FRONTIER AIRLINES INC /CO/
Form 10-Q
November 08, 2004

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended September 30, 2004.

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

Commission file number: 1-12805

FRONTIER AIRLINES, INC.
(Exact name of registrant as specified in its charter)

Colorado	84-1256945
(State or other jurisdiction of incorporated or organization)	(I.R.S. Employer Identification No.)

7001 Tower Road, Denver, CO	80249
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes |X| No |_|

The number of shares of the Company s common stock outstanding as of October 29, 2004 was 35,612,942.

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FINANCIAL INFORMATION

FRONTIER AIRLINES, INC.
Balance Sheets
(Unaudited)

	September 30, 2004	March 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$160,053,113	$188,608,729
Short-term investments		2,000,000
Restricted investments	32,694,165	24,732,024
Receivables, net of allowance for doubtful accounts of $359,000 and $225,000 at September 30, 2004 and March 31, 2004, respectively	33,865,613	26,308,352
Income tax receivable	155,250	262,091
Security and other deposits	1,831,250	215,000
Prepaid expenses and other assets	18,932,493	13,093,499
Inventories, net of allowance of $4,154,000 and $2,991,000 at September 30, 2004 and March 31, 2004, respectively	7,998,996	6,126,573
Assets held for sale	1,862,305	
Deferred tax assets	7,625,886	8,386,390
Total current assets	265,019,071	269,732,658
Property and equipment, net	466,542,043	440,470,566
Security and other deposits	18,148,128	16,261,690
Aircraft pre-delivery payments	14,351,540	28,329,370
Restricted investments	11,621,329	9,971,212
Deferred loan expenses and other assets	8,439,596	4,940,102
	$784,121,707	$769,705,598
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 31,971,910	$ 31,167,168
Air traffic liability	93,959,514	83,339,560
Other accrued expenses	48,491,832	44,660,868
Current portion of long-term debt	17,724,598	17,386,538
Deferred revenue and other current liabilities	5,553,706	5,105,136
Total current liabilities	197,701,560	181,659,270
Long-term debt	292,048,540	280,000,752
Deferred tax liability	26,943,208	32,225,150
Deferred revenue and other liabilities	16,344,818	17,878,800
Total liabilities	533,038,126	511,763,972
Stockholders equity:		
Preferred stock, no par value, authorized 1,000,000 shares; none issued		
Common stock, no par value, stated value of $.001 per share, authorized 100,000,000; 35,609,942 and 35,597,442 issued and outstanding at September 30, 2004 and March 31, 2004, respectively	35,610	35,597
Additional paid-in capital	185,171,920	185,078,386
Unearned ESOP shares	(727,545)	(2,182,634)
Other comprehensive income (loss)	111,222	(137,785)

	September 30, 2004	March 31, 2004
Retained earnings	66,492,374	75,148,062
	251,083,581	257,941,626
	$784,121,707	$769,705,598

See accompanying notes to financial statements.

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FRONTIER AIRLINES, INC.
Statements of Operations
(Unaudited)

	Three Months Ended		Six Months Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Revenues:				
Passenger	$ 188,173,402	$ 159,946,008	$ 357,610,883	$ 298,955,554
Passenger-regional partner	21,909,768		41,036,213	
Cargo	1,246,009	2,369,222	2,673,504	4,058,247
Other	3,105,595	3,305,382	5,537,244	4,972,761
Total revenues	214,434,774	165,620,612	406,857,844	307,986,562
Operating expenses:				
Flight operations	31,772,649	24,347,276	63,561,813	49,320,594
Aircraft fuel expense	44,715,069	25,900,551	84,718,251	48,501,320
Aircraft lease expense	22,307,400	17,920,718	41,198,226	35,112,721
Aircraft and traffic servicing	31,229,011	26,077,456	62,921,215	50,074,966
Maintenance	19,261,318	17,120,004	38,155,915	34,997,976
Promotion and sales	19,250,304	16,269,951	39,088,980	30,989,948
General and administrative	12,033,531	9,784,376	22,327,775	18,720,012
Operating expenses-regional partner	23,568,339		44,861,774	
Aircraft lease and facility exit costs		4,659,058		5,345,353
Losses on sales of assets, net	74,404	1,883,466	604,231	1,902,055
Impairment and other related charges	4,213,565		4,601,200	
Depreciation and amortization	6,606,142	5,870,300	13,224,581	11,057,498
Total operating expenses	215,031,732	149,833,156	415,263,961	286,022,443
Operating income (loss)	(596,958)	15,787,456	(8,406,117)	21,964,119
Nonoperating income (expense):				
Interest income	785,699	524,468	1,356,269	937,831
Interest expense	(3,112,843)	(4,034,387)	(6,020,859)	(7,868,780)
Early Extinguishment of debt		(8,742,489)		(8,742,489)
Emergency Wartime Supplemental Appropriations Act compensation				15,024,188
Other, net	(103,353)	(30,470)	(168,717)	(187,974)
Total nonoperating income (expense), net	(2,430,497)	(12,282,878)	(4,833,307)	(837,224)
Income (loss) before in come tax (benefit) expense	(3,027,455)	3,504,578	(13,239,424)	21,126,895
Income tax (benefit) expense	(945,485)	1,506,855	(4,583,736)	8,195,482

	Three Months Ended		Six Months Ended	
Net income (loss)	$ (2,081,970)	$ 1,997,723	$ (8,655,688)	$ 12,931,413
Earnings (loss) per share:				
Basic	$ (0.06)	$ 0.07	$ (0.24)	$ 0.43
Diluted	$ (0.06)	$ 0.06	$ (0.24)	$ 0.40
Weighted average shares of common stock outstanding				
Basic	35,609,942	30,440,589	35,606,702	30,133,571
Diluted	35,609,942	33,620,352	35,606,702	32,514,599

See accompanying notes to financial statements.

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FRONTIER AIRLINES, INC.
Statements of Stockholders' Equity and Other Comprehensive Income (Loss)
For the Year Ended March 31, 2004 and the Six Months Ended September 30, 2004

	CommonStock						
	Shares (000s)	Stated value	Additional paid-in capital	Unearned ESOP shares	Accumulated other comprehensive income (loss)	Retained earnings	Total stockholders' equity
Balances, March 31, 2003	29,674	$ 29,674	$ 96,424,525	$	$	$ 62,512,927	$ 158,967,126
Net income						12,635,135	12,635,135
Other comprehensive loss - unrealized loss on derivative instruments, net of tax					(137,785)		(137,785)
Total comprehensive income							12,497,350
Sale of common stock, net of offering costs of $257,000	5,050	5,050	81,072,096				81,077,146
Exercise of common stock options	227	227	1,000,487				1,000,714
Tax benefit from exercises of common stock options			1,261,937				1,261,937
Equity adjustment for the repricing of warrants issued in conjunction with a debt agreement			116,701				116,701
Contribution of common stock to employees stock ownership plan	646	646	5,202,640	(5,203,286)			
Amortization of employee stock compensation				3,020,652			3,020,652
Balances, March 31, 2004	35,597	$ 35,597	$ 185,078,386	$ (2,182,634)	$ (137,785)	$ 75,148,062	$ 257,941,626
Net loss						(8,655,688)	(8,655,688)
Other comprehensive income - unrealized gain on derivative instruments, net of tax					249,007		249,007
Total comprehensive loss							(8,406,681)
Exercise of common stock options	13	13	63,350				63,363
Tax benefit from exercises of common stock options			18,212				18,212
Amortization of employee stock compensation				1,455,089			1,455,089
Capital contribution			11,972				11,972
Balances, September 30, 2004	35,610	$ 35,610	$ 185,171,920	$ (727,545)	$ 111,222	$ 66,492,374	$ 251,083,581

See accompanying notes to financial statements.

FRONTIER AIRLINES, INC.
For the Six Months Ended September 30, 2004
Statements of Cash Flows
(Unaudited)

	Six Months Ended September 30, 2004	Six Months Ended September 30, 2003
Cash flows from operating activities:		
Net income (loss)	$ (8,655,688)	$ 12,931,413
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
ESOP compensation expense	1,455,089	1,197,879
Depreciation and amortization	13,224,581	11,057,498
Depreciation and amortization - regional partner	154,448	
Impairment recorded on long-lived assets	3,267,145	
Provision recorded on inventories	1,334,056	
Accelerated amortization of deferred loan costs		8,742,489
Deferred tax expense	(4,660,292)	10,276,774
Unrealized derivative gain	(3,634,452)	(358,743)
Loss on disposal of equipment	635,137	2,246,836
Changes in operating assets and liabilities:		
Restricted investments	(11,863,958)	(8,841,604)
Receivables	(7,557,261)	3,670,552
Income taxes receivable	106,841	24,295,793
Security and other deposits	(117,560)	(2,719,470)
Prepaid expenses and other assets	(5,838,994)	(353,541)
Inventories	(3,206,479)	178,491
Deferred loan expenses and other assets	504,521	2,128,447
Accounts payable	804,742	(7,079,641)
Air traffic liability	10,619,954	18,175,098
Other accrued expenses	4,186,561	18,421,955
Deferred revenue and other liabilities	(1,085,412)	2,957,579
Net cash provided by (used in) operating activities	(10,327,021)	96,927,805
Cash flows from investing activities:		
Decrease in short-term investments	2,000,000	
Aircraft lease and purchase deposits, net	10,592,702	1,956,333
Decrease in restricted investments	2,251,700	617,700
Proceeds from the sale of aircraft and equipment	63,904,333	32,126,940
Capital expenditures	(109,119,426)	(126,572,253)
Net cash used in investing activities	(30,370,691)	(91,871,280)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	75,335	81,951,518
Proceeds from long-term borrowings	22,000,000	76,500,000
Payment of financing fees	(319,087)	(1,039,347)
Principal payments on long-term borrowings	(9,614,152)	(64,016,792)
Net cash provided by financing activities	12,142,096	93,395,379

	Six Months Ended	
Net increase (decrease) in cash and cash equivalents	(28,555,616)	98,451,904
Cash and cash equivalents, beginning of period	188,608,729	102,880,404
Cash and cash equivalents, end of period	$ 160,053,113	$ 201,332,308

See accompanying notes to financial statements.

FRONTIER AIRLINES, INC.

Notes to Financial Statements

September 30, 2004

(1) Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the Company s Annual Report on Form 10-K/A for the year ended March 31, 2004. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three and six months ended September 30, 2004 are not necessarily indicative of the results that will be realized for the full year.

(2) Impairment and Other Related Charges

Inventories

Inventories consist of expendable aircraft spare parts, supplies and aircraft fuel and are stated at the lower of cost or market. Inventories are accounted for on a first-in, first-out basis and are charged to expense as they are used. During the fiscal years ended March 31, 2004 and 2003, we recorded a provision for excess Boeing expendable parts inventory totaling $618,000 and $2,478,000, respectively. The provision in 2004 was principally the result of declining resale values of excess Boeing expendable parts. We monitor resale values for Boeing parts quarterly using estimates obtained from our vendors. We believe the decline in resale values of parts for the less fuel efficient Boeing 737-200 and Boeing 737-300 aircraft was due in part to increasing fuel prices during the past six months. The provision in 2003 was principally the result of returning five Boeing aircraft to the lessors in 2003, and our decision during the quarter ended March 31, 2003 to discontinue the use of our three remaining Boeing 737-200 aircraft in advance of the end of the term of their respective leases. This decision was in response to the significant decline in passenger demand as a result of the war in Iraq and the continuing economic recession. The provision was based on estimates of the resale value of the excess expendable parts, which were obtained from our vendors. We evaluated our estimated usage of these parts and the current resale value at June 30, 2004 and September 30, 2004 and recorded additional provisions of $388,000 and $946,000, respectively. The cost of WTI crude oil increased from $36.92 per barrel at June 30, 2004 to $49.56 per barrel at September 30, 2004. As of October 29, 2004, the cost of WTI crude oil was $51.78 per barrel. As a result of the increase in the cost of fuel, we have accelerated the dates that we would cease using the Boeing aircraft from September 2005 to mid April 2005. Because of the earlier termination date of the use of the Boeing aircraft, our estimated usage of these parts decreased, contributing to the amount of the additional provision recorded during the three months ended September 30, 2004.

Impairment of Long-Lived Assets

We record impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows estimated to be generated by those assets are less than the carrying amount of the assets. If an impairment occurs, the loss is measured by comparing the fair value of the asset to its carrying amount. During the year ended March 31, 2004, we recorded an impairment charge of $3,047,000 for engines and rotable parts that support the Boeing 737-300 aircraft. The impairment charge for rotables totaling $901,000 was principally the result of declining resale values for Boeing rotables. We monitor resale values for Boeing rotables quarterly using estimates obtained from our vendors. The impairment for the two Boeing 737-300 spare engines totaling $2,146,000 was the result of our decision in the fourth quarter of fiscal 2004 to sell these remaining spare engines. The impairment was based on three separate quotes from third parties. During the three months ended September 30, 2004, we recorded an additional impairment totaling $818,000 as a result of a letter of intent we entered into for the sale of one of the engines scheduled in December 2004 as a result of a further market decline. Additionally, we recorded an additional impairment on all other Boeing 737-200 and 300 parts totaling $2,449,000 which we believe is largely a result of the rising fuel prices the nation has experienced during the period since June 30, 2004 coupled with the Boeing 737 fleet which has high fuel burn rates. No further indicators of impairment exist at September 30, 2004 based on current resale values.

The Company uses the criteria in SFAS No. 144 to determine when an asset is classified as held for sale. Upon classification as held for sale, the long-lived asset or asset group is measured at the lower of its carrying amount or fair value less cost to sell, depreciation is ceased and the asset or asset group is separately presented on the balance sheet.

FRONTIER AIRLINES, INC.

Notes to Financial Statements

September 30, 2004

Stock-Based Compensation

The Company follows Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related Interpretations in accounting for its employee stock options and follows the disclosure provisions of Statement of Financial Accounting Standards No. 123 (SFAS 123). The Company applies APB 25 and related Interpretations in accounting for its plans. Accordingly, no compensation cost is recognized for options granted at a price equal to the fair market value of the Common Stock on the date of grant. Pro forma information regarding net income and earnings per share is required by SFAS 123, which also requires that the information be determined as if the Company has accounted for its employee stock options under the fair value method of that Statement. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option valuation model. Had compensation cost for the Company s stock-based compensation plan been determined using the fair value of the options at the grant date, the Company s pro forma net income (loss) and earnings (loss) per share would be as follows:

	Three Months Ended		Six Months Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Net income (loss) as reported	$ (2,081,970)	$ 1,997,723	$ (8,655,688)	$ 12,931,413
Less:total compensation expense determined under fair value method, net of tax	418,357	618,914	1,277,822	1,066,657
Pro forma net income (loss) as reported	$ (2,500,327)	$ 1,378,809	$ (9,933,510)	$ 11,864,756
Earnings (loss) per share, basic:				
As reported	$ (0.06)	$ 0.07	$ (0.24)	$ 0.43
Pro forma	$ (0.07)	$ 0.05	$ (0.28)	$ 0.39
Earnings (loss) per share, diluted:				
As reported	$ (0.06)	$ 0.06	$ (0.24)	$ 0.40
Pro forma	$ (0.07)	$ 0.04	$ (0.28)	$ 0.36

In March 2004, the FASB released an exposure draft of Proposed Statement of Financial Accounting Standards Share-Based Payment, an amendment of FASB Statements No. 123 and 95. If adopted, the proposed statement could be effective for the Company beginning with the fiscal year ending March 31, 2006, and would require the Company to record expense for the fair value of stock options, unless effectiveness is delayed. The Company is currently evaluating any impact this proposal will have on stock-based compensation expense and how the expense under the proposal may differ from amounts currently disclosed under SFAS 123.

Reclassifications

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

(3) Long-term Debt

During the six months ended September 30, 2004, the Company borrowed $22,000,000 for the purchase of one Airbus A318 aircraft. The aircraft loan has a term of 12 years and is payable in monthly installments of $153,041 as of September 30, 2004, including interest, payable in arrears, with a floating interest rate adjusted quarterly based on LIBOR plus a margin of 1.95% for an overall rate of 3.5% at September 30, 2004. At the end of the term, there is a balloon payment of $2,640,000. A security interest in the aircraft secures the loan.

FRONTIER AIRLINES, INC.

Notes to Financial Statements

September 30, 2004

(4) Stockholders Equity

Common Stock

The Company recorded an approximate $12,000 capital contribution paid to the Company in August 2004 as a result of recovering short-swing profits from a shareholder in accordance with Section 16(b) of the Securities Exchange Act of 1934. Section 16(b) provides that any profit realized by an insider (defined as an officer, director or principal shareholder of an issuer) from a purchase and sale, or any sale and purchase, of an equity security of the issuer within any period of less than six months are recoverable by the issuer, irrespective of the intention of the insider in entering into such transaction.

(5) Stock Option Plan

On September 9, 2004, the shareholders of the Company approved the Frontier Airlines, Inc. 2004 Equity Incentive Plan (the 2004 Plan). The 2004 Plan allows the Compensation Committee to grant stock options, stock appreciation rights, restricted stock or stock units, any or all of which may be made contingent upon the achievement of performance criteria. Subject to plan limits, the Compensation Committee has the discretionary authority to determine the size and timing of an award and the vesting requirements related to the award. The addition of performance-based requirements will be considered in light of the Company s total compensation program and the significant level of pay-for-performance requirements already incorporated into its compensation practices.

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

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 that describe the business and prospects of Frontier Airlines, Inc. and the expectations of our company and management. All statements included in this report that address activities, events or developments that we expect, believe, intend or anticipate will or may occur in the future, are forward-looking statements. When used in this document, the words estimate, anticipate, project and similar expressions are intended to identify forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. These risks and uncertainties include, but are not limited to: the timing of, and expense associated with, expansion and modification of our operations in accordance with our business strategy or in response to competitive pressures or other factors; failure of our new markets to perform as anticipated; the inability to obtain sufficient gates at Denver International Airport to accommodate the expansion of our operations; general economic factors and behavior of the fare-paying public and its potential impact on our liquidity; terrorist attacks or other incidents that could cause the public to question the safety and/or efficiency of air travel; operational disruptions, including weather; industry consolidation; the impact of labor disputes; enhanced security requirements; changes in the government s policy regarding relief or assistance to the airline industry; the economic environment of the airline industry generally; increased federal scrutiny of low-fare carriers generally that may increase our operating costs or otherwise adversely affect us; actions of competing airlines, such as increasing capacity and pricing actions of United Airlines (United) and other competitors and other actions taken by United either in or out of bankruptcy protection; the availability of suitable aircraft, which may inhibit our ability to achieve operating economies and implement our business strategy; the unavailability of, or inability to secure upon acceptable terms, debt or operating lease financing necessary to acquire aircraft which we have ordered; issues relating to our transition to an Airbus aircraft fleet; and uncertainties regarding aviation fuel prices. Because our business, like that of the airline industry generally, is characterized by high fixed costs relative to revenues, small fluctuations in our yield per available seat mile (RASM) or cost per available seat mile (CASM) can significantly affect operating results. These risks and factors are not exclusive, and we undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this filing. Additional information regarding these and other factors may be contained in our SEC filings, including without limitation, our Form 10-K for our fiscal year ended March 31, 2004.

General

Now in our eleventh year of operations, we are a low cost, affordable fare airline operating in a hub and spoke model connecting cities coast to coast primarily through our hub at Denver International Airport (DIA). We are the second largest jet service carrier at DIA based on departures. As of October 29, 2004, we, in conjunction with Frontier JetExpress operated by Horizon Air Industries, Inc. (Horizon), operate routes linking our Denver hub to 42 U.S. cities spanning the nation from coast to coast and to five cities in Mexico. In April 2004, we began our first expansion of point-to-point routes outside of our DIA hub with three routes from our focus city Los Angeles, California and added an additional route in May 2004. In July 2004, we began our first point-to-point routes to Cancun, Mexico with one weekly round-trip frequency from Kansas City and Salt Lake City.

We were organized in February 1994 and began flight operations in July 1994 with two leased Boeing 737-200 aircraft. We have since expanded our fleet in service to 47 aircraft as of October 29, 2004 (33 of which we lease and 14 of which we own), consisting of six Boeing 737-300s, 34 Airbus A319s, and seven Airbus A318s. In May 2001, we began a fleet replacement plan to replace our Boeing aircraft with new purchased and leased Airbus jet aircraft, a transition we now expect to complete by mid-April 2005. As of November 1, 2003, we no longer operate Boeing 737-200 aircraft. During the three and six months ended September 30, 2004, we increased mainline capacity by 38.5% and 35.3% over the prior comparable periods. In the three and six months ended September 30, 2004, we increased mainline passenger traffic by 31.9% and 35.2% over the prior comparable periods.

In September 2003, we signed a 12-year agreement with Horizon, under which Horizon will operate up to nine 70-seat CRJ 700 aircraft under our Frontier JetExpress brand. The service began on January 1, 2004 with three aircraft in service and one spare aircraft. This service replaced our codeshare arrangement with Mesa Airlines which terminated on December 31, 2003. We have increased JetExpress aircraft to a total of eight aircraft in service and one spare aircraft. We control the scheduling of this service. We reimburse Horizon for its expenses related to the operation plus a margin. The agreement provides for financial incentives, penalties and changes to the margin based on performance of Horizon and our financial performance. As of October 29, 2004, Frontier JetExpress provides service to Tucson, Arizona; Little Rock, Arkansas; Boise, Idaho; Billings, Montana; Omaha, Nebraska; Albuquerque, New Mexico; Oklahoma City, Oklahoma; El Paso, Texas and Spokane, Washington, and supplements our mainline service to San Jose, California and Austin, Texas.

We currently use up to 18 gates on Concourse A at DIA. Together with our regional jet codeshare partner, Frontier JetExpress, we use these 18 gates and share use of up to four common use regional jet parking positions to operate approximately 198 daily system mainline flight departures and arrivals and 50 Frontier JetExpress daily system flight departures and arrivals.

During the six months ended September 30, 2004 and as of October 29, 2004, we added departures from DIA to the following cities with commencement dates as follows:

Destination	Commencement Date
Washington, D.C. (Dulles International)	April 11, 2004
Anchorage, Alaska (1)	May 9, 2004
Billings, Montana (2)	May 23, 2004
Spokane, Washington (2)	May 23, 2004
Philadelphia, Pennsylvania	May 23, 2004
Nashville, Tennessee	June 20, 2004
Little Rock, Arkansas (2)	October 10, 2004

(1) Service is seasonal and terminated on September 25, 2004.
(2) Flights operated exclusively by Frontier JetExpress.

On April 11, 2004, we began our first significant point-to-point routes from our focus city Los Angeles, California. We began service from Los Angeles International Airport to the following cities with commencement dates as follows:

Destination	Commencement Date
Kansas City, Missouri	April 11, 2004
Minneapolis/St. Paul, Minnesota	April 11, 2004
St. Louis, Missouri	April 11, 2004
Philadelphia, Pennsylvania	May 23, 2004

In August 2004, we terminated non-stop service between Los Angeles International Airport and Minneapolis/St. Paul and reduced non-stop service to St. Louis and Kansas City to adjust for seasonal demand and poor operating results. We terminated service to St. Louis in October 2004.

On July 3, 2004, we began our first point-to-point routes to Mexico with one weekly round-trip frequency to Cancun, Mexico from Kansas City and from Salt Lake City. We intend to increase service to Cancun from Kansas City to three weekly round-trip frequencies in November 2004 and to begin three weekly round-trip frequencies from Nashville and Austin in November 2004. We have also filed an application with the U.S. Department of Transportation (DOT) for authorization to serve Cancun from St. Louis.

We began Frontier JetExpress service to Little Rock, Arkansas from our DIA hub with two daily round-trip frequencies and terminated our service to Ontario, California on October 10, 2004.

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

Our corporate headquarters are located at 7001 Tower Road, Denver, Colorado 80249. Our administrative office telephone number is 720-374-4200 and our reservations telephone number is 800-432-1359.

Overview

We intend to continue our focused growth strategy, which includes a fleet transition from a Boeing fleet to an all Airbus fleet. We intend to operate an all Airbus fleet by mid-April 2005. One of the key elements of this strategy is to produce cost savings because crew training is standardized for aircraft of a common type, maintenance issues are simplified, spare parts inventory is reduced, the Airbus aircraft are more fuel efficient, and crew scheduling is more efficient. As of October 29, 2004, we have remaining firm purchase commitments for 13 Airbus aircraft and intend to lease as many as 10 additional A318 or A319 aircraft from third party lessors over the next three years. We intend to use these additional aircraft to either replace Boeing aircraft being retired, provide service to new markets and/or to add frequencies to existing markets that we believe are underserved.

The airline industry continues to be intensely competitive. We expect competition will remain intense. Business and leisure travelers continue to reevaluate their travel budgets and remain highly price sensitive. Increased competition has prompted aggressive strategies from competitors through discounted fares and sales promotions. Additionally, the intense competition has created financial hardships for some of our competitors that have been forced to reduce capacity, seek debt restructuring and wage and salary concessions, or have been forced into bankruptcy protection.

We believe we have a proven management team and a strong company culture and will continue to focus on differentiating the product and service we provide to our passengers. We intend for our product and service to be affordable, flexible, accommodating, and comfortable. This begins with our employees who strive to offer friendly customer service and keep operations running efficiently, which we believe leads to lower operating costs.

Quarter in Review

During the three months ended September 30, 2004, we had a net loss of $2,082,000. This was driven by rising fuel costs and a decline in our average fare as we continue to operate in a highly competitive environment. We have seen a sharp rise in fuel costs since January 2004, and fuel costs may continue to increase. Our average fuel cost per gallon was $1.29 during the three months ended September 30, 2004 compared to $1.01 during the three months ended September 30, 2003, an increase of 27.7%. The average cost of fuel for the three months ended September 30, 2004 includes an unrealized derivative gain of $4,111,000 or 11.9¢ per gallon compared to an unrealized loss of $276,000 reflected in the average cost of fuel for the three months ended September 30, 2003 of less than 1¢ per gallon for the three months ended September 30, 2003.

Fleet and Operational Upgrades

In October 2004, the Federal Aviation Administration authorized us to conduct Category II and limited Category III instrument approaches with our Airbus fleet. This reduces the previous landing minimums from 200 feet decision height and 1,800 feet runway visual range (RVR) to 100 feet decision height and 1,200 feet RVR for Category II approaches and 100 feet decision height and 1,000 feet RVR for Category III approaches. In six months, the approach minimums for Category III will be further reduced to 700 feet RVR and by October 2005 we anticipate authority to conduct Category III approaches to 300 feet RVR. We expect these new landing minimum criteria to substantially reduce the number of diversions required because of low visibility at a number of the cities we serve.

We have entered into separate agreements with CFMI and Airbus to increase the engine thrust and maximum take-off weight on ten of our owned A319 aircraft to improve the operational performance of these aircraft. This sub-fleet of ten aircraft is comprised of eight aircraft that are currently in service and two aircraft that will be delivered in the summer of 2005. The agreement with CFMI calls for an increase in the maximum rated thrust from a base of 22,000 to 23,500 pounds per engine. The agreement with Airbus calls for an increase in the maximum take-off weight from a base of 70 tons to 75.5 tons. The improved operational performance will allow us to serve longer haul markets (i.e., Denver to Anchorage and Los Angeles to Philadelphia) while carrying a full passenger load. We expect the modifications on the eight aircraft currently in our fleet to be completed by March 2005. The two aircraft scheduled for delivery in the summer of 2005 will be delivered from the factory with the additional thrust and take-off weight upgrades.

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Highlights from the Quarter

We celebrated our ten year anniversary of flight operations in July 2004.

We celebrated 25 million passenger enplanements.

We took delivery of two new Airbus A319 aircraft and retired three Boeing B737 aircraft, for a net decrease of one aircraft and a fleet total of 45 available for revenue service by quarter s end.

We announced plans to serve Little Rock, Arkansas with two daily found-trip flights.

We received authorization to fly from Austin and Nashville to Cancun, Mexico, bringing the only scheduled non-stop service to those markets.

We entered into a three-year agreement as the official airline of the University of Wyoming s Athletic Department.

We received Federal Aviation Administration approval to begin Category II/III certification, which allows our pilots to land in reduced visibility.

We commenced W!ld Blue Yonder Magazine and programming, an enhancement to our on-board DIRECTV offering.

Delivery of one of our new Airbus aircraft scheduled for September 2004 was delayed as it sustained minor damage during a test flight. Our need to assess the damage and determine what, if any, repairs were needed delayed the delivery of this aircraft. As a result of this delay, we removed this aircraft from our flight schedule, resulting in a reduction in our ASMs. While we took delivery of this aircraft at the end of October 2004, it will not be built into our flight schedule until December 2004. In the interim, it is being used as a spare aircraft and will be available for ad hoc charters.

Results of Operations

The following table provides certain of our financial and operating data for the three and six months ended September 30, 2004 and 2003.

	Three Months Ended September 30,		Six Months Ended September 30,	
	2004	2003	2004	2003
Selected Operating Data:				
Passenger revenue (000s) (1)				
Mainline	$ 188,173	$ 159,946	$ 357,611	$ 298,956
Regional Partner(2)	21,910		41,036	
System Combined	$ 210,083	$ 159,946	$ 398,647	$ 298,956
Revenue passengers carried (000s)				
Mainline	1,750	1,457	3,334	2,684
Regional Partner(2)	233		436	
System Combined	1,983	1,457	3,770	2,684
Revenue passenger miles (RPMs) (000s) (3)				
Mainline	1,738,682	1,318,020	3,303,269	2,443,253
Regional Partner(2)	142,157		273,711	
System Combined	1,880,839	1,318,020	3,576,980	2,443,253
Available seat miles (ASMs) (000s) (4)				
Mainline	2,383,573	1,721,397	4,595,225	3,396,447
Regional Partner(2)	190,771		368,349	
System Combined	2,574,344	1,721,397	4,963,574	3,396,447
Passenger load factor (5)				
Mainline	72.9%	76.6%	71.9%	71.9%
Regional Partner(2)	74.5%		74.3%	
System Combined	73.1%	76.6%	72.1%	71.9%
Mainline break-even load factor (6)	73.4%	67.7%	73.5%	66.6%
Mainline block hours (7)	47,086	33,908	91,060	67,035
Mainline departures	18,937	15,078	36,587	29,688
Mainline average seats per departure	130	133	130	133
Mainline average stage length	968	858	966	860
Mainline average length of haul	994	905	991	910
Mainline average daily block hour utilization (8)	11.2	10.0	11.4	10.1
Yield per RPM (cents) (9) (10)				
Mainline	10.74	12.09	10.76	12.19
Regional Partner(2)	15.41		14.99	
System Combined	11.10	12.09	11.09	12.19
Total yield per RPM (cents) (11)				
Mainline	11.07	12.57	11.07	12.61
Regional Partner(2)	15.41		14.99	
System Combined	11.40	12.57	11.37	12.61
Yield per ASM (cents) (10) (12)				
Mainline	7.84	9.26	7.74	8.77
Regional Partner(2)	11.48		11.14	
System Combined	8.11	9.26	7.99	8.77
Total yield per ASM (cents) (13)				
Mainline	8.08	9.62	7.96	9.07

	Three Months Ended September 30,		Six Months Ended September 30,	
Regional Partner(2)	11.48		11.14	
System Combined	8.33	9.62	8.20	9.07

	Three Months Ended September 30, 2004	2003	Six Months Ended September 30, 2004	2003
Selected Operating Data (continued):				
Cost per ASM (cents)				
Mainline	8.03	8.70	8.06	8.42
Regional Partner(2)	12.35		12.18	
System Combined	8.35	8.70	8.37	8.42
Mainline fuel expense per ASM (cents)	1.87	1.50	1.84	1.43
Mainline cost per ASM excluding fuel (cents) (14)	6.16	7.20	6.22	6.99
Mainline average fare (15)	$ 100.05	$ 103.40	$ 100.26	$ 103.98
Mainline average aircraft in service	45.5	37.0	43.5	36.3
Mainline aircraft in service at end of period	44.0	38.0	44.0	38.0
Mainline average age of aircraft at end of period	2.7	4.6	2.7	4.6

(1) Passenger revenue includes revenues for non-revenue passengers, charter revenues, administrative fees, and revenue recognized for unused tickets that are greater than one year from issuance date. The incremental revenue from passengers connecting from regional flights to mainline flights is included in our mainline passenger revenue.

(2) In September 2003, we signed a 12-year agreement with Horizon, under which Horizon operates up to nine 70-seat CRJ 700 aircraft under our Frontier JetExpress brand. The service began on January 1, 2004 and replaced our codeshare with Mesa Airlines which terminated on December 31, 2003. In accordance with Emerging Issues Task Force No. 01-08, Determining Whether an Arrangement Contains a Lease (EITF 01-08), we have concluded that the Horizon agreement contains leases as the agreement conveys the right to use a specific number and specific type of aircraft over a stated period of time. Therefore, we record revenues and expenses related to the Horizon agreement gross. Under the Mesa agreement, we recorded JetExpress revenues reduced by related expenses net in other revenues. JetExpress operations under the Mesa agreement from April 1, 2003 to December 31, 2003 are not included in regional partner statistics in 2003 as the Mesa arrangement was effective prior to May 28, 2003, the effective date of EITF 01-08.

Amounts included in other revenues for Mesa for the three and six months ended September 30, 2004 and 2003 were as follows:

	Three Months Ended September 30, 2004	2003	Six Months Ended September 30, 2004	2003
Mesa revenues (000s)	$	$ 9,795	$	$ 17,642
Mesa expenses (000s)		(8,261)		(16,036)
Net amount included in other revenues	$	$ 1,534	$	$ 1,606

Mesa s revenue passenger miles (RPMs) and available seat miles (ASMs) for the three months ended September 30, 2004 and 2003 were as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Mesa RPMs (000s)		56,756		104,529
Mesa ASMs (000s)		69,660		138,302

(3) Revenue passenger miles, or RPMs, are determined by multiplying the number of fare-paying passengers carried by the distance flown.

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

(5) Passenger load factor is determined by dividing revenue passenger miles by available seat miles.

(6) Mainline break-even load factor is the passenger load factorfor our mainline operations that will result in operating revenues being equal to operating expenses, net of certain adjustments, assuming constant yield per RPM and no change in ASMs. Break-even load factor as presented above may be deemed a non-GAAP financial measure under regulations issued by the Securities and Exchange Commission. We believe that presentation of break-even load factor calculated after certain adjustments is useful to investors because the elimination of special or unusual items allows a meaningful period-to-period comparison. Furthermore, in preparing operating plans and forecasts we rely on an analysis of break-even load factor exclusive of these special and unusual items. Our presentation of non-GAAP results should not be viewed as a substitute for our financial or statistical results based on GAAP, and other airlines may not necessarily compute break-even load factor in a manner that is consistent with our computation.

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

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Six Months Ended September 30, 2004	Six Months Ended September 30, 2003
	(In thousands)		(In thousands)	
Net (Income) loss	$ 2,082	$ (1,998)	$ 8,656	$ (12,931)
Income tax (expense) benefit	945	(1,507)	4,584	(8,195)
Passenger revenue	188,173	159,946	357,611	298,956
Revenue - regional partner	21,910		41,036	
Charter revenue	(1,384)	(580)	(2,040)	(1,194)
Operating expenses - regional partner	(23,568)		(44,862)	
Passenger revenue - mainline (excluding charter and regional partner revenue) required to break even (based on GAAP amounts)	$ 188,158	$ 155,861	$ 364,985	$ 276,636
Non-GAAP adjustments:				
Emergency Wartime Supplemental Appropriations Act compensation, net of bonuses				13,842
Aircraft and facility lease exit costs, net of bonuses				