-year period ended March
se financial statements are the responsibility of the Company s management. Our
y is to express an opinion on these financial statements based on our audits.

our audits in accordance with the standards of the Public Company Accounting
rd (United States). Those standards require that we plan and perform the audit to
nable assurance about whether the financial statements are free of material
An audit includes examining, on a test basis, evidence supporting the amounts
res in the financial statements. An audit also includes assessing the accounting
ed and significant estimates made by management, as well as evaluating the overall
atement presentation. We believe that our audits provide a reasonable basis for

)>

20)

66)

,614 1,798,875

$5,281,751 $5,386,526 $5,391,037

(1) After giving effect to the concurrent convertible notes offering and the assumed use of proceeds as described above, the amounts outstanding under the credit facilities as of March 31, 2003 are as follows (assuming pro rata application of the proceeds among the facilities):
Term Loan A $660.5 million,
Term Loan B $393.1 million, and
Revolving Credit Facility $133.9 million.

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(2) After giving effect to the concurrent convertible notes offering and the assumed use of proceeds as discussed above, as of March 31, 2003, we had outstanding the following principal amounts of convertible notes:

- $212.7 million principal amount of 6.25% convertible notes due 2009, which are convertible into shares of our Class A common stock at a conversion price of $24.40 per share,
- $125.1 million principal amount of 2.25% convertible notes due 2009, which are convertible into shares of our Class A common stock at a conversion price of $24.00 per share, and
- $450.0 million principal amount of 5.0% convertible notes due 2010, which are convertible into shares of our Class A common stock at a conversion price of $51.50 per share.

See Prospectus Supplement Summary Recent Developments for information about our repurchases of 2.25% convertible notes during the second quarter of 2003.

(3) Consists of common stock, par value $.01 per share: 560,000,000 shares authorized; and 196,288,682 historical shares outstanding and 208,688,682 after giving effect to this offering.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

We have included on the following pages our unaudited pro forma condensed consolidated balance sheet as of March 31, 2003 and our unaudited pro forma condensed consolidated statements of operations for the three months ended March 31, 2003 and for the year ended December 31, 2002. To the extent required, we have adjusted these pro forma statements for the pro forma transactions. The pro forma transactions consist of:

the designation of our wholly owned subsidiary, Kline, formerly included as part of our network development services segment, as a discontinued operation; and

our 12.25% senior subordinated discount notes offering in January 2003.

The adjustments assume that the pro forma transactions were consummated on January 1, 2002, in the case of the unaudited pro forma condensed consolidated statements of operations. The adjustments assume that the pro forma transaction that had not been consummated as of March 31, 2003, i.e., the designation of Kline as a discontinued operation, was consummated on that date in the case of the unaudited pro forma condensed consolidated balance sheet. You should read the pro forma financial statements in conjunction with the historical financial statements for the three months ended March 31, 2003 and for the year ended December 31, 2002 incorporated herein by reference.

The pro forma financial statements may not reflect our financial condition or our results of operations had the pro forma transactions actually occurred on the dates specified. Finally, they may not reflect our future financial condition or results of operations.

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AMERICAN TOWER CORPORATION

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

MARCH 31, 2003

(In thousands)

	Historical	Adjustments for Pro Forma Transactions (a)	Pro Forma for Pro Forma Transactions
ASSETS			
Cash and equivalents	$ 101,411		$ 101,411
Restricted cash and investments	217,188		217,188
Accounts receivable, net	78,778	$ (14,842)	63,936
Other current assets	77,835	(4,828)	73,007
Assets held for sale	185,158	29,671	214,829
Property and equipment, net	2,695,440	(13,597)	2,681,843
Intangible assets, net	1,724,509	(10,706)	1,713,803
Deposits and other long-term assets	533,164		533,164
Notes receivable	109,414		109,414
Total	$ 5,722,897	$ (14,302)	$ 5,708,595
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities, excluding current portion of long-term debt and liabilities held for sale	$ 194,261	$ (14,672)	$ 179,589
Liabilities held for sale	183,087	14,672	197,759
Long-term debt, including current portion	3,585,912		3,585,912
Other long-term liabilities	33,478		33,478
Minority interest	16,018		16,018
Stockholders equity	1,710,141	(14,302)	1,695,839
Total	$ 5,722,897	$ (14,302)	$ 5,708,595

See Note to Unaudited Pro Forma Condensed Consolidated Financial Statements.

NOTE TO UNAUDITED PRO FORMA

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(a) We have prepared our unaudited pro forma condensed consolidated balance sheet as of March 31, 2003 to give effect, as of such date, to the designation of Kline as a discontinued operation, the only pro forma transaction that had not been completed at that date. We committed to a plan in the second quarter of 2003 to sell our wholly owned subsidiary Kline within the next twelve months. Accordingly, the Adjustments for Pro Forma Transactions column included in the accompanying Unaudited Pro Forma Condensed Consolidated Balance Sheet reflects the reclassification of Kline s assets and liabilities to assets held for sale and liabilities held for sale. It also gives effect to a $14.3 million impairment of Kline s net assets to reduce its carrying value to our estimated proceeds from disposal.

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AMERICAN TOWER CORPORATION

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

Three Months Ended March 31, 2003

(In thousands, except per share data)

	Historical	Adjustments for Pro Forma Transactions (a)	Pro Forma for Pro Forma Transactions
Rental and management revenue	$ 146,462		$ 146,462
Network development services revenue	30,699	$ (12,236)	18,463
Total operating revenues	177,161	(12,236)	164,925
Operating expenses:			
Rental and management	54,696		54,696
Network development services	29,632	(11,512)	18,120
Depreciation and amortization	80,840	(460)	80,380
Corporate general and administrative expense	6,035		6,035
Development expense	613		613
Impairments and net loss on sale of long-lived assets	3,696		3,696
Total operating expenses	175,512	(11,972)	163,540
Operating income from continuing operations	1,649	(264)	1,385
Other income (expense):			
Interest income, TV Azteca, net	3,502		3,502
Interest income	926		926
Interest expense	(71,742)	(3,812)	(75,554)
Loss on investments and other expense	(25,214)	17	(25,197)
Loss from write-off of deferred financing fees and extinguishment of debt	(5,841)		(5,841)
Note conversion expense	(2,650)		(2,650)
Minority interest in net earnings of subsidiaries	(570)		(570)
Total other expense	(101,589)	(3,795)	(105,384)
Loss from continuing operations before income taxes	(99,940)	(4,059)	(103,999)
Benefit for income taxes (b)	19,508	1,421	20,929
Loss from continuing operations	$ (80,432)	$ (2,638)	$ (83,070)

Basic and diluted loss per common share from continuing operations	$ (0.41)	N/A	$ (0.42)
Basic and diluted common shares outstanding	195,703	N/A	195,703

See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements.

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NOTES TO UNAUDITED PRO FORMA

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited pro forma condensed consolidated statement of operations for the three months ended March 31, 2003 gives effect to the pro forma transactions as if each of them had occurred on January 1, 2002.

(a) The table below sets forth the detail for the pro forma transactions for the three months ended March 31, 2003 (in thousands).

	Kline (1)	12.25% Notes Offering	Total Adjustments for Pro Forma Transactions
Network development services revenue	$ (12,236)		$ (12,236)
Operating expenses:			
Network development services	(11,512)		(11,512)
Depreciation and amortization	(460)		(460)
Total operating expenses	(11,972)		(11,972)
Operating income from continuing operations	(264)		(264)
Other expense:			
Interest expense (2)		$ (3,812)	(3,812)
Loss on investments and other expense	17		17
Total other expense	17	(3,812)	(3,795)
Loss from continuing operations before income taxes	$ (247)	$ (3,812)	$ (4,059)

(1) Represents the results of operations for Kline as reported in our historical March 31, 2003 statement of operations.

(2) To record interest expense (net of reduction for repayment of $200.0 million under the credit facilities) including amortization of note discount and the discount related to the warrants and debt issuance costs associated with the 12.25% senior subordinated discount notes. Interest expense for the 12.25% senior subordinated discount notes has been recorded using an effective rate of 14.7%.

(b) To record the tax effect of the pro forma adjustments and impact on our estimated effective tax rate.

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AMERICAN TOWER CORPORATION

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

Year Ended December 31, 2002

(In thousands, except per share data)

	Historical	Adjustments for Pro Forma Transactions (a)	Pro Forma for Pro Forma Transactions
Rental and management revenue	$ 544,906		$ 544,906
Network development services revenue	239,497	$ (92,992)	146,505
Total operating revenues	784,403	(92,992)	691,411
Operating expenses:			
Rental and management	226,786		226,786
Network development services	217,690	(84,209)	133,481
Depreciation and amortization	316,272	(1,793)	314,479
Corporate general and administrative expense	24,349		24,349
Restructuring expense	10,638		10,638
Development expense	5,896	(16)	5,880
Impairments and net loss on sale of long-lived assets	90,734		90,734
Total operating expenses	892,365	(86,018)	806,347
Operating loss from continuing operations	(107,962)	(6,974)	(114,936)
Other income (expense):			
Interest income, TV Azteca, net	13,938	&nb	